



asset management  
& hospitality consulting

# Phuket

## 2015 Economic Overview

August 2015

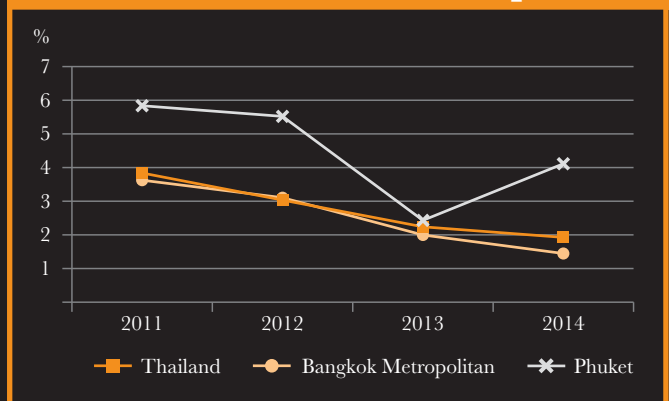
# Rising inflation linked to underlying economic growth

“Phuket inflation stands at 4.1%, as the cost of living outpaced the national average and capital city of Bangkok last year. This was driven by substantial increases in food and non-alcoholic beverages.

At face value the rising cost of living has caused concern amongst local residents, yet the reality is that inflation is a barometer of economic growth. Based on our research into consumer behavior on the island is that higher prices are correlated to greater spending power.

In a nutshell pricing is driving the underlying numbers when comparing Phuket to the national CPI profile. While Thailand’s GDP is relatively flat, the tourism sector which prevails in the local economy has continued to push upward.

### Consumer Price Index Comparison



Sources: Bureau of Trade and Economic Indices, Ministry of Commerce and C9 Hotelworks Market Research

Looking at the balance of this year and forward view of 2016 onwards, while current investor and consumer confidence in Phuket appreciably outweigh the rest of the country, the risk of the national trends and sentiment can potentially trickle down into the micro market of Greater Phuket and be disruptive.”

Bill Barnett, Managing Director, C9 Hotelworks

## 2014 Highlights

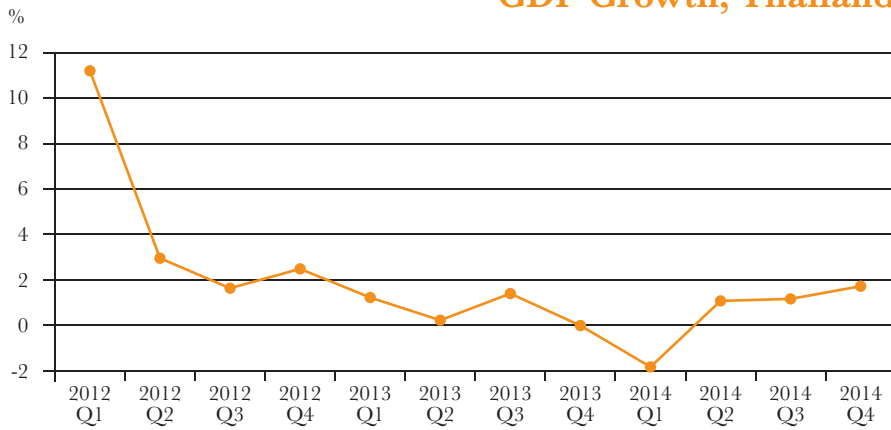
- With inflation at 4.1%, Phuket now leads the nation in cost of living. The rise in costs came primarily from an increase in food and non-alcohol beverages cost.
- During the fourth quarter of 2014, unemployment rose to 1.1% from 0.64% recorded at same time last year.
- Phuket’s economy contracted due to extended political problems in Bangkok and also due to a 27% decline in Russian arrivals. However, in 2H 2014 the economy gained growth traction after tourism-friendly policies were implemented by the government.

## Forward Outlook

- Phuket’s economy is expected to grow in 2015, especially due to favorable tourism policies and Thailand’s participation in the AEC.
- Tourism sector projected to benefit from expansion of Phuket International Airport.
- Phuket’s pipeline of projects under development is concentrated in the southeast and consists of 13 public projects with a total budget of THB 42.3 billion. There are also 9 private projects that cover a total area of approximately 98 hectares.

# GROSS DOMESTIC PRODUCT (GDP)

## GDP Growth, Thailand

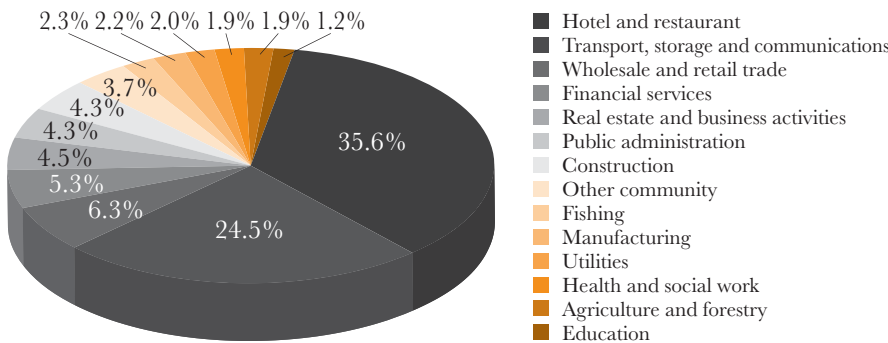


Sources: Trading Economics and C9 Hotelworks Market Research

*Impacted by political events, Thailand experienced a severe economic decline between Q1 2012 and Q1 2014, with GDP dropping from 11.2% to -1.9%*

# GROSS PROVINCIAL PRODUCT (GPP)

## Gross Provincial Product by Sector, Phuket

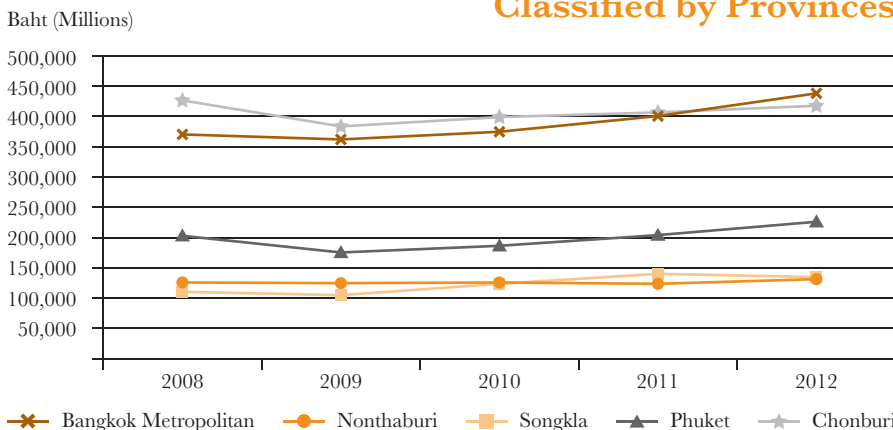


Sources: Office of the National Economic and Social Development Board and C9 Hotelworks Market Research

*Hotel and restaurant sector makes up 35.6% of GPP and remain the biggest contributor to Phuket's economy*

- Phuket's economy is trending upwards but remains heavily reliant on the tourism sector. This is in sharp contrast to Bangkok and Chonburi, which have other key economic drivers, such as wholesale/retail trade and manufacturing.

## Gross Provincial Product Comparison Classified by Provinces



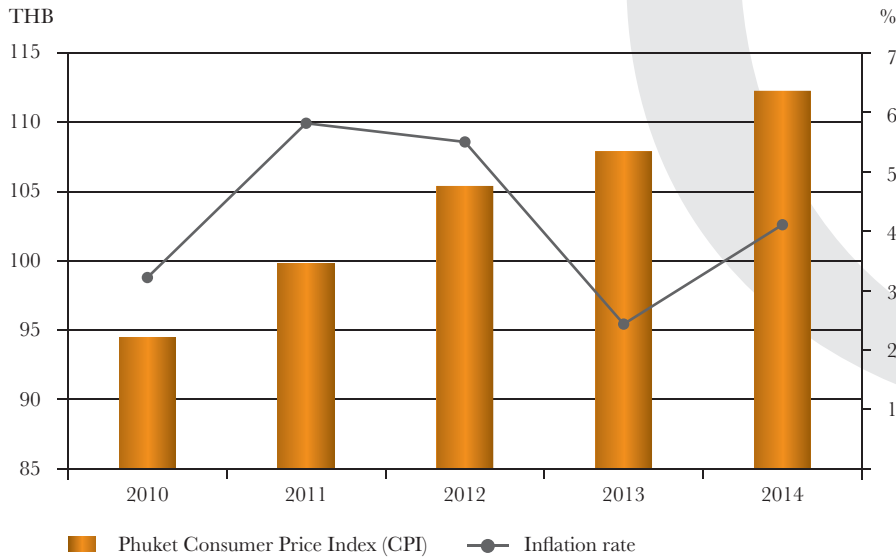
Sources: Office of the National Economic and Social Development Board and C9 Hotelworks Market Research

*Phuket has the third-highest GPP amongst Thai provinces*

# CONSUMER PRICE INDEX (CPI)

- Phuket's Consumer Price Index or CPI is used as an indicator of inflation. CPI is derived from a basket of consumer goods and services including food and beverage, apparel and footwear, housing and furnishing, medical and personal care, transportation and communications, recreation and education, and tobacco.

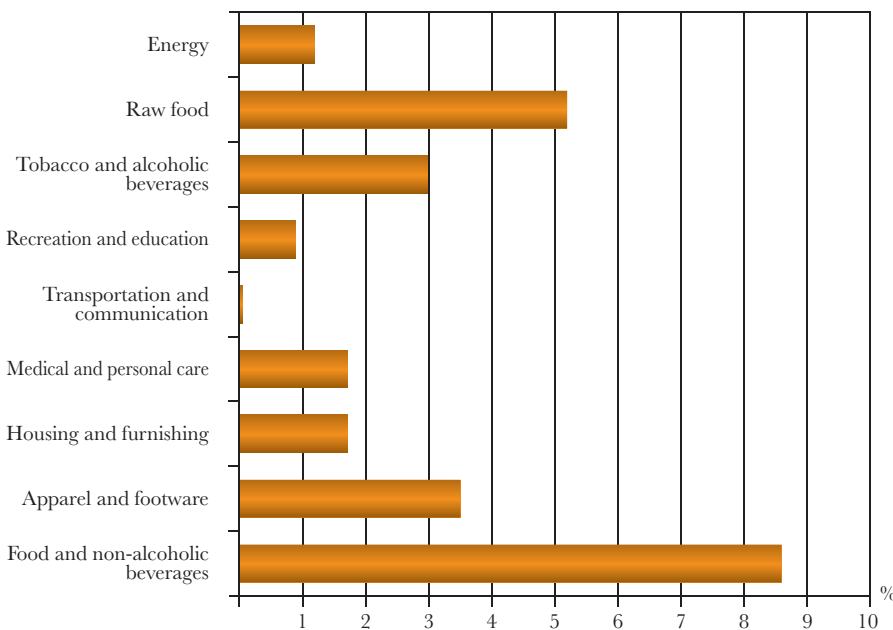
## Consumer Price Index, Phuket



*Cost of living in 2014 was 4.1% higher than 2013*

Sources: Bureau of Trade and Economic Indices, Ministry of Commerce and C9 Hotelworks Market Research

## Change in CPI Subcomponents, 2013 VS 2014



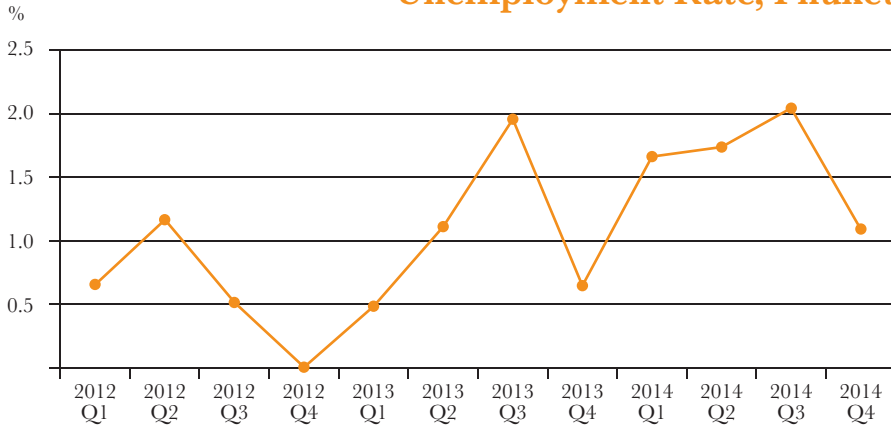
*Increase in food and non-alcoholic beverages by 8.6% is highlighted as the key factor driving inflation*

Sources: Bureau of Trade and Economic Indices, Ministry of Commerce and C9 Hotelworks Market Research

# UNEMPLOYMENT RATE

- Phuket's unemployment rate has historically fluctuated based on the seasonality of the tourism industry.
- The island's unemployment rate has increased annually since 2012. In Q4 of each year, the unemployment rate rose from virtually 0% in 2012 to 0.64% in 2013 and to 1.1% in 2014. This rising unemployment trend is again attributed to the political instability radiating from Bangkok, which in turn impacted tourists' confidence in visiting Thailand.

## Unemployment Rate, Phuket



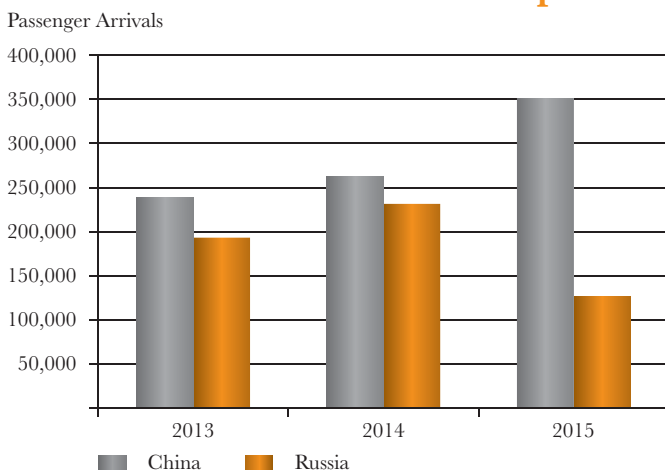
Sources: Ministry of Labour and C9 Hotelworks Market Research

*Unemployment rate in 2014 increased by 46 bps compared to 2013, largely due to contraction of the tourism sector*

## Tourism Indicators

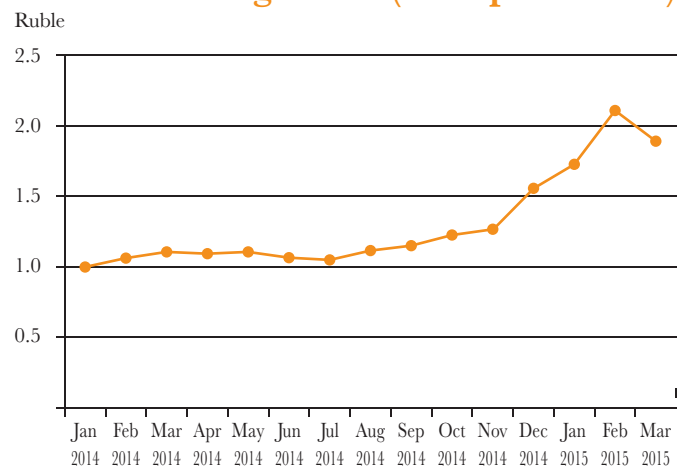
- China and Russia remain the key international source markets for Phuket. In Q1 2015, Chinese arrivals rose by a healthy 33% year-on-year. This is largely attributed to the aforementioned visa fee waiver policy implemented by the Thai government as well as other factors, including the relative attractiveness of visiting Thailand compared to some other Southeast Asian countries like Malaysia, which has suffered a bad bout of negative publicity in China following the disappearance of Malaysian Airlines flight MH370 in 2014.
- In contrast, the number of Russian arrivals dropped significantly in Q1 2015, recording a 45% decrease year-on-year. This is in large part due to the collapse of the Russian ruble, which made it comparatively more expensive for Russians to travel internationally.

### China vs. Russia Q1 Market Comparison



Sources: Phuket Airport Immigration and C9 Hotelworks Market Research

### Thai Baht VS. Russian Ruble Exchange Rate (RUB per 1 THB)



Source: C9 Hotelworks Market Research

# KEY PUBLIC INFRASTRUCTURE HIGHLIGHTS

Project	Key Project Description	Project Status	Target Completion
1. Phuket International Airport Budget: THB 5 billion	<ul style="list-style-type: none"> <li>• New international terminal, 5-storey car park, cargo terminal and expansion of apron and taxiway</li> <li>• New facilities will double annual passenger capacity to 18 million passengers</li> </ul>	• Under construction	May 2015
2. Samkong Underpass at Tesco Lotus Intersection Budget: THB 834 million	• 600-meter underpass	• Under construction	October 2015
3. Seawall at Chalong Bay Budget: THB 98 million	• 310-meter length seawall is being constructed to protect Chalong Bay Marina from erosion	• Under construction	November 2015
4. Movie Museum Budget: THB 40 million	• 3,200 m <sup>2</sup> of land in Nai Harn is to be developed into an open-air movie museum with Sino-Portuguese architecture	<ul style="list-style-type: none"> <li>• Funds approved by the Department of Tourism</li> <li>• Pending land approval</li> </ul>	2015
5. Chalong Bay Marina Budget: THB 74 million	• 44-berth marina	• Undergoing renovation	September 2016
6. Flyover at Koh Keaw Budget: THB 100 million	• 150-meter flyover	<ul style="list-style-type: none"> <li>• Contractor appointment in progress</li> <li>• Construction is slated to commence in late 2015</li> </ul>	End of 2016
7. Flyover at Mut Dok Khao Budget: THB 100 million	• 150-meter flyover	<ul style="list-style-type: none"> <li>• Contractor appointment in progress</li> <li>• Construction is slated to commence in late 2015</li> </ul>	End of 2016
8. Light Railway Train Budget: THB 23 billion	• 60 km light railway train track from Phuket International Airport to Chalong Circle Intersection	<ul style="list-style-type: none"> <li>• Master plan amendment in progress</li> <li>• Project will commence once budget is approved</li> </ul>	2021
9. New main road Budget: THB 7 billion	• 22 km road from Baan Saku to Baan Koh Keaw	<ul style="list-style-type: none"> <li>• Feasibility study in progress</li> <li>• The project will commence once budget is approved</li> </ul>	2023
10. Underpass at Chalong Circle Intersection Budget: THB 570 million	• 730-meter underpass	<ul style="list-style-type: none"> <li>• Contractor appointment in progress</li> <li>• Construction projected to take two years to complete</li> </ul>	TBA*
11. Underpass at Bangku Intersection Budget: THB 600 million	• 950-meter underpass	<ul style="list-style-type: none"> <li>• Contractor appointment in progress</li> <li>• Construction projected to take two years to complete</li> </ul>	TBA*
12. Patong Tunnel Budget: THB 4 billion	• Two one-way tunnels of approximately 1.5 km each	• Public hearing in progress	TBA*
13. Deep Sea Port Upgrade Budget: THB 170 million	• The quay is to be expanded from 360 meter to 420 meter	• Project is pending Phuket Treasury's approval of contract extensions	TBA*

\* To Be Announced

Source: C9 Hotelworks Market Research

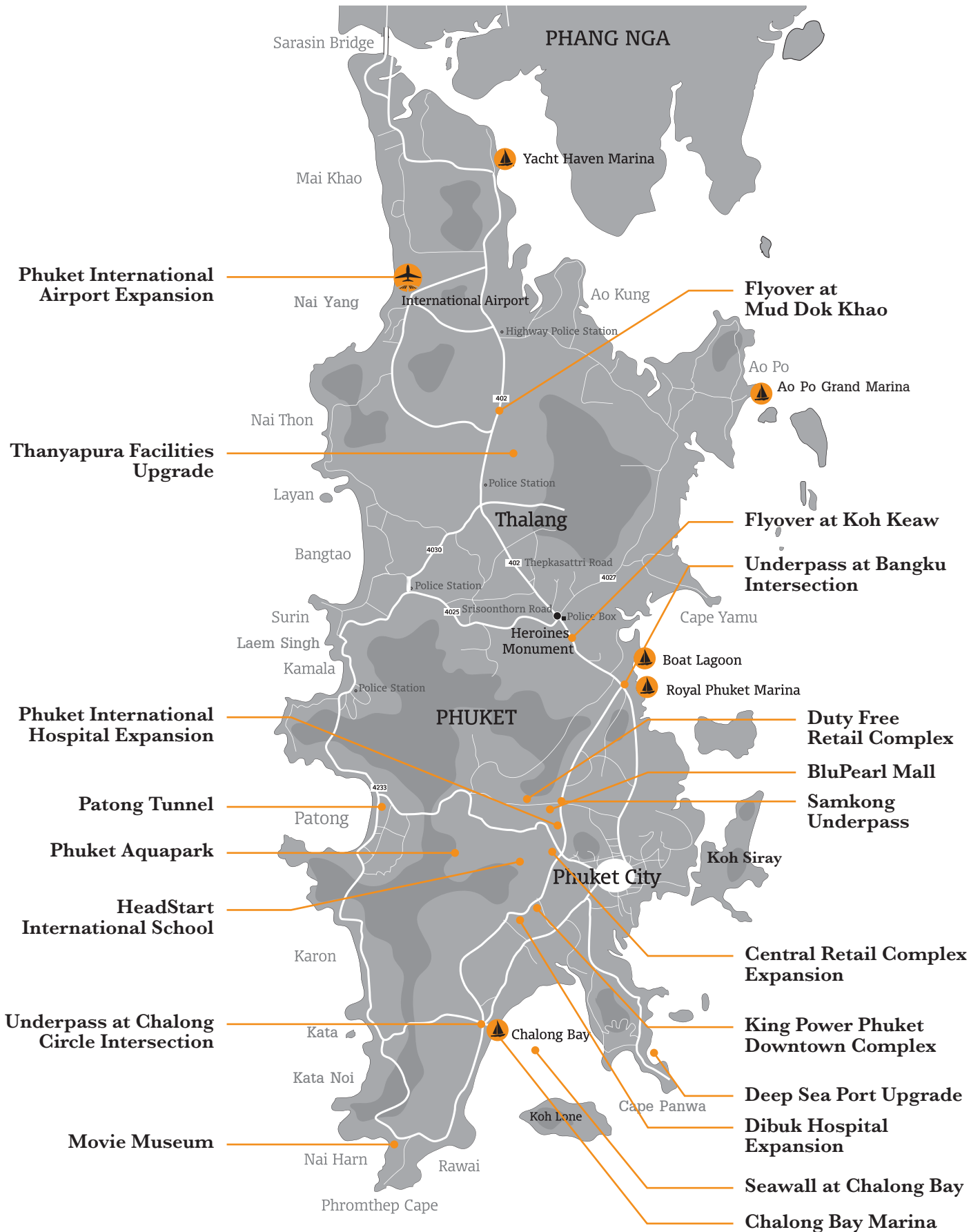
# KEY PRIVATE INFRASTRUCTURE HIGHLIGHTS

Project	Key Project Description	Project Status	Target Completion
1. Phuket International Hospital Expansion Budget: THB 1 billion	<ul style="list-style-type: none"> <li>New building to be developed on additional land of 4,800 m<sup>2</sup> to provide more facilities and services (patient rooms, anti-aging treatment, cosmetic surgery)</li> </ul>	<ul style="list-style-type: none"> <li>Under construction</li> </ul>	August 2015
2. Head Start International School Expansion Budget: TBA*	<ul style="list-style-type: none"> <li>International school on 24,000 m<sup>2</sup> land near Vichit Police Station</li> <li>The expansion expects to support additional 750 students</li> </ul>	<ul style="list-style-type: none"> <li>Under construction</li> </ul>	August 2015
3. King Power Phuket Downtown Complex Budget: TBA*	<ul style="list-style-type: none"> <li>Single-storey retail complex on 32,000 m<sup>2</sup> of land next to Dibuk Hospital</li> </ul>	<ul style="list-style-type: none"> <li>Under construction</li> </ul>	September 2015
4. Phuket Aquapark Budget: THB 800 million	<ul style="list-style-type: none"> <li>64,000 m<sup>2</sup> water park with 20 water rides and 6 pools near Bangwad Dam in Kathu</li> </ul>	<ul style="list-style-type: none"> <li>Under construction</li> </ul>	November 2015
5. Duty Free Retail Complex Budget: TBA*	<ul style="list-style-type: none"> <li>2-storey duty free retail complex on 20,000 m<sup>2</sup> of land in Kathu, near the Dcondo mine by Sansiri</li> </ul>	<ul style="list-style-type: none"> <li>Under construction</li> </ul>	May 2016
6. Central Retail Complex Expansion Budget: THB 10 billion	<ul style="list-style-type: none"> <li>Luxury shopping mall to consist of branded stores, concept restaurants, entertainment centers, specialty stores and convention center. Project to be developed on 300,000 m<sup>2</sup> of land opposite Phuket Central Festivals</li> </ul>	<ul style="list-style-type: none"> <li>Contractor appointment in progress</li> </ul>	2016
7. BluPearl Mall Budget: THB 20 billion	<ul style="list-style-type: none"> <li>Retail complex, bazaar, convention center and resort project to be developed on 240,000 m<sup>2</sup> of land at Kathu</li> </ul>	<ul style="list-style-type: none"> <li>Construction of retail complex, bazaar, and convention center scheduled to commence in 2015</li> </ul>	2017
8. Thanyapura Facilities Upgrade Budget: THB 300 million	<ul style="list-style-type: none"> <li>Upgrade to take place on total land areas of 230,000 m<sup>2</sup>. Facilities include wellness center with 2 large halls for yoga and mind training programs, 7 individual spa rooms, 100-meter training pool with 5 lanes and diving boards, 4 tennis courts, 14 two-bedroom Thai-style villas and a 100-room hotel</li> </ul>	<ul style="list-style-type: none"> <li>Wellness center is under construction and scheduled to complete by September 2015</li> <li>Construction of training pool to commence after completion of wellness center and is scheduled to complete by February 2016</li> <li>Construction of tennis courts scheduled to commence after completion of training pool</li> <li>The villas are under design process</li> </ul>	2018
9. Dibuk Hospital Expansion Budget: TBA*	<ul style="list-style-type: none"> <li>Expansion of patient rooms on 6<sup>th</sup> and 7<sup>th</sup> floor and the addition of 3 operational buildings and 1 building for emergencies.</li> <li>The entire project will be developed on 24,000 m<sup>2</sup> of land by Chao Fah Tawan Tok Road</li> </ul>	<ul style="list-style-type: none"> <li>Expansion on 6<sup>th</sup> and 7<sup>th</sup> floor of first building ongoing and scheduled to complete in Q3 2015</li> <li>Expansion of second building to commence in the next 3 years.</li> </ul>	2021

\* To Be Announced

Source: C9 Hotelworks Market Research

# Infrastructure Pipeline Map



Source: C9 Hotelworks Market Research



# About C9 Hotelworks



**Bill Barnett**  
Managing Director

**C9 Hotelworks is an internationally recognized consulting firm with extensive experience in the Asia Pacific region. Its core business focus includes:**

- Ⓞ **Hotel and Resort Development**
- Ⓞ **Asset Management / Ownership Representation**
- Ⓞ **Project Feasibility and Analysis**

Key competencies include international hotel operator search, selection and contract negotiation, mixed use hotel and residential planning and operation reviews.

A wide range of both institutional and private developers and a comprehensive portfolio of completed projects give C9 the skill set and background to focus on key issues, evaluate complex ones and assist clients in achieving solid results. Based in Phuket, Thailand and led by Managing Director Bill Barnett, who has 30 years of experience in Asia Pacific, the firm is well positioned to serve an increasingly demanding marketplace.



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