



asset management
& hospitality consulting



Samui

Luxury Villa Market Report

March 2009

09



Market Overview

Traditional Buyers	▼	DECREASING
Land Value	•••	STABLE
Availability Of Prime Parcels	▼	DECREASING
Developer Cost To Build	▼	DECREASING
Available Development Capital	▼	DECREASING
Available Development Debt	▼	DECREASING
Villa Pricing	•••	NEGOTIABLE
Sales Pace	▼	SOFTENING
New Areas	▲	INCREASING
Branded Operators	▲	INCREASING
Air Access	▲	INCREASING
Short To Medium Term Market Outlook	•••	CHALLENGED

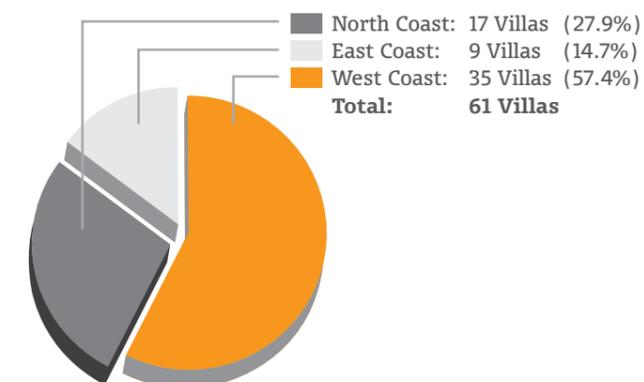
Trends

- Branded developments continue to enter the market, comprising the bulk of products coming online.
- Increasingly limited availability of sizable parcels will restrict the number of large projects on the island in the coming years, with the pricing for the last remaining large, coastal parcels being bid up throughout Samui.
- Availability of prime land in traditional areas continues to shrink and Samui development pushes southwards along the island's western coast.
- Tight credit conditions may cause project delays and a slowing of sales pace near-term.
- Luxury villa developments supply stable with over 60 units priced over THB 65 million in the market but new supply in this price range is limited.
- Global financial uncertainty is resulting in a sluggish property market. We expect demand to remain flat for the remainder of 2009.
- For those with capital (purchasers, investors or developers), there are opportunities to benefit from market softening, with current projects offering negotiable pricing.

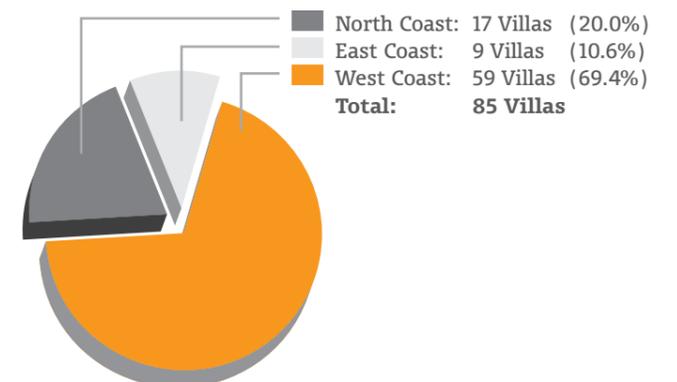
Forward Outlook

- Samui's strong push into the branded residential market may cement its reputation as a new luxury destination.
- Changes to how the island is governed may bring about changes which could alleviate concerns about necessary infrastructure development and other local issues.
- Evolving tourism sectors and widening access to the island introduce a new set of potential investors to the Samui real estate market.
- Marinas and the boating market are a developing story in Samui.
- Our short to medium term outlook for Samui's luxury villa market is cautious as it is apparent that challenging times lie ahead.

Luxury Villa Market 2008



Luxury Villa Market 2009 Onward



Destination Overview

The island of Samui is rapidly becoming one of the region's most popular options for property investment. The past decade has brought major changes. Thai and international investors have funded an accelerated pace of development, building high-end residential product and upscale resorts, which have transformed the face of the island.

Difficult global conditions worldwide have resulted in a challenging sales environment in Samui. As a result, it is probable that some short term effects will be evident in terms of slower development progress, reductions in new product launches as well as a weakening in property transactions and pricing.

However it needs to be acknowledged that current and upcoming supply in the top end of the Samui property market is limited and few prime parcels remain available for future development; factors, which will continue to bolster demand in the coming years, among potential real estate purchasers.

SAMUI LUXURY VILLA MARKET (>65M THB)		
	Luxury Villa Market 2008	Luxury Villa Market 2009 Onward
North Coast	17	17
West Coast	35	59
East Coast	9	9
Total	61	85

Note: The 2008 existing luxury villa market is assumed to be the luxury inventory at projects current selling. For 2009 onward, planned luxury villas include announced projects and existing supply.

Areas To Watch...

Taling Ngam:

While developments have traditionally been clustered along the northern and eastern shores of Samui, the lack of prime sites has resulted in a shift towards the west of the island. The Taling Ngam area was up until recently a fairly overlooked part of the island. Ironically it is the site of the first luxury resort on the island (the former Meridien), Baan Taling Ngam Resort with its 14 luxury villas, which successfully sold years ago. Projects in this area now include Magic Beach, the small Headlands villa development, as well as the upcoming Vana Belle Samui Resort and Spa (to be managed by Starwood Luxury Collection).

Southern Samui:

The south-western corner of Samui has been slow to develop, due to its distance from tourist areas and the airport, however it has gathered momentum in recent years with several high-end projects either underway or rumored. The availability of good sized parcels, striking elevation and the unspoilt nature of this area have attracted several high-end projects. As a result, the Phang Ka Bay area and neighboring Thong Krut are expected to become a highly exclusive enclave as a result. One of the first luxury villa products in this area was the striking Naissance Villas. Upcoming projects include the Conrad Koh Samui and the Park Hyatt Koh Samui, among other rumored luxury developments.

Koh Phangan:

As Samui develops a pace and land prices rise further, attention is focusing on neighboring island, Koh Phangan, which remains a relative bargain in comparison. At present, development activity on the island is limited and small scale in nature, but sources indicate that prime sites are in demand and that developers are already active in seeking out potential locations. The island is an interesting contrast to Samui, as it is lightly populated, less developed and has an eco-friendly mindset, which may act to check the scale and quality of development in years to come. Current developments are clustered around areas such as Thong Nai Pan and are at the lower end of the pricing spectrum. However, we expect to see some major changes to the island's property market coming up.

Samui Property Map



Supply

The luxury segment in Samui is a relatively recent phenomenon, with a small number of branded developments and high end boutique developments being released in recent years.

The upper end of the market comprises a relatively small percentage of the overall market in Samui, which is currently dominated by low to mid range residential products.

Looking ahead, it is evident that the luxury villa pipeline is very limited over the upcoming 12 to 24 months. This is due in part to global financial pressures as well as local factors such a limited supply of prime development sites.

The major issues which will impact the Samui luxury pipeline going forward are:

- a) Tight credit conditions, which are impacting both buyers and developers are resulting in a slowdown in transactions and development progress. Local sources have indicated that certain developers are under cash pressure and that in some cases buyers have backed away from planned purchases. This may result in particular developments being shelved or the land sold on to other investors.
- b) Furthermore, buyers are cognizant of heightened development risk when buying off-plan and may lean towards finished products, further squeezing developer cash flow.

- c) Combined with a reduced number of purchasers, the net result is likely to be a backlog of existing inventory. As such new launches will be limited until existing product is absorbed by the market.
- d) These issues are compounded by the scarcity of suitable land for development in Samui. The scarcity of prime beach front and sea view property as well as robust pricing levels could also be a contributing factor to the slowdown in upcoming supply as barriers to entry are high as a result. The result has been a shift to new areas of Samui such as Taling Ngam and Phang Ka.

On a more positive note, inflationary pressures on construction costs are easing as energy costs reduce and materials return to more stable pricing levels. This will provide a boost to projects currently under development and will provide welcome relief to cash squeezed developers.

Demand

We are seeing a weak start to the year and expect lower levels of demand to persist throughout 2009. This is mainly due to a decrease in confidence and liquidity among potential purchasers as a result of tough global financial conditions.

While recent Thai political problems have certainly impacted the property market, we see this as a short term issue. A far more pressing issue for the Samui market is the difficult sales climate, which is evident at present.

We are seeing a move to moderation, rather than heady optimism among purchasers. There is a gap between the prices offered by developers and owners and what prospective purchasers are willing to offer. This has led to developers being open to negotiation and also to the advent of opportunistic buyers who are hoping to benefit from short term market softening. It is likely that in the long term, prices will recover but in the current climate, any transactions being done will happen at a substantial discount.

An additional challenge to developers is the increase in the re-sale market, as owners impacted by the financial downturn are forced to monetize assets. This will increase competition within the luxury market as certain re-sales are being offered

at significant discounts. In addition on the part of would be buyers, there is a degree of comfort related to buying finished products, which may also impact off-plan sales in an already tight marketplace.

However, the Thai Government is offering some support to the local property market, which is timely. Opportunities exist for local investors to gain a foothold in Samui's tourist industry as they will be offered Thai Board of Investment (BOI) incentives on an automatic basis if they win bids to buy back assets in Thailand from troubled foreign companies affected by the financial crisis.

Furthermore, indications are that there may be some signs of recovery towards the end of 2009. Samui's tourism market has traditionally been an important source of potential villa purchasers and as conditions improve, tourism is expected to strengthen. This combined with the limited current and upcoming supply of prime properties, should provide a solid basis for upward momentum in the Samui property market.

Villa Sales Issues

When compared to Phuket, the Samui real estate market is still in its infancy but it is rapidly catching up in terms of product variety and robust pricing levels. The Samui Estates villa project (adjacent to the Four Seasons), was the first large scale project in Samui priced in excess of THB100m. However, the W Retreat and Conrad branded luxury villa projects are also testing pricing levels in the market as are a variety of smaller boutique luxury villa developments.

With the newness of many of the high end developments, it remains to be seen how the market tolerates current asking prices. However it needs to be acknowledged that current and upcoming supply in the top of end of the Samui property market is very limited and few prime parcels remain available

for future development. As such it is likely that in the medium term, upper tier property will remain a small but exclusive segment of the wider Samui property market, adding support to the price premium.

Another change is location of new upper tier projects. The bulk of development in Samui has always clustered on the northern and eastern coasts, which have become increasingly built up. As such, with a growing array of high end developments clustering along the south west region from Taling Ngam to Thong Krut and the last few remaining coastal parcels in the area being bid up, it appears that Samui is in the process of creating a new luxury enclave.

SAMUI LUXURY VILLA MARKET-PRICING				SAMUI LUXURY VILLA MARKET (>65M THB)		
	Branded	Unbranded	Average	Luxury Villa Market	Planned Luxury Villas	Total Luxury Villas
North Coast	131.8	n.a.	131.8	17	0	17
West Coast	107.3	118.9	115.1	35	24	59
East Coast	n.a.	104.8	104.8	9	0	9
Total				61	24	85

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.

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Looking Ahead

Key market trends include:

Change In Demographics: Due to increased accessibility to key regional and international markets, it is likely that Samui is likely to see a change in the make up of its visitor groups. New direct air routes announced recently will open up access to Samui for high net worth individuals, particularly from the Middle East, Russia and China.

Smaller Boutique Developments: The shortage of developable land (or contiguous land parcels) in prime areas has led to an increase in the number of small scale high end developments, with 10 or fewer units. Examples of this include Naissance Villas. While new areas opening up in the less developed south and west of Samui have afforded investors the opportunity to purchase parcels of land suitable for larger projects, the overall shortage of land on the island will not make this trend sustainable.

Infrastructure: Appropriate infrastructure is being developed in support of the sustained growth of the tourism market. This includes the new terminal, which became operational at Samui Airport in 2007, more than quadrupling handling capacity to 16,000 passengers. This is complemented by planned additional air routes into Samui, which will provide access for new tourism segments. Other works underway include the expansion and improvement of essential access roads, including projects to widen key roadways.

Local Power Shifts: The recent decision to declare Samui a "town" in its own right as opposed to a sub-district of Surat Thani, has resulted in some administrative changes which may have positive effects on the island and it's future development. The island will now be able to deal directly with the central government in Bangkok, rather than petitioning Surat Thani to do so on its behalf and ought to have a greater say in its financial affairs and infrastructure planning going forward.

Samui Marinas: While Samui has very little infrastructure in place for the boating market, this may be set to change. A public meeting was held in October 2008, to discuss the possibility of building a small public marina on the island. While different locations have been discussed, it appears that the current front runner is the Big Buddha area. In addition, it has been suggested that the upcoming Park Hyatt will have yacht berths on a neighboring island.

Green Island Project: Samui's development has been rapid and the current pace is not sustainable. As such it has been recognized that certain aspects of infrastructure planning have lagged behind tourism growth causing stress on natural resources and local culture. The aim of the project (a collaboration between public and private sector interests as well as tourists), is to protect and restore the local environment and local culture as well as to create a tourism business that is sustainable in the long term.

About C9 Hotelworks



Bill Barnett

Managing Director

C9 Hotelworks is an internationally recognized consulting firm with extensive experience in the Asia Pacific 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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