

The first six months of this year marked a dramatic swing in Phuket's tourism industry, with a decrease in higher-paying long-haul visitors but an increase in short-haul domestic and regional travellers. This in turn triggered rate volatility among mid- to upper-scale hotels, says Bill Barnett, managing director of C9 Hotelworks.

Research conducted by the hotel and property consulting company shows that tourist arrivals on the island declined by 14%, or 198,946 people, during the first half of 2009, compared to the same period last year. The reduced total of European visitors was offset by a jump in domestic and regional tourists, with the latter mainly from South Korea, Hong Kong and China. It is noteworthy that the yield of short-haul travel is much lower.

"You have volume but you have much lower rates, it's a lot different than last year. It's a change in dynamics and I don't think that's going to change for the next few years."

Mr Barnett said two segments that performed well in the first half of the year were luxury hotels such as Amanpuri, Banyan Tree and Trisara and the budget variety, such as those operated by the Eva group. The former remained buoyant because of limited supply while the latter benefited from the current price-conscious mood worldwide.

However upper-scale hotels have had to cut rates, and this triggered a domino effect that led to mid-level properties having to do the same.

Although such a domino effect generally leads to some people being crushed, Mr Barnett pointed out that the impact doesn't hinge on whether a hotel is branded or not. C9 Hotelworks' research shows that branded hotels outperformed non-branded ones by 33.7% on average room rates, while non-branded properties outdid the branded ones by 12.4% in occupancy. Average room rate was US\$141 (4791 baht) for combined luxury, upscale and mid-scale segments, while occupancy stayed at around 60.4%.

"I think the lesson to be learned is that the rate cutting is going to do long-term damage to the Phuket hotel market. After 9/11 it took

CHANGE IN TOURISM PATTERN

The current reduction in European travellers to Phuket is offset somewhat by a jump in domestic and regional tourists *By Nina Suebsukcharoen*

six years for the rates to recover," said Mr Barnett.

That the mid- to upper-scale hoteliers are not able to hold their rates can be pinned down to the debt load they are carrying, even though the ratio is generally low. "They are looking at day-to-day survival, paying the banks, paying for necessities. They are not looking at upside."

Mr Barnett added that the total number of hotel projects increased from 30 in January to 38 at the end of the first half of this year, bringing in an additional 6,231 rooms. However, 48% of these projects have been delayed due to the current economic slowdown. While all segments have witnessed delays, more have occurred at the upscale and luxury end.

However, a substantial number of these delayed projects have relatively low financial leveraging and most should materialise when financial markets become more accessible.

Interestingly, 34% of the new supply is considered non-traditional product, either condo hotels or villa resorts, which means that the property element continues to remain very important in hotel development.

At the same time some property projects have changed and become hospitality type, while fractional ownership is increasing sharply. An example of the latter is the long-established Royal Yacht Club on Nai Harn beach, which has started selling fractional shares.

However, Mr Barnett warned that fractional



NOT YET: Bill Barnett doesn't think market will recover this year.



FINE DESIGN: Philippe Starck is one of the talents behind Yoo Phuket, which has begun marketing to investors.

ownership is as yet untested and said there are two key issues to consider. The first is how this product fits in within the Thai legal framework, and the other is whether there will be a resale market for those who want to opt out.

The most significant new project that will test the entire Phuket market is a mixed-use development under the world-class Yoo brand (for details visit www.yoophuket.com). With famous international designers such as Philippe Starck and Mick Jagger's daughter Jade involved, it is located on the inside of the island next to the Phuket Country Club.

There will be a hotel with full and fractional ownership on offer. It remains to be seen whether this sort of an international high-profile project would be able to bring

foreign buyers back to the holiday island, said Mr Barnett.

Meanwhile Richard Li, the son of Hong Kong's wealthiest man, Li Ka-shing, is proceeding with his plans to turn Thai Muang Golf Course in Phangnga into a mixed resort and residential development.

Another large site in Phangnga — which was earlier owned by Kingdom Hotel Investments but now transacted to a Bangkok institution — will also soon be announcing a branded operator.

However, Mr Barnett underscored that development in the adjacent Phangnga province is not tracking Phuket because it is hampered by a restriction that hotels built close to the beach can have a maximum of 79 rooms.

It is noteworthy that two major projects in Phuket, Jumeirah Private Island and Taj Exotica, have increased their total number of rooms to more than one hundred in order to be entitled to 100% foreign ownership under a Board of Investment regulation.

There has also been a lot of pressure on land prices in Phuket during the first half of the year, with all eyes on the sale of the 150-rai plot at Laem Ka on Rawai Beach that is jointly held by Lehman Brothers' liquidators and Hotel Properties in Singapore.

Mr Barnett said that normally property players would value this plot at 18-20 million baht a rai, but all it was able to fetch was 8-10 million baht a rai.

"So it has been taken off the market now, and that is a sign that the owners, or someone, thinks the price is going to go up. So maybe it's a vote of stability in the market that maybe we have hit the bottom."

Mr Barnett does not expect the Phuket market to recover this year. He said the situation is unlikely to return to normal this high season; an upturn is only likely next year.

However, the success of the recent Asean Foreign Ministers' meeting on the island is a positive development that has helped restore confidence.

Even so, it is worth remembering that other regional destinations benefited from problems in Thailand late last year and early this year, with Bali's occupancy performance surpassing Phuket's.

Vietnam and Malaysia too are succeeding in attracting increasing number of visitors and potential investors. ■



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ESTABLISHED RESORT: The Royal Yacht Club is testing the market for fractional ownership.