

Vietnam's first coastal resort opened in the sleepy fishing village of Mui Ne, back in 1995. Since that time, over a thousand beach resorts and hotels have opened in coastal locations.

With over 3,200 kilometers of coastline, investors have many places to choose from in Vietnam. However, three main areas are beginning to emerge as coastal tourism destinations. This month's report focuses on these three spots and looks at the competitive advantages and disadvantages of each. When considering a location in Vietnam, several factors must be included in the analysis.

1. Climate/ocean/beach
2. Tourism infrastructure/cultural activities/entertainment
3. Provincial government's policies and

Vietnam's Coastal Tourism Growth is Inevitable: Why, Where and When to Enter the Market

Part II - Where

Vietnam's Coastal Locations: Competitive Advantages and Disadvantages

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MGT Management Consulting Quantify Your Strategy

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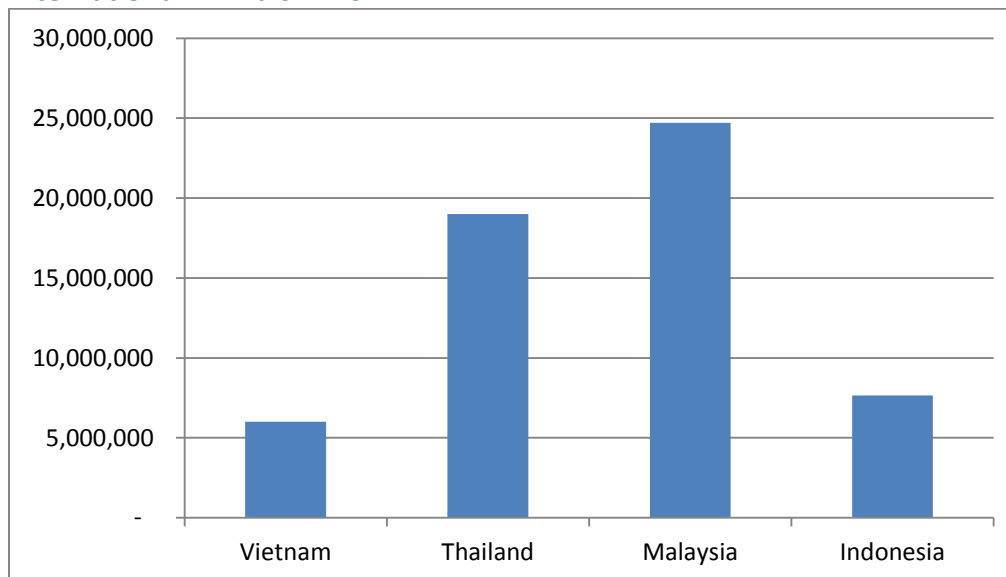
Vietnam's Coastal Resort Locations: Competitive Advantages and Disadvantages

Introduction

In 1995, an expat couple from Europe opened Coco Beach Resort in the sleepy fishing village of Mui Ne, Vietnam, 180 km northeast of Ho Chi Minh City (HCMC). It was a two hour drive from HCMC to the 34 key, 3-star beach resort; the first of its kind to open on Vietnam's coast. In the 17 years since, over a thousand beach resorts and hotels have opened along the coast, making Vietnam an Asian coastal resort destination.

Vietnam's beach resort development growth over the last five years has been impressive, but we are seeing only the beginning. Compared to other countries in the region, Vietnam has barely scratched the surface.

International Arrivals in 2011



Vietnam's shared border with China makes it nearly inevitable that the country's 3,200 km coastline will be covered with resorts by the year 2020. You have doubts? According to McKinsey Consulting, the number of households in China with disposable income is expected to grow from 18 million (2010) to 167 million by 2020¹. That is an increase of over 350 million people with the means to travel internationally. The closest comparable is the middle class growth in the United States during the 1950', 60's and 70'sⁱ. Mexico's coastal resort expansion was a result of Americans traveling internationally for the first time. *See Part I of this series for more details.*

If we believe that Vietnam will become a major destination in Asia for coastal tourism, then the next question is where to invest. Three clusters of resorts have already begun to form in Vietnam. All three

¹ https://www.mckinseyquarterly.com/Meet_the_Chinese_consumer_of_2020_2941

are near major cities, close to an international airport and have warm, sunny weather at least nine months of the year.

- I. The southern coastal area near Ho Chi Minh City; Vung Tau, Phan Thiet/Mui and Ho Tram.
- II. The central coast cities of Danang, Hoi An, and Hue,
- III. The 100 km stretch of coastline from Nha Trang south to Ninh Chu Bay which is centered on the Cam Ranh International Airport.

When comparing these locations, we identified three significant factors that need consideration;

- I. Climate/beach/ocean,
- II. Tourism infrastructure, cultural activities, & entertainment
- III. The provincial government's policies and performance

Some other locations have resort developments, but are limited by various conditions. The north has some amazing places to visit, such as Halong Bay, but coastal tourism in Vietnam is largely being developed from the central coast southward where the weather is much better. Phu Quoc and Con Dao are beautiful, small islands with 5-star getaway resorts but accessible only by flying to small airports. Their size and limited access eliminates them from our analysis. Quy Nhon has some development but the beaches are not near major population centers or an international airport.

Weather/Beach/Ocean

While Vietnam is not a large country in terms of area, it is a very long country and the change in latitude causes a variety of climates. From north to south, the length of Vietnam is comparable to the distance from Copenhagen to Rome, Seattle to Los Angeles, and Shanghai to Hainan.



Consider two key weather patterns when choosing a resort location. First, central and north Vietnam have rain during the fall and winter while in the south, the rain arrives during summer. The south central coast receives significantly less rain than both the central and south coastlines and the raining season lasts half as long.

The 2nd consideration is that the weather near Danang gets cool in the winter. The lowest recorded temperature in Danang is 7 degrees Celsius, and on average, 25 days a year the temperature doesn't reach 18 degrees.² December and January are wet and cool enough that it keeps people from swimming and laying out in the sun.

Key Climate Differences

Location	Average Temp.	July Ave High	Jan Ave Low	Annual Rainfall	Wettest month	Rainfall in wettest month	Raining Season
Central Coast (Danang)	26	32	19	1,980	Oct	550	Aug - Jan
South Central Coast (Nha Trang)	27	31	24	1,310	Nov	320	Oct - Dec
South (Vung Tau)	28	31	23	1,540	Aug	250	May - Oct

Temperatures in degrees Celsius, rainfall measured in millimeters. Source weatherbase.com

Tourism Infrastructure, Cultural Activities & Entertainment

Coastal resort tourism in Vietnam began within short drives from Ho Chi Minh City. At the time, the country had two international airports (HCMC and Hanoi), one major north/south road (Highway 1A), and a north/south railway built before the war. Vietnam Airlines flew to local airports such as Dalat, Nha Trang, and Danang, but flights were cancelled frequently, making domestic air travel unreliable and expensive. The infrastructure from the early days of Vietnam tourism has had a lasting effect.

To reach its potential, Vietnam's coastal tourism must be integrated with cultural tourism and entertainment. Bali attracts visitors from all over the world not just because of their beaches, but also because the resorts have been assimilated with local culture. Phuket and Pattaya's attractions are less traditional, but entertaining nonetheless. Depending on the target customer, golf, shopping, and night life venues nearby are important. To achieve success, resorts in Vietnam must provide customers with enough entertainment alternatives to keep them for many days. Now, most tourists spend one or two days at a location then move up or down the coast.

Provincial Government Policies and Performance

Vietnam's Central Government does not become involved in the details of the provinces. It establishes guidelines and goals so the implementation is done at a provincial level. Twenty five different provinces border the Pacific Ocean; each has different strategies, priorities, abilities, and policies for coastal tourism. Vietnam lacks a coordinated tourism plan which causes the provinces to compete with each for foreign direct investment and tourism dollars, rather than trying to compete with other countries.

In the early stages of resort tourism, the provincial governments were caught by surprise by the rapid growth along their coasts. In many places, the infrastructure was not in place and some provinces have yet to catch up. Locations that developed later learned from these mistakes.

² <http://www.weatherbase.com/weather/weatherall.php3?s=55884&refer=&cityname=Da-Nang-Da-Nang-Vietnam&units=>

The South Coast

Coastal tourism began on the outskirts of HCMC, but it caught the localities by surprise and the infrastructure was not in place to remain competitive in attracting foreign FDI and international brands. Can things turn around? One resort developer is gambling that the answer is “yes”.

Vung Tau

Vung Tau is a city located on a peninsula at the mouth of the Saigon River, making it the shipping entry point to HCMC’s ports. It is the nearest coastal city to HCMC and also the center of Vietnam’s oil and gas industry. Bars and restaurants sprung up that targeted foreign oil workers and expats wanting to get out of the city for weekends, giving the town a reputation as HCMC’s Pattaya (although on a much smaller scale). As incomes for Vietnamese grew, Vung Tau became the most attractive destination for locals. It was a two hour drive and bus tickets cost less than \$5 per round trip. Hundreds of small, one and two star hotels and seafood restaurants opened, catering to the local population. Front Beach, where development started, is public and there are no resorts. On summer weekends, the beach is crowded, dirty, and filled with people peddling all sorts of things. Being close to three major shipping ports and the mouth of the Saigon River has caused ocean pollution.

After beach resorts were introduced in Phan Thiet/Mui Ne, the back side of the Vung Tau peninsula started to be developed in a similar fashion. Called Back Beach, the area now has a few nice resorts including the 5-star Imperial Resort, and a golf course. International brands have not invested yet. Approximately 2,000 residential units are being built in the area as well.³

Vung Tau’s popularity is due to its location near HCMC and the cost of travel. The city had 2 million visitors in the first two months of 2012,⁴ most of whom were Vietnamese. In the last few years, its popularity with locals and the general increase in traffic in the country has resulted in drive times nearly doubling what they once were. Instead of an hour and a half, it’s a three hour drive along a terrible road. Vung Tau’s location at the mouth of river enables people to get there by boat. Several hydrofoil operators run a total of 7 trips a day, with a capacity of about 60 per trip. The trip costs about \$15 each way and takes less than 2 hours, making it appealing to travellers who don’t want to spend the time on the road or the cost of an air ticket. Like the road, the constant use over the last 10 years has led to the boats becoming old and run-down.

Work is progressing on 72 km of Highway 51 that connects Vung Tau with Bien Hoa (near HCMC), turning it into a 6-lane highway with tolls. According to the construction company, it is 85% complete and expected to be open in late 2012⁵.

³ <http://www.asiancoastdevelopment.com/ba-ria-vung-tau.php>

⁴ http://ven.vn/ba-riavung-tau-enhances-tourism_t77c499n27553tn.aspx

⁵ <http://baodongnai.com.vn/english/society/201202/Further-efforts-to-complete-major-transport-projects-2128265/> We have some doubts about when this road will be opened. Some news reports are even suggesting it is still in the clearance stage.



Front Beach, Vung Tau, Vietnam

Phan Thiet/Mui Ne

Phan Thiet and Mui Ne (PT/MN) were the first resort locations in Vietnam. Many beautiful beaches are closer to HCMC, but Highway 1A bypassed these locations and does not meet the coastline until Phan Thiet.



Highway 1A (pink)

Since the mid-1990's, the 35 km of coast between Mui Ne and Phan Thiet has filled with resorts, residence villas, bars, and two golf courses. The golf courses were among the first in Vietnam and many of the expats who lived in HCMC would take weekend trips to get out of the city. PT/MN was a relaxing alternative to Vung Tau, which is closer to HCMC but the beaches were all public and crowded with Vietnamese vacationers. Resorts in PT/MN have private beach rights, a policy that encourages the resorts to keep their beaches clean and allows them to keep away irritating peddlers. With the strong, consistent winds, the area has also become popular with travelers who kite and wind surf. For many backpacking tourists and locals, the area's closeness to the city makes it very affordable to reach. Bus tickets are less than \$10 one way.

Despite being the first beaches to have resorts, the large foreign-owned brands have not entered the market with the exception of Accor (Novotel Phan Thiet) and the Thai owned/operated Anantara Mui Ne Resort. The reason becomes clear when driving. As Vietnam's manufacturing sector rapidly grew in the last ten years, factories and industrial parks were built outside of HCMC along the only major highway at the time. That highway is the same route that tourists must take to Phan Thiet/Mui Ne, and it has not been improved. Rather than taking two to three hours to drive, it now takes more than six hours. The road is so bad that Russian tourists frequently arrive at Cam Ranh Airport and take a bus to PT/MN despite it being twice the distance.

The growth in coastal development caught the Binh Thuan government unprepared. Waste water from over 125 resorts in the area was not being processed until a 2009 decree required each resort to process its own. Estimates are that 25% still have not complied. Even more damaging, the region's growing economy attracted more Vietnamese households and businesses to the area, and a river that flows through the province dumps a lot of their waste water into the bay. This has caused big problems with algal bloomⁱⁱ. The beaches also have erosion problems from overdevelopment.

The future for this area greatly depends on whether Vietnam's government is serious about plans to upgrade Highway 1A and/or build a new north-south express highway. If the drive time from HCMC can be reduced to a manageable two hours, then PT/MN can become an excellent option for tourists and locals in HCMC. Another positive development would be the completion of the new Long Thanh International Airport which is to replace the airport in HCMC and be a regional hub sometime after 2020⁶. The new airport will be in the middle of HCMC and PT/MN, a two hour drive from the beach. We don't expect the new airport or road improvements for many more years. As for now, PT/MN will continue to receive visitors who want to go to the beach and don't want to pay too much to get there.

Ho Tram

The newest strip of beach near HCMC to undergo development, Ho Tram beach is 50 km north of Vung Tau. We would not mention it except for the largest integrated beach resort in Vietnam is being built by Asian Coast Development Ltd. The flagship resort for the strip will be the 1,100 room MGM Grand Ho Tram, scheduled to open in March 2013. The 5-star complex is situated on 2.2 km of beach⁷.

The MGM Grand is expected to receive a casino license from Vietnam's central government, becoming the first large resort complex to have a casino. However, Vietnam law prohibits Vietnamese citizens to enter the casino. The MGM is counting on appealing to the Asian travelers and expats going to HCMC.

Other resorts and residence villas are being developed between Ho Tram and Phan Thiet. Developers are counting on improved highway systems as well as the opening of the new airport. Residence villas are popular in this area for the same reasons as in Hua Hin, Thailand.

Conclusion

Coastal Tourism in Vietnam grew up around HCMC because of the cost and time it took to get to the resorts. While travel costs remain low, travel times nearly doubled. The advances in domestic air travel changed the market so that now it is mostly Vietnamese tourists travelling to these areas, with the exception of a large number of Russians vacationing in PT/MN. The rapid growth in coastal tourism in this area also caught the governments unprepared. Proper infrastructure like roads and waste water treatment plants are just being built, nearly a decade too late. Being further away from the Chinese border also reduces the expected overall effect of the number of new middle class Chinese vacationers. If new roads and a new airport are built, there will be more demand for 2nd homes and

⁶ http://en.wikipedia.org/wiki/Long_Thanh_International_Airport

⁷ <http://www.asiancoastdevelopment.com/ho-tram-strip.php>

retirement residences near the large city of HCMC. We feel the improvements will barely keeping up with the growth, so there won't be much improvement in travel time in the near future.

The Central Coast

Vietnam's central coast is being hailed as the next great Asian resort destination⁸. Does it have the competitive advantages that will allow it to grow into a destination like Phuket and Bali?

What was once known by American soldiers and featured in the popular 1980's TV drama, *China Beach*, has now become the resort destination capital of Vietnam. The 20 kilometers of beaches south of the Son Tra Peninsula are located in the middle of Vietnam's third most modern city and between its two most historic places. The combination of the most progressive provincial government, three nearby UNESCO World Heritage Sites, a beautiful beach, and a modern airport have brought modern coastal tourism to Vietnam. It is also the nearest Vietnamese coastal destination to Japan, Korea, and China. In 2011, the number of international travelers coming to Danang grew by 44%⁹.



China Beach on the right and Danang to the left. The airport is in the lower left corner.

Danang

Located halfway between Hanoi and HCMC, Danang is Vietnam's third largest city. It has ranked at the top or near the top of the Vietnam Chamber of Commerce Provincial Competitive Index for the last five years¹⁰. The government has consistently helped resort developers quickly clear land and provided infrastructure needed for a world-class resort destination. A new international terminal with a capacity of 4 million passengers opened in December, 2011¹¹, giving investors the confidence to build. The resorts and hotels that have already opened include Crown Plaza, The Hyatt Regency, Mercure, and Novotel. The Intercontinental, Melia, Hilton, and more Mercures and Novotels are opening soon. Two golf courses designed by Colin Montgomery and Greg Norman are integrated with huge residential projects and accompanying beach resorts.

⁸ <http://www.vir.com.vn/news/special-edition/a-star-in-the-making.html>

⁹ <http://www.property-report.com/leading-edge-opportunities-abound-in-vietnam-19981>

¹⁰ http://www.pcivietnam.org/about_us.php

¹¹ http://en.wikipedia.org/wiki/Da_Nang_International_Airport

Hoi An

Hoi An town is located 30 km south of Danang, but under the jurisdiction of a different government. A UNESCO World Heritage Site, the city is considered a must-visit location for western tourists who can walk the streets that are lined with old French-colonial buildings. The local government identified early that it was the historical architecture and atmosphere that attracted tourists. Unlike Danang, there are no new high-rise hotels or modern shopping centers. Instead, traditional tailor shops and handcrafted items made locally are sold in small shops.

Hoi An does have beach resort developments, but the beach is a continuation of the Son Tra strip that crosses into Quang Nam Province. All the resorts on this strip of beach are within a 30 minute drive of old Hoi An.

Hue

Hue is the ancient capital of Vietnam, and also a UNESCO World Heritage Site. It is located about 80 km up the coast from the Danang airport, but the road is terrible and it takes nearly two hours to drive by car. They do have a small local airport, but the majority of people get there by car/bus. Unlike Hoi An, Hue's historic sites were heavily damaged during the war and until recently, there has not been much of an effort to restore.

Beach resorts are beginning to fill up the coast between Hue and Danang. Banyon Tree, and Ana Mandara open in 2012 and Vinpearl (a large Vietnamese resort developer) has just begun work on one of the largest integrated resort projects in Vietnam, estimated to cost US\$5 billion. The Banyon Tree includes a Nick Faldo designed golf course and Vinpearl will build another course.

There is an interesting weather phenomenon along the central coast. Despite being within a hundred kilometers from each other, Hue gets significantly more rainfall. Average precipitation in Hue is 2,980 mm¹² while Danang gets 1,980 mm.

Conclusion

The central coast of Vietnam is the tourism center of the country now. These three cities are three of the four most visited coastal cities in the country by foreign touristsⁱⁱⁱ. Danang is becoming a modern beach resort city with beautiful beaches and a government that understands what it needs to do to help foreign businesses invest. Hue and Hoi An provide excellent sight-seeing opportunities for those staying at the resorts. Lastly, world-class golf resorts offer activities across the street from the beach.

Compared to Phuket, Bali, and even Nha Trang, the central coast does have a winter season that is too wet and cool for year-round enjoyment of the beaches. Danang averages 25 days a year with a high temperature below 18 degrees. Hue is cooler and has much more rain. The area will not attract beach tourists during the winter, although plenty of cultural sites in the area do.

¹² <http://www.weatherbase.com/weather/weather.php3?s=25884&refer=&cityname=Hue-Thura-Thien-Hue-Vietnam>

The beaches near the airport will be completely developed in the next two years, consequently those trying to enter this market will need to do so by acquisition. One cause for concern is that over-development of the UNESCO sites will reduce their appeal to foreigners. The stretch of Highway 1A that connects Hue with Danang also needs to be improved before the region can really take advantage of Hue and the beaches north of Danang. But based on its location, our conclusion is that it is very possible the Vietnam central coast is going to experience the greatest impact from the growing Chinese middle class of any tourist destination in the world outside of China.



Hoi An Riverfront

South Central Coast

The weather is perfect, the beaches are beautiful, the blueprint for development has been established; will the south central coast be Vietnam's next big coastal resort destination? The waiting game has begun.

Along a 20 km stretch of beach, minutes away from the Cam Ranh International Airport (the 4th largest airport in Vietnam), the entire beach is claimed by developers with management deals from Westin, Holiday Inn, Mirax, and some of the larger Vietnamese hospitality companies. A wide, 4-lane road passes by and access roads lead to the beach, dividing the construction sites. However, construction has barely begun. The area is a near replica of China Beach two years ago, when resort developers south of Danang were waiting for the airport to be expanded and improved. Once it was, the developers built and the tourists came. We expect the south central coast to follow in the central coast's footsteps. This area has many potential resort sites in various stages of development and a modern city just to the north.

Nha Trang / Cam Ranh

Nha Trang is 320 kilometers north of Ho Chi Minh City, forty five minutes away from the Cam Ranh International Airport. With a population of 300,000 people and a reputation as the best beach city in Vietnam, 20 story hotels have begun lining the street across from the ocean. Sheraton and Novotel have already opened and Marriott and Crown Plaza hotels are opening soon. Popular beach bars like The Sailing Club and Louisiana Brewery provide night life and two golf courses are just outside the city.

The increasing number of expats moving to Nha Trang will help support the modernization of the shopping centers, private schools, and entertainment complexes. Condominiums are being built that appeal to westerners who are looking to move overseas for their retirement¹³. All this gives Nha Trang a very different feel than Danang. Nha Trang is a beach city, while Danang is a city next to the beach. Khan Hoa People's Committee has recently decided to make the beaches near Nha Trang's city center accessible to the public so that everyone staying in hotels and condos in the city center has access. Most hotels are within walking distance. Beach resorts are being moved south to Cam Ranh or to nearby islands where they can have private beach rights. Over-development has caused Nha Trang Bay to become polluted so the policy makes sense.

Cam Ranh's Long Beach, is still mostly undeveloped, like China Beach a few years ago. The wait may not be for long, as Russian tourists have been flying directly into the Cam Ranh Airport in greater numbers. Charter flights from eastern Russia started arriving direct to Cam Ranh in October, 2011. The original plan was for one flight a day from October to May, with 180 tourists who stayed on average 12 days. The program became so successful that by March, up to four flights were arriving some days and the charter planes will continue operating year-round. Seventy-five percent of the arrivals stay in Nha Trang, and the others go to Phan Thiet/Mui Ne. The resorts in Cam Ranh and Ninh Thuan will be able to provide accommodations for more of these tourists in the future, eliminating the need for a six hour bus trip.



Cam Ranh's Long Beach (right) and Cam Ranh Bay (left)

The Cam Ranh International Airport's current capacity is 450,000 people per year. In 2010, that left 191,000 potential international travelers having to arrive to the province by other means.¹⁴ The Khan Hoa government plans to increase the number of runways and the size of the terminal to receive 5.5 million travelers by 2020 and 8 million by 2030.

¹³ <http://money.usnews.com/money/blogs/On-Retirement/2012/03/19/the-18-best-places-to-retire-overseas>

¹⁴ <http://www.vneconomynews.com/2011/08/foreign-investors-eye-cam-ranh-airport.html>

Cam Ranh and Nha Trang are both great ports for cruise ships. The Vietnamese government has been slow in promoting cruise ship tourism, but arrivals by sea are increasing despite there being no national policies or encouragement. It is unclear which port will eventually be chosen, but whichever it is has the potential to be a significant port-of-call for Asian cruise lines.

Ninh Thuan Province (Binh Tien, Vinh Hy, Ninh Chu Bay)

Northern Ninh Thuan province is the same distance from the Cam Ranh airport as Nha Trang. The beaches are just as beautiful, the water is cleaner, and the weather is noticeably better. Even though the center of the province is 100 km south of Nha Trang, it receives about half (705mm/yr¹⁵) the rainfall. It is the driest area in Vietnam as evidenced by 90% of the grapes grown in the country come from this area.

After witnessing the problems caused by rapid tourism growth in the south, the provincial government hired The Monitor Group to prepare a development plan for the province¹⁶ and streamline the investment process. Incentives exist for foreign and local businesses that can save developers significant amounts of money on corporate taxes and land lease payments compared to Khanh Hoa and Binh Thuan. Also, Holland has committed to helping with a large waste water treatment plant¹⁷.

While very few entertainment or businesses targeting foreign tourists exist, the province is the capital of the Cham people and several Cham temple complexes 700 years old are still in use nearby. Other temples, pagodas, and monasteries were built in the hills above the beach. Finally, the wind is even better than Mui Ne for water sports.

All three factors we identified for a successful coastal resort area are present. Then why is Ninh Thuan under-developed and unknown compared to its neighbors? Because Highway 1A was built inland of the Nui Chua National Park and it bypasses the beaches.

A new beach highway will be completed in 2012 that will connect the beaches of northern Ninh Thuan province with the Cam Ranh Airport and the current road south of Vinh Hy Bay is also being widened, making drive times less than 45 minutes^{iv}. Investors are beginning to take notice. The Intercontinental Hotel Group will manage the flagship resort in a large integrated tourism complex in Binh Tien. Another 5-star resort is nearly finished on the cliffs of Vinh Hy Bay, and Ninh Chu Bay is filled with smaller 3-star resorts owned by Vietnamese companies. But the area is not that well known even inside Vietnam so opportunities to find land at discounted prices remain.

¹⁵ <http://www.vietnamonline.com/destination/ninh-thuan.html>

¹⁶ <http://www.monitor.com/Services/RegionalCompetitiveness/DefiningaCompetitiveEconomicStrategy/CaseStudyVietnamNinhThuanProvince/tabid/247/L/en-us/Default.aspx>

¹⁷ <http://english.vov.vn/Home/Holland-funds-wastewater-treatment-project-in-Ninh-Thuan/20123/135580.vov>



Ninh Thuan Province - Red line indicates the new beach highway that is nearly finished.

Conclusion

The biggest difference between the south central and central coastal tourism clusters is the absence of cultural sites near Nha Trang. Better weather, water activities, and a traditional beach town atmosphere will draw tourists who aren't necessarily looking to explore Vietnam's culture. These will be the repeat tourists who come to escape the winter in Russia, want to explore dive sites, and have fun at night in Nha Trang.

We believe there is a lot of potential in this area. Cam Ranh has one of the best deep-water ports in Asia that could be perfect for a cruise ship port. Phan Rang/Ninh Chu Bay is located in the middle of the southern tourism triangle. If the government follows through with their plan to re-open the Phan Rang to Dalat train, then perhaps a situation similar to Bali could develop with resorts in the mountains and the sea connected. The area is currently an eight hour trip from HCMC by driving or train, but that could be shortened to less than four hours with a new express highway or high-speed rail system, both of which are planned.

Nha Trang Bay does have some pollution problems, but resorts are being moved off the beach to locations near Cam Ranh. Ninh Thuan province is still unknown, and resorts in Cam Ranh are still waiting. Also, the airport requires upgrades to handle the number of tourists needed to fill the resorts that are being built. In other words, the area is a lot like Danang a few years ago.



Ninh Chu Bay, Ninh Thuan Province

When to Invest

In Part III of this series, we discuss when to invest in Vietnam's coast resort business in more detail. Obviously Vietnam's coastal tourism is in the early stages of development. Mexico's resort market went through three phases¹⁸, and if that model matches, then Vietnam is predominantly in the 1st phase (south and south central) and Danang is just entering into the 2nd Phase^v. New resorts are opening every month but many more are waiting for more demand. Some investors fear supply is increasing too fast. In addition, economic difficulties the last two years have added to the unease. Inflation has been a problem that the central banks are fighting by tightening credit, especially to real estate developers. The result is a high cost of capital inside of Vietnam.

With risk comes reward. Investors with lower cost of capital can enter the Vietnam market earlier in the tourism development cycle than Vietnamese competitors; understanding that initial returns will be low but should increase rapidly as China's economy grows in the next ten years.

We believe that artificial, non-market constraints on capital inside of Vietnam have created an arbitrage opportunity for outside investors^{vi}. The difference in cost of capital between Vietnamese firms and outside investors is greater than the associated risk premium, especially in the tourism industry. The high-end tourism business in Vietnam is very dependent on economic conditions outside the country rather than from within. We argue that China's economy will be a significant growth driver in the next 5 to 10 years^{vii}. In addition, inflation risk is overstated because it is standard practice for four and five star hotels to list prices in U.S. Dollars, rather than Vietnamese currency. Therefore, internal factors are driving down the cost to enter the Vietnam coastal tourism market for outside investor which increases the discounted cash flow value of their investment.

¹⁸ Jeffrey S. Smith in his report *Three Generations of International Tourist Resorts in Mexico*, published in *Geographische Rundschau International Edition* Vol. 5, No 1/2009.

Conclusion

Over 20 million Americans visited Mexico in 2010, despite a deadly drug war being waged in the country. That accounted for nearly 60% of all international travel by Americans. As China's middle class grows, it is inevitable that Vietnam will be one of their first international destinations.

When deciding on a location in Vietnam, investors must weigh the cost of initial soft demand against the benefit of lower land prices. In addition, each of the three clusters of coastal tourism has key advantages and disadvantages that need to be considered.

Location	Climate/Beach/Ocean	Infrastructure/Cultural Attractions/Entertainment	Provincial Govt. Policies & Performance	Current Tourism
South	Raining in summer. Polluted beaches in developed areas. Erosion problems in Mui Ne.	HCMC nearby, but roads are terrible. Some pagodas and temples in Vung Tau. Gambling soon in Ho Tram. Kite surfing in Mui Ne.	Unprepared for development. Late start. No preferential policies	Mostly locals. A lot of potential for tourists who stay over in HCMC for a week or more.
Central	Raining & cool in winter. Rain in other months. Great beaches.	The best. Modern city and airport. Hoi An and Hue. Golf courses. Modern airport.	The Best local governments to work with in the past. No preferential policies.	The best now. Most tourists to date. Most Asians Closest to China.
South Central	The Best in VN. Nha Trang Bay polluted but other areas are great. Least rainfall and only 3 mo. with rain.	Good airport. Nha Trang is fun city. Lots of water activities. Golf Courses. Cham temples and soon a train to Dalat.	Ninh Thuan improving and has preferential policies. Khanh Hoa now has a plan in place.	Nha Trang is busy, many Russians and Aussies. Cam Ranh and Ninh Thuan are still waiting.

MGT Management has had a presence in Vietnam for ten years, seven of those consulting for clients choosing locations for resort developments. We also specialize in creating discounted cash flow valuation models that are integrated into custom management accounting tools, budgets, and tracking reports based on value-added management practices. For more information, visit our website at http://www.mgtmanagement.com/Reports_and_Research.html. For questions or to be added to our mailing list, send to info@mgtmanagement.com.

ⁱ In 1947, 1 of every 3 Americans lived in poverty. By 1978 only 1 of every 11 Americans lived below the poverty line. This rise in income corresponded with the "baby boom" when the population of the U.S. increased by 78,500,000 people. The combined total new population above the poverty for the first time was over 105 million during a 31 year period.

Before this period of rapid growth in middle income families in America, Mexico had virtually no tourism industry. By 1978, 3.75 million tourists arrived in Mexico, 90% of them from America.

McKinsey and Company projects that between 2010 and 2020, 400 million Chinese will have disposable income in China for the first time. There are a lot of comparable circumstances, see Part I for more information.

ⁱⁱ An algal bloom is a rapid increase or accumulation in the population of algae (typically microscopic) in an aquatic system. Algal blooms may occur in freshwater as well as marine environments. Typically, only one or a small number of phytoplankton species are involved, and some blooms may be recognized by discoloration of the water resulting from the high density of pigmented cells. Although there is no officially recognized threshold level, algae can be considered to be blooming at concentrations of hundreds to thousands of cells per milliliter, depending on the severity. Algal bloom concentrations may reach millions of cells per milliliter. Algal blooms are often green, but they can also be other colors such as yellow-brown or red, depending on the species of algae.

ⁱⁱⁱ The other top city for tourism is Hai Phong, where world famous HaLong Bay is located

^{iv} While we are skeptical of many proposed infrastructure projects in Vietnam, we have driven this route and watched the road progress. We are confident of the opening in 2012.

^v According to Jeffrey S. Smith in his report “Three Generations of International Tourist Resorts in Mexico”, published in Geographische Rundschau International Edition Vol. 5, No 1/2009. The First Generation international tourist resorts were former fishing villages that recognized tourism’s income potential and their economic foundations changed to better accommodate foreign visitors. However the result was extensive environmental degradation.

Second Generation resorts came about with government planning and overseas capital, some of which was from international organizations. The resorts were isolated from the local communities but near to local labor. The Mexican Government focused on locations and bundled many high-end resorts into close proximity to each other.

^{vi} There are indications that the State Bank of Vietnam has recognized this problem and the policies of tightening credit to the real estate market are beginning to ease. <http://businesstimes.com.vn/better-late-than-never/>

^{vii} It is important to remember that tourism acts like an export industry within a country’s borders. For example, bringing Chinese tourists to Vietnam is the same as Vietnam retail goods going to China. Therefore, investing in tourism businesses inside of Vietnam that target Chinese consumers takes advantage of the fast growing Chinese market just like exporting retail goods to China.