

MOVING AWAY FROM THE CITY

Bangkok investors eye chances in Phuket as 'ultra villas' sell well *By Nina Suebsukcharoen*

A surprising trend is developing this year, with Bangkok entrepreneurs becoming more interested in investing in businesses on Phuket amid positive signs that the "ultra villa" segment is recovering faster than the rest of the property market, says Bill Barnett, managing director of the property consultancy C9 Hotelworks.

Many Bangkok-based investors started coming to the island after the violence in May, intending to invest in businesses that have the potential for sustainable yields. In fact, Mr Barnett said, there are many investors throughout Asia who are sitting on cash and are keenly looking for investments with a dependable yield.

"This is the key when you talk to people. They don't just want capital appreciation. They have lowered their sights a little and they simply want ongoing yield for their money and they can't get it in the markets because there has been so much uncertainty after the financial collapse in 2008," he said.

"People want to put their money in a business where they can see it's a model that will produce some kind of income for them."

Mr Barnett said the businesses investors are looking for are linked to the service industry, which grows on the back of the tourism industry.

"It could be a restaurant, a small property development, a marine-oriented business, school, management company — there are a variety of businesses out there."

Bangkok entrepreneurs also appreciate the fact that the entry cost in Phuket is lower, as is the cost of sustaining a business.

"Bangkok Thais are coming into the hotel market here looking at products, they are becoming more venturesome, even Thai Indian businessmen who traditionally congregated in the Sukhumvit area are coming to Phuket in greater numbers.

"It's peaceful here and they feel it's a sustainable model and they like coming here — it's a great excuse to come to Phuket."

Of course, looking for an excuse to come to Phuket is not the strongest business fundamental, but in fact these businessmen are comparing buying land on Sukhumvit versus buying land in the most prime area of Phuket at a fraction of the cost, and determining what is the best use of their capital.

Research by C9 Hotelworks shows that sales of 14 top-end ultra villas in both the primary and secondary markets during the first eight months of this year totalled 2.34 billion baht. The resale segment accounted for as much as 83% of the total trading volume, or 1.94 billion baht.

At the top of the list was a marquee sale of the Beyond Villa in Natai for a reported US\$24 million (716 million baht).

"These figures go from January up to August — and there were transactions even during April and May. I think that indicates there was sustainable investor sentiment in Phuket, even during the political crisis, which is positive," said Mr Barnett.

However, he acknowledged that the outlook of the broader market was certainly more challenging.

"There is a good amount of resales within that market, there is a lot of product out there waiting to be absorbed so it's going to be a while.

"The ultra villa market is well on its way toward a faster recovery because the supply-demand fundamentals are stronger, but for the broader market, it's going to be a very gradual return.

"Tourism has recovered, you can see tourism numbers coming back, but the property market is really dependent on the outside world, it's not dependent on tourism per se, it depends on the global economy rather



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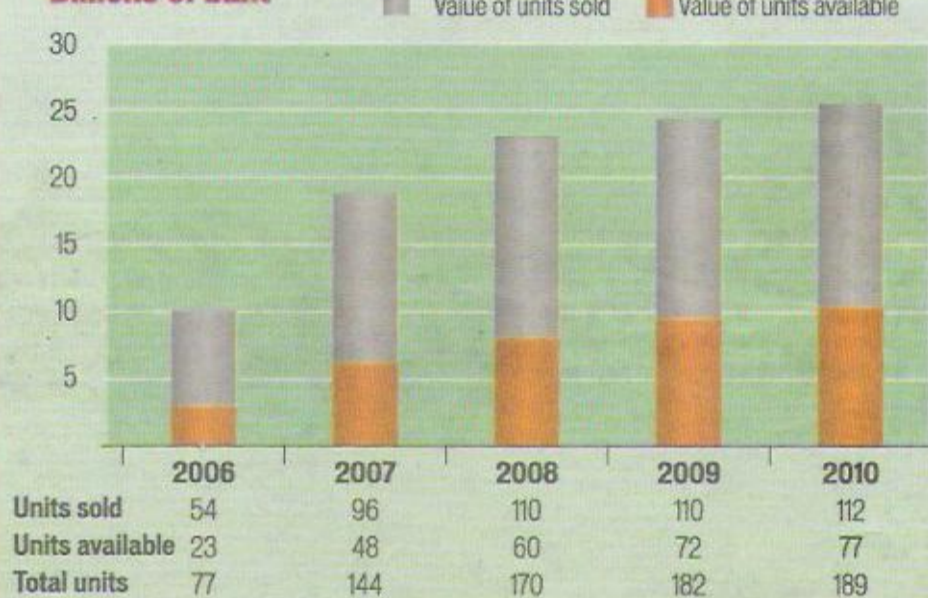
than just the Thai economy. Phuket property is still largely foreigner-driven, so until the world gets better we are not going to see a broad recovery for Phuket properties," said Mr Barnett.

Of course, Phuket's attractions are what drive the ultra-luxury segment, including its good location just four hours by air from many key gateway cities, the growing yachting industry, golf courses, quality schools and most importantly, brand-name concentration.

"There is also good critical mass. You are not entering a new market, so luxury has been here for a while and luxury tends to attract luxury brands. It's no different than when you go to Paragon in Bangkok and you see luxury stores side by side.

"High net-worth individuals tend to know each other, they tend to work in a fairly small

Billions of baht



Project name	Location	Total units	Launch period
West Sands Phuket	Mai Khao	2	2006
Malaiwana (Phase 1)	Nai Thon	19	2007
Istana	Nai Thon	19	2007
Trisara (Phase 3)	Nai Thon	19	2007
Banyan Tree (Double Pool Villas)	Bangtao	15	2005
Saisawan	Bangtao	13	2007
Jomchang (Phase 1)	Kamala	9	2001
(Phase 2)		14	2004
Djinnah Santi	Kalim	11	2006
The Hermitage	Kata	12	2009
Sri Panwa (Phase 1)	Cape Panwa	19	2004
(Phase 2)		7	2010
Tamarind Phuket (Phase 1)	Cape Panwa	7	2004
Royal Phuket Marina	Koh Kaew	6	2007
Baan Yamu (Phase 3 Executive Villas)	Cape Yamu	10	2007
Sava Natai	Phangnga	7	2008

Source: C9 Hotelworks Market Research

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circle, so word of mouth is a key factor."

However, it is also apparent that villa owners are now trying to get a share of the hotel market. Mr Barnett points out that several big brands have captured a share, among them Outrigger at Laguna, Andara and InVision at The Residence.

These villas seem to meet the need of increasing numbers of Asian visitors who often travel in family groups and consider it a better deal to get a villa by paying a little more than they would for a five-star hotel room.

"As we go into the Asian context we see a lot more multi-generational travellers, family travellers where they bring their parents and they bring another couple and these products are ideal for that. We have seen a big shift in demand, you know Asians travel differently

than Western people. And even certain Westerners they find great value [in renting a villa].

"This already exists in places like Hawaii and so it's a demonstrated model. Clearly we will see more villa product shifting toward hotel-managed condos."

Mr Barnett said that now is a good time to buy property in Phuket, where the market is no longer like a casino but is seen to meet people's needs in terms of getting 5-6% return on their investment.

"It's not an expectation of doubling your money in three years by buying off-plan, so I think if you take a pragmatic approach — a property in the right place or the right fit remains sound value.

"Like anything else, if you are an early buyer of quality, you will make money." ■