



asset management
& hospitality consulting

Phuket

Luxury Villa Market

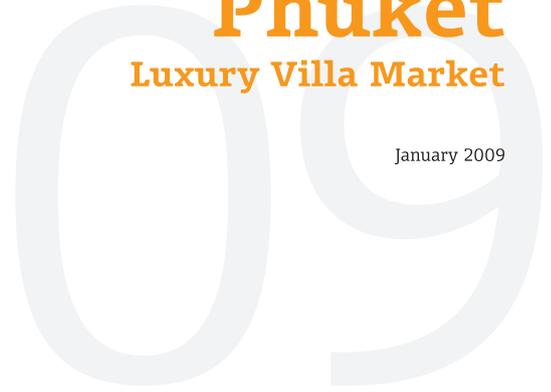
January 2009

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Market Overview

Traditional Buyers	• • •	STABLE
Land Value	▲	PEAKING
Availability Of Prime Parcels	▼	DECREASING
Developer Cost To Build	▼	DECREASING
Available Development Capital	▼	DECREASING
Available Developer Debt	▼	DECREASING
Villa Pricing	▲	STABLE
Pace	▼	SOFTENING
New Areas	▲	INCREASING
Branded Operators	▲	INCREASING
Marina Market	▲	EXPANDING
Medium Term Market Outlook	▲	POSITIVE



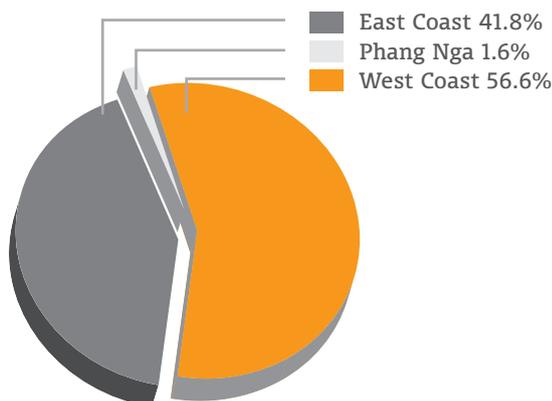
Trends

- Branded developments continue to enter the market, with additional product coming online.
- Tight credit conditions may cause project delays and a slowing of sales pace near-term.
- Availability of prime land in traditional areas continues to shrink and Phuket development pushes North and East in search of the perfect ocean view.
- Luxury villa supply strong with over 300 units priced over THB 65 million in the market limited but new supply is limited.
- Luxury villa sector continues to outperform the market.
- Global financial turmoil and Thai political worries have impacted 4Q 2008 villa sales and may also result in a slow start to 1H 2009.
- For those with capital (purchasers, investors or developers), there will be opportunities to benefit from any temporary softening.
- Our medium term outlook for Phuket's luxury villa market remains positive.

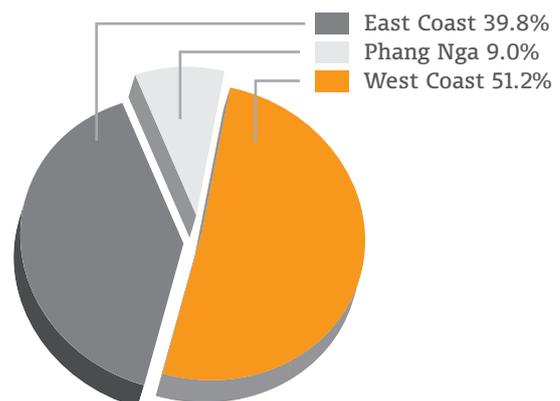
Forward Outlook

- Upcoming luxury supply includes some prestigious branded newcomers to Phuket.
- Evolving tourism sectors introduce a new set of potential investors to the real estate market.
- Infrastructure development continues to support high-end tourism and luxury residential projects.
- As availability of prime land continues to shrink, boutique developments will become increasingly common.
- The marina market continues to be a developing story in Phuket's East.

Luxury Villa Market 2008



Luxury Villa Market 2009 Onward



Destination Overview

Phuket is one of Asia's premier destinations and is well regarded among villa purchasers. The market has shown steady growth in visitor arrivals and real estate values over the past decade and this is expected to continue over the upcoming decade as accessibility and hospitality offerings continue to improve.

In recent months, Thailand has been buffeted by the combination of global financial turmoil and local political upheaval, both of which have shaken confidence in the Phuket property market. No market has immunity from such events and it is likely that we will see some short-term effects in terms of on-going development progress and new launches, as well as a slowdown in sales pace.

Phuket is a destination in its own right and arguably, a very distinct residential market in the Thai context as well. During the recent closure of the two Bangkok airports, Phuket remained open for business and was available as an alternative transportation hub.

This shows the growing significance of the island and in many ways is a point of separation from the issues faced in many other parts of the country.

In terms of economic issues, we expect Phuket to continue to show healthy transaction rates in the THB 65 million plus range, as the island has the advantage of attracting a higher quality of buyer. The vast majority of these villa purchases are cash based so access to credit or debt servicing are not issues among this group. Furthermore, current and upcoming supply in the luxury segment is limited and few undeveloped prime ocean front sites remain; factors which will continue to stimulate demand among potential purchasers. As such, our medium term outlook on the Phuket market remains positive.

PHUKET LUXURY VILLA MARKET (>65M THB)

	Luxury Villa Market 2008	Luxury Villa Market 2009 onward
Phang Nga	5	33
West Coast	172	184
East Coast	127	146
Total	304	367

Note: The existing luxury villa market is assumed to be the luxury villa inventory at projects currently selling. Planned luxury villas include announced products. Includes existing projects and upcoming supply.

Areas To Watch...

Greater Phuket:

The lack of beach front real estate on Phuket itself as well as the availability of larger land parcels for high end resort development and large mixed use projects in Thai Muang, Natai Beach and Koh Kloy has resulted in a trend towards high end development and premium hotels in Southern Phang Nga. Examples of this include Aleenta and Sava Natai, while the announcement of the Raffles villa project, has also cemented this area as one to watch.

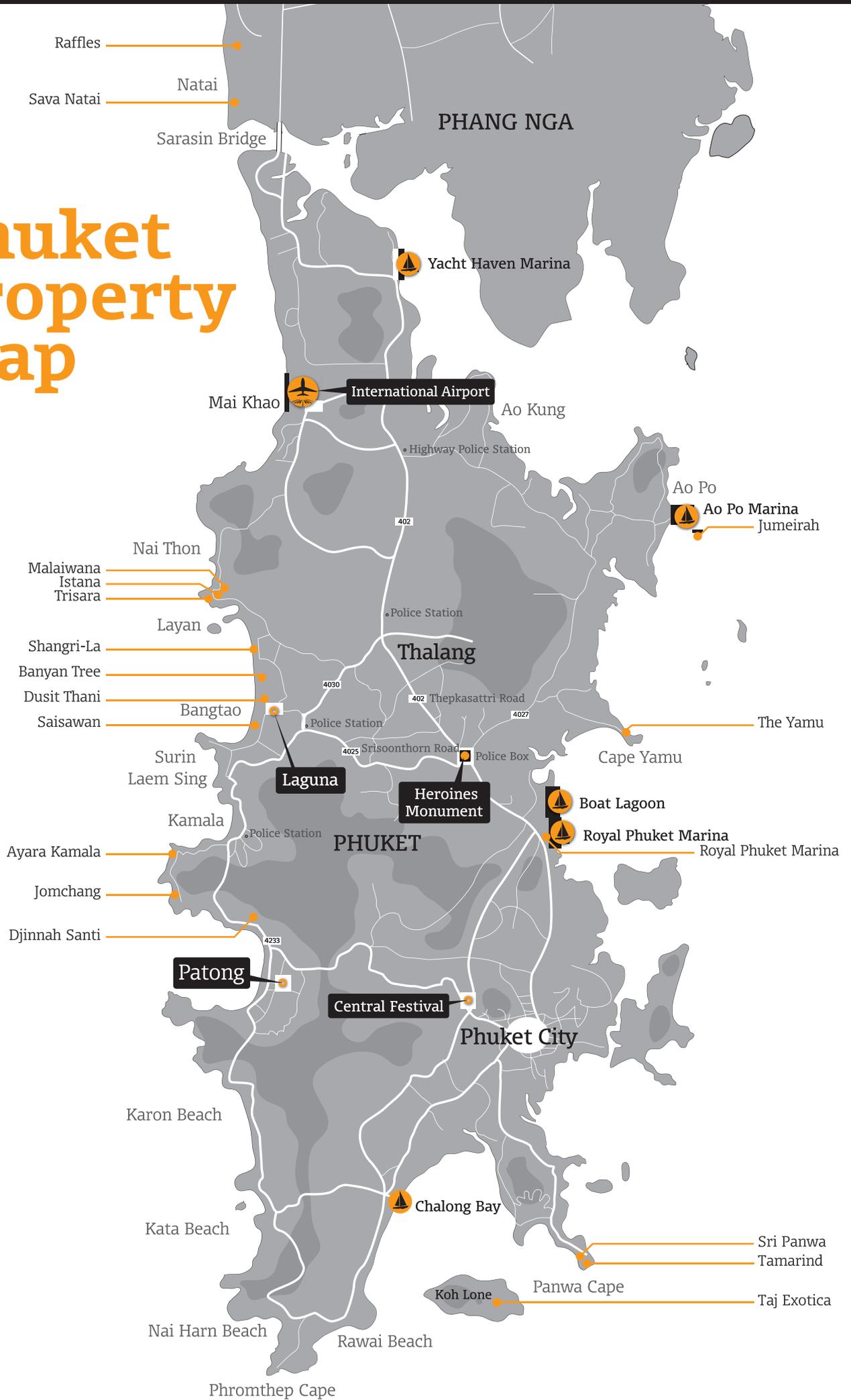
Mai Khao:

As beachfront land has become scarce elsewhere on Phuket, Mai Khao has become an attractive proposition for developers. The Anantara Phuket has recently opened on Mai Khao beach, joining the established JW Marriott and Sala properties. This area is poised to be a significant destination with critical mass based on additions to the hotel pipeline including properties from Holiday Inn, Outrigger and Renaissance.

East:

Developers seeking out new areas have also moved into locations such as Eastern Phuket. With high profile projects such as Jumeirah Private Island, Taj Exotica and The Yamu, the East Coast is a developing story in the Phuket property market.

Phuket Property Map



Supply

The upper end of the luxury villa market has outperformed the Phuket property market as a whole, with many successful property launches. Looking forward, it is evident from the luxury villa pipeline that upcoming supply is expected to be limited in the next 12-24 months. This is due in part to global economic pressures, which are likely to result in the following supply effects:

Certain projects are being put on hold because

- a) banks are withdrawing commitments to fund,
- b) buyers are unable or unwilling to fulfill their obligations, and/or
- c) in some cases, certain developers may be under cash pressure. We may also see a slowdown in new project launches and development progress while liquidity remains tight.

We will see more Thai based developers with access to debt entering the market as opposed to institutional investors, which are temporarily squeezed. For those with capital (purchasers, investors or developers), there will be opportunities to benefit from any temporary softening.

Inflationary pressures on construction are easing due to decreasing energy costs and expected price stabilization for materials in the face of

weaker demand. It is likely that well capitalized developers could benefit from lower development costs and associated risk and as such, projects already launched or about to launch, look to have a favourable jump start over the next 12-24 months.

Another supply issue relates to the availability and pricing of land in Phuket. The scarcity of prime beach front and ocean view property, as well as robust land pricing levels, could also be a contributing factor to the slowdown in upcoming supply. The shift to less costly parts of Greater Phuket is evident in the location of upcoming supply, with the bulk of announced luxury villa projects to be situated in the East Coast and Phang Nga areas, as well as Mai Khao. Examples of this trend include new entrants to the Phuket market, Taj Exotica in Koh Lone and Raffles in Phang Nga.

Demand

In terms of demand, it is likely that we will see a softening in 2H 2008 luxury villa sales and a weak start to 1H 2009. This is mainly due to a "wait and see" attitude on the part of purchasers who may be affected by the global financial shakeout.

While Thai instability may be a factor in reduced demand, we do not see this being a significant or long-term deterrent to buyers. Discussions with real estate professionals in Phuket indicate that while sales are being completed and the top tier market continues to do relatively well, the lower tiered product is facing more of a challenge in today's environment. This is largely due to over-supply and lower quality products at the lower price points. Conversely, the strength of the top tier segment can be attributed to demand drivers such as a shortage of prime ocean view or beach front property in Phuket, high quality concepts and finishes and a small but exclusive supply of new developments. Another valid reason for the continuing purchaser interest in the high end villa sector is that luxury buyers in Phuket are largely cash buyers, who may be less affected by the market fallout.

Moreover, Phuket's strong tourism industry continues to bolster the residential market and this looks set to continue. Investment within the lodging market continues, in order to cater to the projected increase in tourist arrivals. Thirty new hotels are currently at various stages of development, with nearly five thousand rooms due to be added to supply through 2011. Of the existing hotel inventory, about 25% (or ten thousand units) are of international rated standard and as such, this additional inventory will increase total supply of such properties by 50% in a short period of time.

Villa Sales Issues

An interesting trend in Phuket is the change to the definition of "luxury villas", both in terms of pricing and location. As pricing levels push upwards, with an average price of THB 125 million in the top tier sector, there is some discussion as to where "high-end" becomes "luxury" and which properties exemplify this trend. In the past über luxury was benchmarked to Amanpuri, followed by a few select properties such as Trisara and Banyan Tree but the growing supply of properties coming online in the THB 100 million to THB 200 million range is re-defining the luxury landscape in Phuket.

Another related change is location, location, location. It used to be that the West Coast and its "Millionaires Mile" was the home of luxury in Phuket. However, with a growing high-end pipeline on the East Coast with banner projects such as Jumeirah Private Island, Taj Exotica and the Philippe Starck/Jean-Michel Gathy collaboration at The Yamu, it is likely that the landscape of Phuket 2.0 is going to be a very different place.

PHUKET LUXURY VILLA MARKET-PRICING				PHUKET LUXURY VILLA MARKET (>65M THB)			
	Branded	Unbranded	Average		Luxury Villa Market	Planned Luxury Villas	Total Luxury Villas
West Coast	85.7	135.9	127.1	Phang Nga	5	28	33
East Coast	138.5	111.0	128.2	West Coast	177	16	193
				East Coast	127	19	146
				Total	309	63	372

Figures in THB millions

Note: The existing luxury villa market is assumed to be the luxury villa inventory at projects currently selling. Planned luxury villas include announced products.

Looking Ahead Phuket 2.0:

Change In Demographics: The Tourism Authority of Thailand has been very effective in opening up new tourism markets. Its current focus on increasing the emerging Chinese, Russian, Indian and Middle Eastern visitors should allow Thailand (and Phuket's property market) to benefit greatly from shifts in global wealth.

Arrival Of The Super Tourists: A major trend in the luxury travel market is the rise of what is being termed the "super tourists". These individuals are conspicuous consumers of extremely high-end products. Phuket is positioning itself to be attractive to the extremely wealthy with the addition of a planned private jet airport. Furthermore, recent upgrades to the marina sector mean that mega-yachts can presently be accommodated at three local marinas.

Phuket Boating Market: Phuket is becoming known as a boating destination. Its sheltered East Coast is ideal for marina developments and is a logical access point to Phang Nga Bay. Given the sheer size of the global boating market and the value of marina residential properties and boat slips in other markets such as the Caribbean and the United States, this represents a valuable opportunity for developers in the region. At present, Phuket has four operational private marinas (as Jumeirah has not yet come online).

Smaller Boutique Developments: The shortage of suitable land in prime areas has led to an increase in the number of small scale developments, with 20 or fewer units. Examples of this trend include Tamarind and Sava Natai. We expect this trend to continue as availability of land shrinks further.

Infrastructure Development Keeps Up: Appropriate infrastructure is being developed in support of the long term growth of the tourism market, including the expansion of the Phuket Airport's passenger handling capacity from 6.5 million to 11.5 million by 2010. It is expected that airport traffic will continue to increase and that the airport will be extended further to cope with the forecasted 15 million arrivals per year.

Community Consultation: In line with other parts of the world, there is a grassroots process emerging in Phuket, which is directly related to the effects of development on local residents and their livelihoods. An example of this is the refusal of planning permission for the small marina planned at The Yamu, in response to community dissent. The new Governor of Phuket, Dr. Preecha Ruangjan has indicated that development projects will be more carefully scrutinised in future to assess their benefit to Phuket as a whole.

We view this as a somewhat positive development as much of Phuket's charm lies in its natural environment and sustainable development is the key to longevity in the residential market. However, it is important that the long-term interests of investors are also taken into account and that any consultative process remains a balanced one, to maintain Phuket's position as a market leader in the resort residential market.

About C9 Hotelworks



Bill Barnett

Managing Director

C9 Hotelworks is an internationally recognized consulting firm with extensive experience in the Asian region. Their core business focus is:

- 📌 **Hotel And Resort Development**
- 📌 **Asset Management/Ownership Representation**
- 📌 **Project Feasibility And Analysis**

With key competencies including 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 their clients in achieving solid results. Based in Phuket, Thailand and led by Managing Director Bill Barnett, who has 23 years of experience in Asia Pacific, the firm is well situated to serve an increasingly demanding marketplace.



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