# THE LONG ROAD TO RECOVERY

Expectations of an upturn in Phuket have been pushed back to 2010 *By Nina Suebsukcharoen*

Property players in Phuket are acknowledging the impact of fresh political turmoil in Thailand and the global recession and downgrading their expectations of a recovery from the third and fourth quarters of this year to 2010.

Bill Barnett, managing director of C9 Hotelworks, says there is now a real push back on new project launches with developers debating whether they should proceed this year.

"Which I think is not an unhealthy thing because that is going to create more pressure on the existing supply and it may even out supply and demand a little," he said.

With the pipeline clearly slowing only a handful of property launches may go through this year and those that doe will be very quiet launches and not the big events seen here in the past.

He confirmed that a developer is looking to sell his project at a 50% discount as mentioned earlier by large property companies in Bangkok but he refused to name the project. That developers on the island are able to do this is because their projects are not leveraged as are those in Bangkok and they do not have to wait for the sale of the final 10% of the development to make money. Many of them have been selling at a high per-square-metre cost while in fact this cost is relatively cheap, which means they do reach the point where they have assess inventory to sell at a lower price.

At a few projects it is not only developer's units but also those of investors that are being marked down but Mr Barnett expects the market to absorb this cheaper supply.

"But it's not going to indicate that across the board pricing has dropped — retail pricing is not dropping."

One highlight here is the bidding of the 150 rai Laem Ka Properties that Jones Lang LaSalle is brokering a sale with Lehman's liquidators. Industry watchers are keenly monitoring this transaction to see what price this prime site will fetch.

"Prior to the economic downturn large prime ocean front sites for hotels and mixed use were widely regarded to have a value of 18 to 20 million baht per rai and there were only a few transactions at that level," said Mr Barnett.

"A new yardstick may now be applied depending at what price Laem Ka would sell, should it indeed be vended."

Mr Barnett agreed that everyone is currently being a little careful and waiting for a global economic upturn. "We have not seen capital appreciation for the past 24 months, we have seen prices probably hit a peak two years ago in the broader market."

He added that the luxury market is different with this segment being the only one to defy a relatively flat condition and has actually continued to appreciate.

According to research by C9 Hotelworks, the number of luxury villas on Phuket's west cost, with prices from 65 million baht upwards, will likely increase from 172 in 2008 to 188 this year onwards. On the east coast luxury villas will jump from 127 in 2008 to 146 from 2009 onwards and likewise in Phangnga the total goes up from five in 2008 to 33 from this year onwards.

However, there is no denying the impact of the political upheaval. Mr Barnett believes fugitive former prime minister Thaksin Shinawatra may have won the battle in Pattaya last month but lost the war in Bangkok afterward.

"The prime minister is emerging as the voice of the nation which looks to be positive for business and overseas investment and certainly both property and tourism fall into significant categories needing attention. We would look for improvement in economic reform to be placed higher on the national agenda now and while the country's short-term reputation is tarnished, perhaps we are now getting back on track to addressing bigger issues."

BILL BARNETT: 'There is now a real push back on new project launches.'

Tourism has a big impact on the island's property market because frequent visitors do get tempted to buy property here. That is has been affected is shown in the recently released Smith Travel Research Worldwide Performance Report which is considered the definitive bible for hotel benchmarking. This report shows that in February Phuket registered a year-on-year decline of 30.2% with average occupancies coming up to 61.4% and RevPAR (revenue per available room) also dropped by 53.8% to US$73.12.

Mr Barnett pointed to an interesting change in Bali with its average daily rate (ADR) increasing to $99.31. The report goes on to state that the entire Asia/Pacific region is seeing occupancies drop by 12.1% and average daily rates down by 21.0%.

"When talking to hotel executives in Phuket, most are pointing to the coming low season from April as a question mark in terms of market dynamics."

Even so, no matter what the circumstances are the situation does tend to evolve and Mr Barnett noted that secondary and rental markets are the ones that are actually seeing growth right now.

The secondary market is trotting ahead because buyers no longer want to take development risk unless it is from a very large company and tend to prefer something that is already built.

There is an across the board increase in villa and apartment rentals and there are also a lot of projects that have now started operating like a hotel because their buyers want some kind of a yield.

"The rental market in my opinion doesn't detract from new sale market because what we are seeing is a lot of people come and rent and then later they convert — they like the development or they like Phuket — and they buy eventually so I think that is not a bad thing.

"Previously rentals were pretty high priced, we are seeing the rental rate decrease now because there are so many units in the marketplace, you are seeing a lot of conversion where people come for six months and like it and buy — that is a good thing." ■