

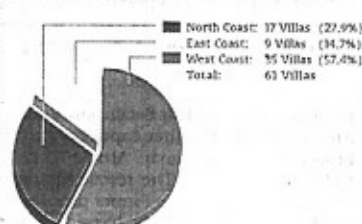
Market Source: C9 Hotelworks

NO DISCOUNTS ON KOH SAMUI

Samui's small property market slumps, but no fire sales seen

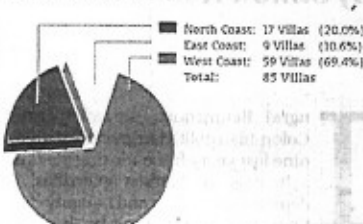
By Nina Suebsukcharoen

Luxury Villa Market 2008



Market Source: C9 Hotelworks

Luxury Villa Market 2009 Onward



The property market on Koh Samui is slowing in line with global trends, but discounting is not evident, even though some foreign developers are struggling because they funded the projects with their own capital and have higher return expectations, says Bill Barnett, managing director of the consultancy C9 Hotelworks.

That this market is fairly small is borne out by this company's research showing that there are only 550 existing and future villas within 41 projects. The number of tourist arrivals to the east-coast island, representing a significant pool of property buyers, is also fewer than one million a year compared with more than five million who flock to Phuket.

Because there is very little leveraging available to private individuals developing villas on Samui, Mr Barnett expects these developers to go back to what they were doing a few years ago, which is to build and then sell.

"Cash flow is everything. It's the same pressure being faced by mass-market property developers in Bangkok. Nobody has cash flow," says Mr Barnett. "But we are not seeing wide-ranging developer defaults. We are not aware of many projects that have sold and become insolvent."

However, the positive side of the low leveraging on Samui, with foreign buyers unable to get loans to buy luxury villas, is that it helps shore up the market to a certain extent.

"So you don't see defaults by buyers to banks, you see prices are shrinking in developed markets because there are defaults, or because there is increased competition, but Koh Samui is still a micro-market."

Similar to most other property markets, it is unlikely there will be a large amount of



SMALL MARKET: Bill Barnett says cash flow is a problem.

project launches this year. This would help the market balance out supply and demand levels more favourably.

With the market being very challenged at this point, Mr Barnett has now moved the benchmark for an upturn to 2010, rather than the third or fourth quarters of this year.

He has observed that overseas buyers, who total as much as 70% to 80% of the Samui market, are disappointed the government has not introduced any stimulus measures to help them. "It's very unclear; everything is aimed at domestic buyers, so there is no real game plan."

While both foreign developers and buyers do benefit from the extension of an earlier package of tax cuts under which special business tax has been reduced from 3.3% to 0.11% and the transfer fee from 2% to 0.01%,

this is not seen as significant at the high end as it actually benefits mass-market housing developers more.

Although developers are maintaining their price levels, they are offering potential buyers deferred payment terms and adding value to their villas by offering furniture packages, among other inducements.

However, Mr Barnett expects snags in trying to match buyers' and developers' expectations and reaching a suitable pricing point as the market moves through the global economic downturn. Buyers have also become more cautious and are opting for something that is already built.

"We are seeing people buying in the resale market and we are seeing people more pushed towards purchasing existing product. They want to cut development risk."

Certain groups of foreign buyers have been affected by changes in currency exchange rates. US dollar buyers, who have seen the currency depreciate about 15% against the baht over the past 12 months, have benefited from lower prices.

On the other hand, the depreciation of Sterling and the Australian dollar has led to the number of buyers from these two countries decreasing, but transactions in other markets are continuing.

Mr Barnett remarked that while Samui is still an untested market for premium property, with few significant transactions above 65 million baht with the exception of the Four Seasons Resort, there are a lot of branded developments taking place on the island, including the W Koh Samui Retreat and Residences, Conrad Koh Samui Resort and Spa, Park Hyatt Koh Samui and Vana Bell Resort and Spa to be managed by the Starwood Luxury Collection, with Banyan Tree also expected to come on board. Most of these do

have a portion of properties for sale.

Another interesting change is the emergence of villa rentals, because most of the buyers are not using them as their primary residences. They now either rent out their villas to holidaymakers on their own or through various agents, with Samui Villas and Homes making a mark in the holiday rental market.

Also noteworthy is that a shortage of developable beachfront land in prime areas has led to an increase of small-scale, high-end developments — Naissance Villas is a good example. While the opening up of southern and western areas of Samui seems to indicate that developers would have an opportunity to develop larger projects there, in Mr Barnett's opinion the overall land shortage does not make this sustainable.

Some recent moves will help the island considerably, one being a decision to declare Samui a town in its own right and not a sub-district of Surat Thani province. This administrative change means Samui can now deal directly with the central government in Bangkok rather than petitioning Surat Thani to do so on its behalf. This should give it a greater say in financial affairs and infrastructure planning.

There have been discussions to build a small marina to tap the boating market. The front-running location is the Big Buddha area, while it has also been suggested that the upcoming Park Hyatt will have yacht berths on a neighbouring island.

Although the island's existing private airport, owned by Bangkok Airways, opened a new terminal in 2007 and quadrupled handling capacity to 16,000 passengers a day, and Thai Airways International is also now flying to the island, Mr Barnett noted that the runway is 1,400m — not long enough to land larger planes that need at least 1,800m. ■