Hotels & Hospitality Group
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Fiji Hotel Investment Market

JLL SEE A BRIGHTER WAY

The heart of the South Pacific

Fiji comprises an archipelago of more than 332 islands of which 110 are permanently inhabited, scattered across 200,000 square kilometres of the South Pacific Ocean, and located east of Australia and north of New Zealand. The two major islands, Viti Levu and Vanua Levu, accommodate approximately 87% of Fiji's total population, with the capital city Suva located on the southern coastline, and Nadi, the main tourism gateway to Fiji, situated on western coastline.

The country benefits from being a popular short-haul tourist destination, with strong appetite particularly from Australian and New Zealand visitors. Despite being a developing country, Fiji has seen significant infrastructure investment and new development over many years (with a world-class airport, improving road networks, clean water, etc.).

Fiji is also known for being a family friendly holiday destination, with strong welcoming culture, pristine natural environment and tropical warm climate. The market is also renowned for its market leading, genuine hospitality, with guests becoming friends with the local staff, and many resorts having loyal repeat guests that can span generations.

Despite global economic headwinds and increased uncertainty, Fiji's hotel and resort market has seen a very positive recovery post-pandemic. Largely on the back of a faster than expected return of international demand and strong daily rate levels across the board. Shifting debt markets and an increase in volatility is likely to temper investment activity in the short-term, however the strong market recovery is expected to drive investor appetite and future market growth, especially given Fiji's strong tax advantages that stimulate hotel investment and fuel future hotel development.

We expect the following key themes will shape the Fiji market in the coming years:

1. Owners and investors need to invest in and enhance their product, through refurbishment, rebranding or redevelopment, upgrading the product offering, sustainability performance and efficiencies.

2. There is a potential for further international brand diversification, especially with a targeted focus on underweighted product segments such as luxury/ultra-luxury, boutique, or lifestyle brands.

3. The market has significant potential for ADR uplift and a continued increase of the rate ceiling, given positive demand levels, strong forward bookings and an expansion of Fiji's international airline route maps as airlift continues to recover to pre-pandemic levels.

4. Attractive tax concessions and incentives are on offer in the market that are directly targeted at stimulating new investment, construction and refurbishment within the tourism and hotel industries.

Strong ongoing recovery of international arrivals and tourism market

Historically, visitor arrivals into Fiji have shown periods of strong growth attributed to both public and private infrastructure investment and destination marketing, however this growth has been tempered by periods of political unrest and natural disaster events. Cyclone Evan (late 2012), followed by soft macro-economic market conditions and changes to flight capacity by Fiji Airways (in 2013), limited the growth in international visitation between 2010 and 2014, before rebounding strongly until 2019. Since 2010, visitor arrivals grew from 631,900 to 894,400 in 2019, a CAGR of 3.9%.

Fiji ranked as the No.1 country in Asia Pacific for its favourable conditions for tourism recovery, according to the Economist Intelligence Unit's (EIU), Asia Travel-Readiness index. The index ranks factors such as importance of tourism in their economy, local vaccination coverage, ease of travel and the convenience of returning home.

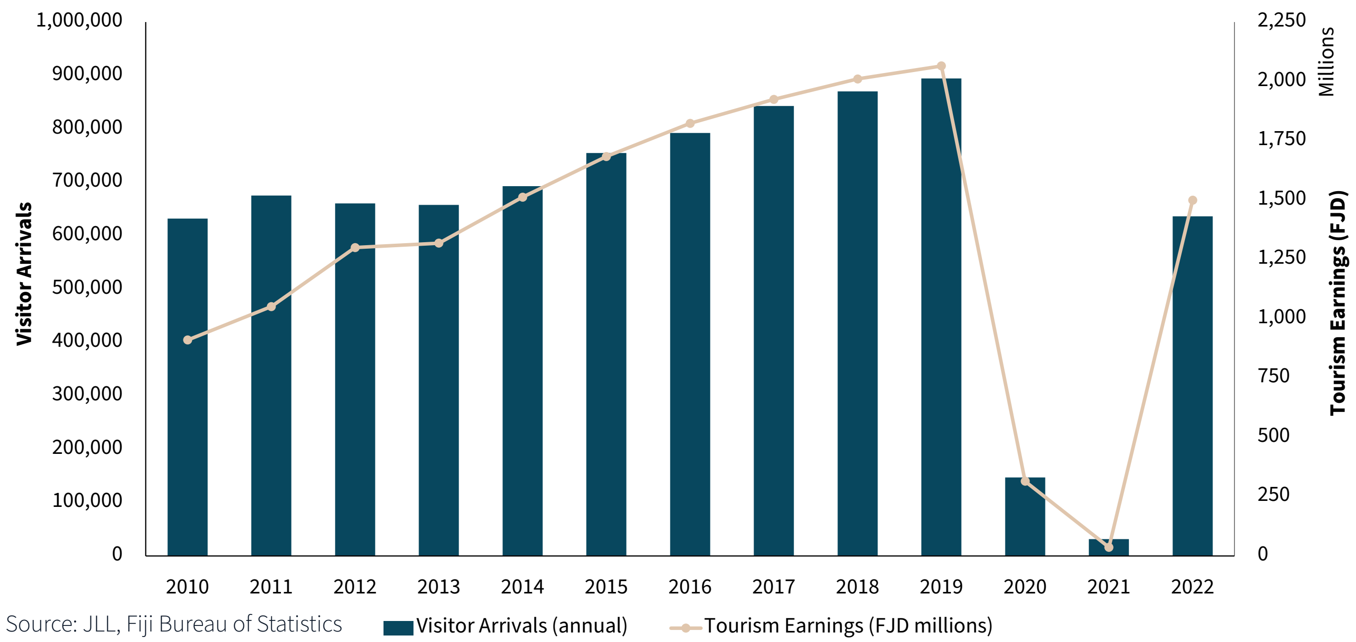
International borders officially reopened in Fiji in December 2021 for quarantine free travel to select countries, however it wasn't until April 2022 that borders fully reopened to all countries with no quarantine requirements and vaccination restrictions.

Throughout the second half of 2022, visitor arrivals recovered much faster than expected, on the back of increased air capacity and new routes, relatively low airfare costs in relation comparable holiday destinations and pent-up tourism demand.

Annual visitor arrivals reached 71% of pre-COVID levels (2019) in 2022 on the back of a strong tourism rebound. Monthly arrivals surpassed pre-pandemic levels for the first time in December 2022 (75,580), compared with the same period in 2019 (73,740). These strong volumes have continued into 2023, with January recording 67,502 arrivals compared to January 2019 (63,807).

The tourism market is also Fiji's largest industry and contributes a strong weighting to the countries the overall economy. Over time, tourism earnings have grown alongside visitor arrivals, with earnings rising from FJD $910 million ($1,440 per arrival) back in 2010, to a peak of FJD $2.1 billion ($2,309) in 2019, before returning to FJD $1.5 billion ($2,356), highlighting the increase in tourist spending over the past decade.

International visitor arrivals and tourism earnings in Fiji



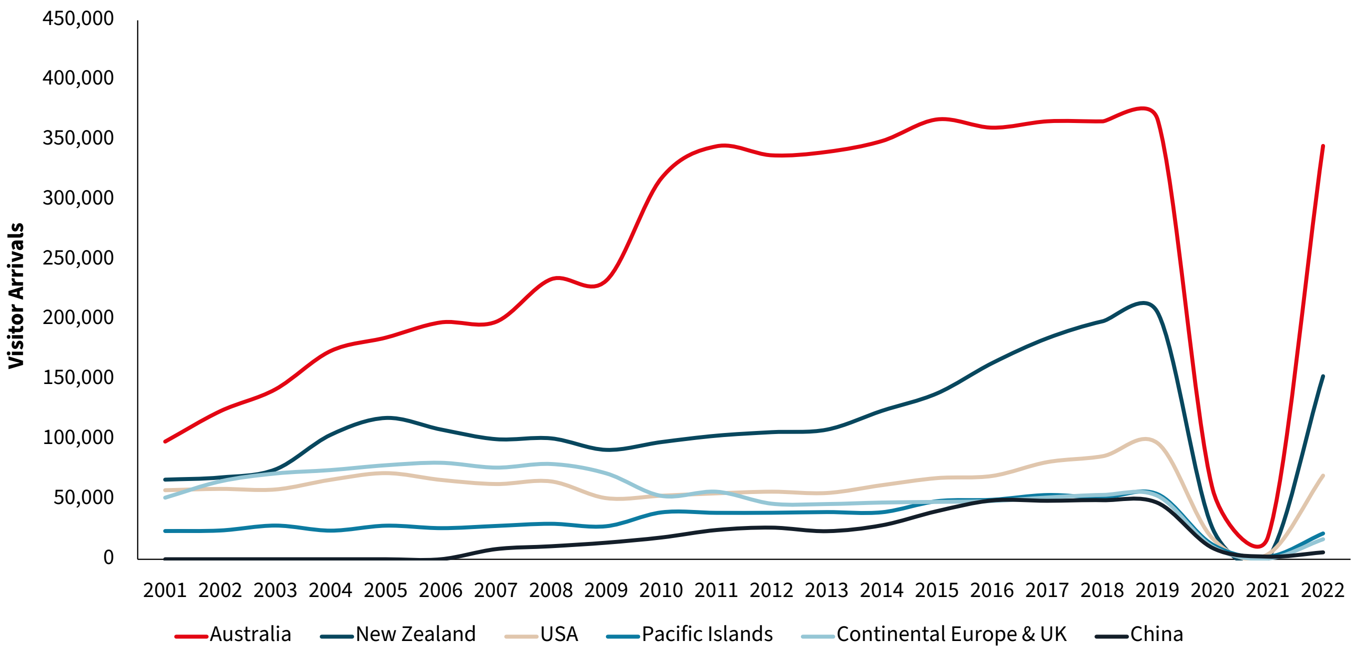
Source: JLL, Fiji Bureau of Statistics

Airlift routes to and from Fiji continues to improve

Fiji is largely an international leisure market, with overseas visitors representing 86% of all arrivals in 2019 (90% in 2022). The recovery in inbound source markets has been strong and has seen a slight shift since the onset of the pandemic. The top three source markets prior to the pandemic (2019) were Australia (41%), New Zealand (23%) and the USA (11%), making up 75% of all international arrivals. This weighting has since shifted in 2022, to 54%, 24% and 11%, respectively.

Pre-COVID (2019), 58% of tourists where classified as first-time visitors, which anecdotally has seen a significant increase over the past 12-months, with those having newly discovered the short-haul destination post-pandemic. This has supported the strong recovery of the market, alongside the return of regular Fiji holidaymakers, with tourists spending more and staying longer prior to the pandemic.

Visitor arrivals by source markets



Source: JLL, Fiji Bureau of Statistics

Airlift to Fiji is predominately through its world-class airport, Nadi International Airport, which now has direct connections to key markets including Australia, New Zealand, USA, Canada, Singapore, Hong Kong and Japan, as well as recently announcing direct flights to South Korea (Seoul). Fiji benefits strongly from its connections through Singapore and Hong Kong, which service source market connections across Asia (mainland China) and much of Continental Europe.

Additionally, it benefits from increased accessibility and routes to and from the US, and now directly to Canada. Airlift is primarily through flag carrier airline, Fiji Airways, however, has also recently seen an increase in capacity by Virgin Australia and Air New Zealand. Other international airlines currently operating regular services including Qantas, Jetstar, Air Niugini, Air Vanuatu, and Solomon Airlines.

Limited international brand diversification presents as an opportunity

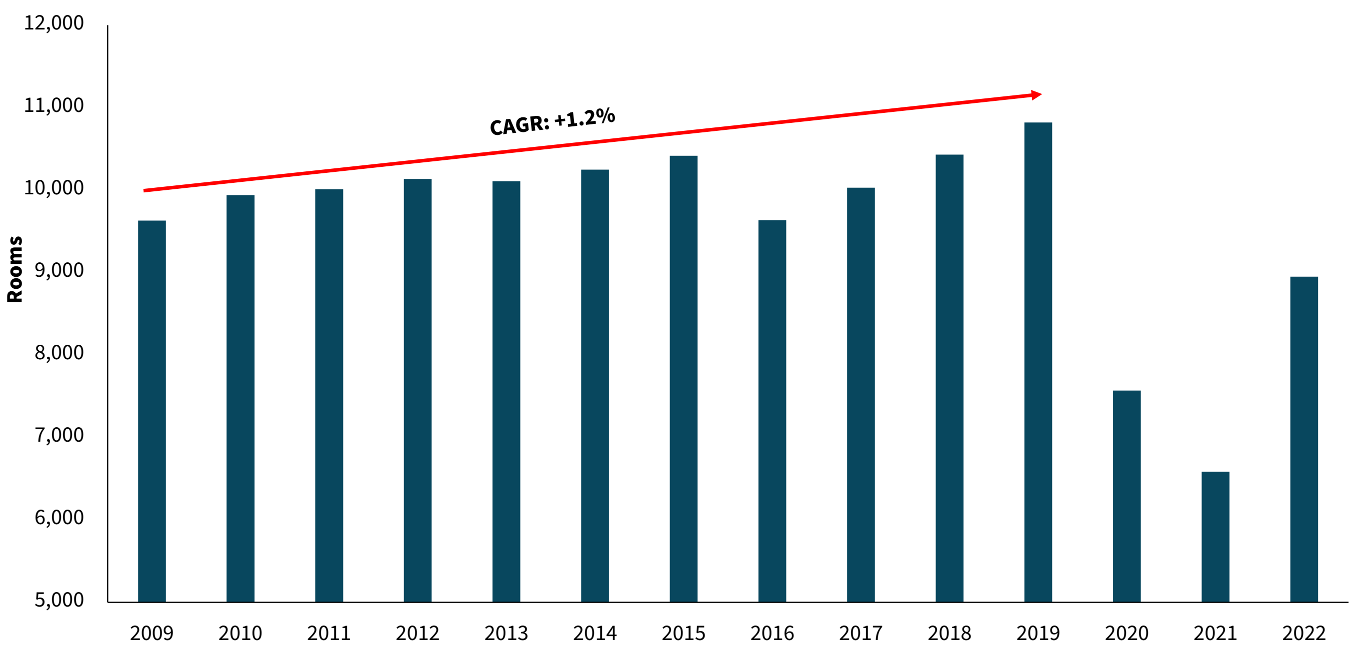
New licensed lodging room supply over the past decade prior to COVID (2009-2019) has recorded an average growth rate of 1.2% per annum. According to the Fiji Bureau of Statistics, the total number of rooms contained within hotels, resorts and other forms of licensed accommodation reached 10,818 rooms in 2019. Due to circumstances surrounding COVID-19 hotel closures as well as refurbishment projects reduced the total number of rooms to 6,584 in 2021, which has since increased back to 8,948 at the end of Q3 2022.

The majority of hotel and resorts are small, 50 rooms or less properties, which make up 71% of total hotels in the market (but only 28% by total number of rooms).

This is largely attributed to the unique nature of the market, whereby most assets of this scale are operated domestically as smaller independent boutique hotels/ resorts. As a result, domestic and local independently operated hotels dominate the market, making up 83% of all hotels.

On the other side of the coin, only 17% of the market is operated under international brands. These tend to be properties of genuine scale that have 200+ rooms (9% of total hotels or 38% by total no. of rooms), and include brands such as Shangri-La, Hilton, Sofitel, Sheraton, InterContinental, Outrigger and Warwick.

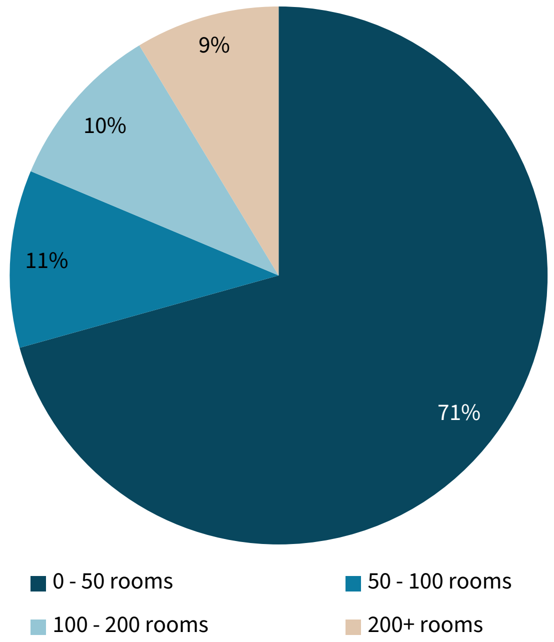
Total supply



Source: JLL, Fiji Bureau of Statistics

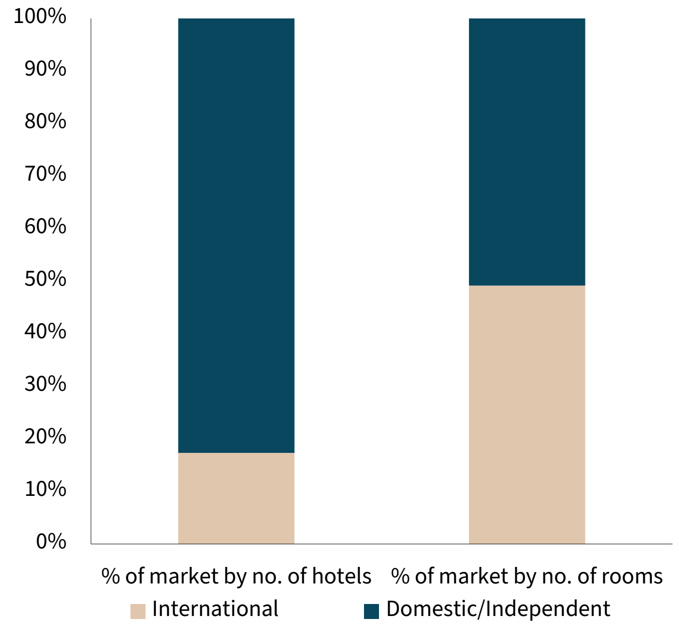
It could be argued that there is a clear under penetration of international brands and specifically limited international brand diversification across the market. This presents as a potential opportunity for the market to diversify its offerings, especially in the product segments that are severely underweighted such as high-end luxury, lifestyle, and boutique levels.

Breakdown of existing supply (by no. of hotels)



Source: JLL, STR

Brand operator breakdown of existing supply



Source: JLL, STR

New hotel development and upgrading of existing product top of the agenda

Fiji has a relatively limited number of hotels under construction, with noteworthy developments including WG Friendship Tower, Wyndham Suva (175 rooms) and redevelopment of the Pullman Nadi Bay Resort into a Crowne Plaza Wailoaloa Beach (453 rooms).

Despite this, there were a significant number of projects earmarked and in the planning stages prior to COVID, which could end up being activated quite quickly into a large pipeline of projects if strong market conditions continue.

These proposed projects are largely situated around the western edge of Fiji, and have the ability to add significant new room supply to the market. These include projects such as the Hilton Garden Inn Suva (178 rooms), Sofitel SO Momi Bay (125 rooms), Naisoso Island hotel sites, and more recently an earmarked "7-star resort" at Nacula, Yasawa Island by international brand One&Only. However, in the current environment it is expected that some of the previously mooted projects may be deferred or abandoned.

A challenge developers face in Fiji is that most of the islands are largely native leasehold land, which may be made available for development by the iTaukei Land Trust Board through a lease approval process. It is important that new owner/investors and developers understand the drivers of the area and work with and alongside the local communities.

There is a strong need for existing owners and new to market investors to invest and enhance their product, as a way of remaining highly competitive in the market. Fiji has a large quantity of aging hotel stock, which is at the risk of being negatively impacted over the near term. A number of these aging assets are in desperate need of refurbishment through upgrades to their product offering, sustainability performance and efficiencies. There are already a number of renovations and refurbishments already ongoing as well as having recently completed. These include revamps to prominent resorts such as the Six Senses Fiji, Westin Denarau, Warwick Fiji, etc.

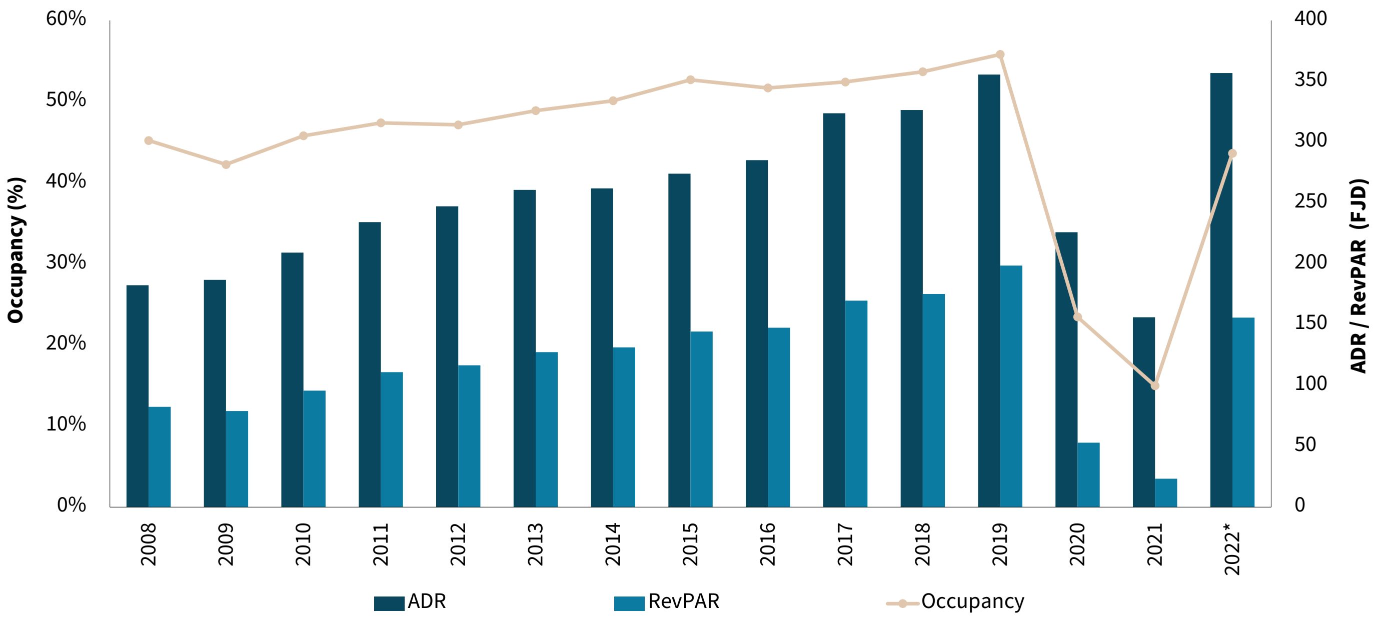
Trading recovery has been strong and exceeded expectations

Historically, the Fiji hotel market was characterised as having a steadily growing profile. Occupancy hovered around the 50% mark for much of the decade (2010-2019) and ADR grew at an average of 6.1% per annum over the same period. The impacts of COVID over 2020 and 2021 were profound, with declining occupancy and severely impacted ADR levels.

Despite this however, Fiji was able to manage the pandemic extremely well, and was able to open back up relatively quickly with limited setbacks. Fiji saw a strong recovery in trading over 2022, as borders reopened, and international demand returned faster than anticipated. RevPar statistics are yet to return to 2019 levels, however a review of the most prominent resorts key metrics indicates a significant uplift in performance since these international borders reopened. Already the peak periods of 2023 are demonstrating unprecedented levels of demand, which has established new precedents for rate performance in the market.

Forward bookings for 2023 and even 2024 are already very strong across most segments of the market (e.g. luxury and upscale), with many hotels and resorts already at capacity over upcoming peak periods, presenting as an opportunity to drive even further rate growth, especially as airlift recovers to pre-pandemic levels. Despite this, Fiji remains relatively affordable in comparison to other nearby competitive destinations, which is expected to support its future demand. Especially when compared to markets across Australia and New Zealand, Fiji's key source markets, such as Gold Coast, the Whitsundays and Queenstown, all of which have elevated comparable ADR levels.

Trading performance



Source: JLL Fiji Bureau of Statistics (*Q3 2022)

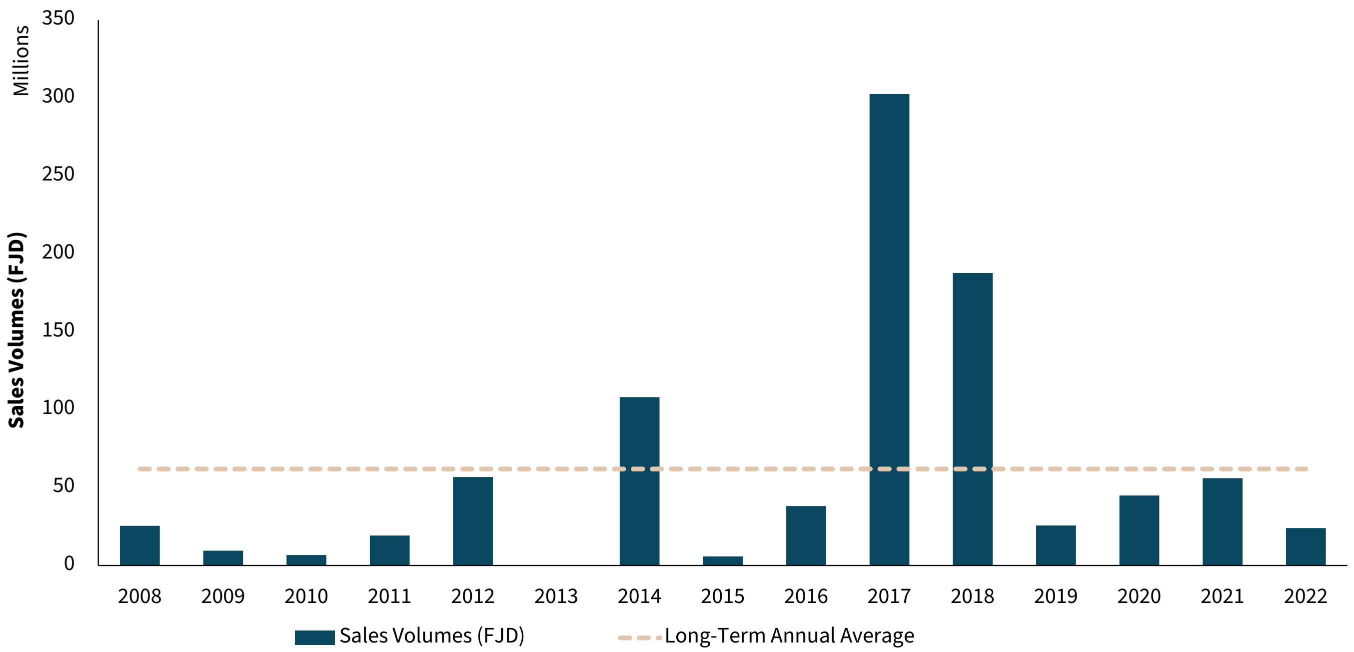
Despite limited investment opportunities, Fiji remains a sought-after market

Historically, investment activity in Fiji is has been subdued, with limited opportunities coming to market each year. Transaction volumes over the past decade have been strongly supported by a handful of significant portfolios and hotel/resort sales. Additionally, property transactions within Fiji have increasingly been subject to high levels of confidentiality, with sale particulars withheld from the market. Therefore, the transparency of the market has been adversely affected and annual volumes are likely understated.

Fiji's long-term (last 15 years) annual transaction volume is FJD 60 million, which has been largely inflated by sizeable portfolio sales in 2017/18. If you were to discount these two years, the average would be closer to FJD 30 million. Despite the market not surpassing long-term average annual volumes over the past four years, there is currently increased opportunities for investment in the tourism and hospitality sectors. The faster than expected market recovery and strong international demand is driving increased interest from overseas investors.

Historically, Fiji has seen strong investment from Japan, China and the US, as well as also a strong mix of local investors and ownership. This is unlike many other South Pacific destinations, which are traditionally much more dominantly owned by local groups. We are now also seeing an increased interest from Australian and New Zealand investors, who are expected to enquire and search for new opportunities over the coming years.

Transaction volumes



Source: JLL Hotels & Hospitality

Transaction	Year	Price (FJD)	Buyer	Vendor
Mana Island	2023	Confidential	Rex Holdings Pty Ltd	*Japanese Consortium*
Six Senses Mamanuca Group Islands	2022	Confidential	Sequitur Capital Pty Ltd	Sequitur Hotels
Pullman Nadi Bay Resort	2021	56.0 million	Jay Singh	Travel World Ltd
Sheraton Resort and Spa Tokoriki	2020	~45.0 million	CP Group (part share)	P Meghji Group / Fijian Holdings
Outrigger Portfolio: Castaway Island Resort & Outrigger on the Lagoon	2018	187.4 million	Singha Estate	Outrigger Enterprises
Grand Pacific Hotel	2018	~48.0 million	Fiji Natl Provident Fund	Nasfund
Marriott Denarau Portfolio: Sheraton Fiji Golf & Beach Resort & Westin Denarau Island Resort & Spa	2017	280.0 million	Fiji Natl Provident Fund	Marriott

Fiji benefits from various investor initiatives and tax concessions

The Fiji Government offers various incentives and tax concessions which are directly targeted at stimulating new investment, construction and refurbishment within the tourism and hotel industries. Broadly speaking, the two main incentives and allowances that are currently available through the government regulations are Standard Allowances and a Short Life Investment Package, which are explained in more detail below.

Standard Allowances	
Legislative Provision	Part 2, Income Tax (Hotel Investment Incentives) Regulations 2016
Overview	An allowance available to a hotel owner to claim a percentage of a total approved capital investment in a hotel project. This includes a new hotel, extension, refurbishment or renovation, buying of units in a hotel or an integrated tourism development.
Tax Particulars	• An amount of taxable income equal to 50% of the total capital expenditure incurred in the project, less the cost of any land acquired for the project or refurbishment and renovation; • Is not chargeable to tax which can be set off against the taxable income of the hotel owner for the first year of income after the commencement of operation

Short Life Investment Package (SLIP)	
Legislative Provision	Part 3, Income Tax (Hotel Investment Incentives) Regulations 2016
Overview	An incentive to promote the construction of new hotels or integrated tourism developments, providing an income tax exemption to any hotel project based on the level of capital investment (also available to renovations and refurbishments).
Tax Particulars	• New hotel investment projects are eligible for a 5-year income tax holiday for capital investments from $250,000 to $1 million, a 7-year tax holiday for investments between $1 million to $2 million, a 13-year tax holiday for capital investments between $2 million to $40 million and a 20-year income tax holiday for investments above $40 million. • Customs duty exemptions on all capital goods, including capital equipment, plant & machinery, building materials, furnishing & fittings, room amenities, kitchen & dining equipment and specialised water equipment will continue to be provided for hotels and resorts for an additional year until 31 December 2023. • To further encourage renovations and refurbishments for existing hotels, the 5-year tax holiday for investments above $2 million will also be further extended until 31 December 2023. • Import duty exemption on all capital goods not produced locally in Fiji, but excluding some specified items.

Key takeaways

1 Owners and investors need to invest in and enhance their product

There is a need for existing owners and new to market investors to invest and enhance their assets, as a way of remaining highly competitive in the market. This can be achieved through;

- Delivering capital expenditure initiatives to upgrade product offering (e.g. rebranding, refurbishment);
- A focus on increased sales and marketing to ensure the best distribution channels;
- Investing into operations to drive efficiencies and profitability;
- Incorporating new sustainability measures to preserve and enhance values, given the rising prominence of ESG
- Investors finding potential value-add opportunities within underutilised properties;
- Also targeting new investment opportunities and investor-ready projects

2 Potential for further international brand diversification

As highlighted previously, the majority of existing international arrangements in Fiji are limited and are heavily concentrated in the upscale/upper upscale space (typically are 200 keys or greater). There is potential for future development to facilitate new international brands and/or rebranding for appropriately sized properties.

Furthermore, with a targeted focus on gaps in the market, such brands in the luxury/ultra-luxury, boutique, or lifestyle space. This product would assist in growing distributions and thus revenues, whilst also potentially benefitting from clustering efficiencies. We expect increased brand presence and diversification may help with further enhancing the reputation, appeal and positioning of Fiji as a unique global market leader and sophisticated holiday destination.

3 The market has significant potential for ADR uplift

Fiji has seen strong rate growth across the board moving out of the pandemic, which has in many ways reset the rate ceiling. However, even with this strong growth, Fiji remains a relatively affordable destination for tourists. The market has significant potential for future rate uplift, given strong forward bookings and demand levels as well as the relatively inexpensive cost of flights is considered as airlift recovers to pre-pandemic levels. This growth has been seen across the global hotel sector, with a significant upwards shift in ADR's post pandemic, with operators having better rationalised their business mix and increased yielding due to strong demand during the recovery.

4 Attractive tax concessions and incentives are on offer in the market

The Fiji Government has a number of initiatives and regulations set to stimulate hotel investment and fuel future hotel construction. These include attractive tax incentives and concessions, which are targeted at both existing and new hotel and tourism investors. The Standard Allowances and SLIP offers attractive hotel sector incentives and income tax holidays.

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