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Capturing Opportunity: Myanmar's Hotel and Tourism Boom

Since Myanmar liberalized its economy in 2011, the country has experienced a surge of foreign direct investment and visiting tourists. Official government figures show that tourist arrivals have risen from below 1 million in 2011 to over 3 million in 2014, with the Ministry of Hotels and Tourism setting an ambitious target of 4.5 to 5 million tourist arrivals in 2015.

Recognizing the need for international standard hotel facilities, funded by overseas investors, Myanmar's government has worked to increase foreign investment by implementing laws and policies to encourage foreign market growth. This includes passage of the Foreign Investment Law 2012 and implementing regulations allowing for 100 percent foreign ownership of hotel projects rated three stars and above. In addition, the Asian Development Bank has unveiled plans to further promote regional investment in the hotel and tourism sector, and Myanmar has committed to launching a Tourism Development Bank to provide financial and technical assistance to entrepreneurs.

The response from investors has been positive—the number of hotel facility constructions has steadily increased since 2011. This has included numerous internationally-recognized hoteliers such as Accor, Hilton, Best Western, Shangri La, and Dusit International. Indeed, statistics from the Ministry of Hotels and Tourism show that the total number of registered hotels was 787 in 2012 and 923 in 2013, a dramatic increase that is expected to carry over into 2014. Yet, despite robust development, Myanmar's hotel and tourism infrastructure has strained to keep up with the lightning pace of demand, highlighting the need for continued sector investment.

An important consideration in the development of Myanmar's hotel industry is the country's land laws. Since foreigners cannot own land in Myanmar, proper due diligence is a necessary first step to ensure that long-term land leases are viable under the Foreign Investment Law. There is no absolute freedom to lease—instead, all long-term leases are subject to the review and approval of the Myanmar Investment Commission, the primary authority responsible for the review of foreign investment applications under the Foreign Investment Law. This review process includes the vetting of all long-term lease agreements for hotel investment operations, along with an overall review of the investment application itself. If approved, the lease may be approved for an initial period of 50 years, renewable for two consecutive periods of 10 years each.

In addition to the Myanmar Investment Commission's investment application review, both foreign and domestic

hotel investment projects are vetted by the Ministry of Hotels and Tourism. Once a project has received the Ministry's formal approval, the Directorate of Hotels and Tourism will grant a two-year renewable license for the hotel business. Although foreign investors may structure their investment under either the Myanmar Companies Act or the Foreign Investment Law, projects are almost always filed and approved under the Foreign Investment Law, which provides for a number of benefits that are currently not available under the Myanmar Companies Act, the most important being tax exemption qualifications and the ability to engage in long-term lease agreements.

For hotels, the Ministry has introduced a star rating system. This is an important review process, since 100 percent foreign investment is only permitted for projects approved at three stars and above. For investment in hotels rated below three stars, a joint venture with a Myanmar entity is the only viable business structure. Regardless of the classification contemplated, it is important that complete and adequate supporting materials are provided to the Ministry for the classification evaluation. It is also typical for the applicant's counsel to consult with the Ministry to clarify applications under review. This can significantly reduce the time for rating qualifications and hotel license issuance. Once the Ministry has given its approval, the final review



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Myanmar is unique in the region in that it retains a colonial history in its architecture, something long ago lost to some of its regional neighbors. With hundreds of colonial properties in Yangon in need of restoration, opportunities exist for the right investors to collaborate on projects for hotel, restaurant, and retail service projects. The success of such projects can already be seen in a number of existing projects, such as the Strand Hotel and the Belmond Governor's Residence, two of Yangon's most prominent five-star hotel properties. Other projects are ongoing or contemplated, such as the long-anticipated restoration of the Secretariat Building, as well as the Yangon Railway Office Redevelopment Project, which will be downtown Yangon's largest commercial project.

Although Myanmar is ripe for opportunity, development of the country's hotel and tourism infrastructure will need to keep up with the pace of demand if its investors are to reap the benefits of long-term sustainability and success. Investors must also be wary of pitfalls that require measured guidance and evaluation, even in the midst of a market boom. 🏠