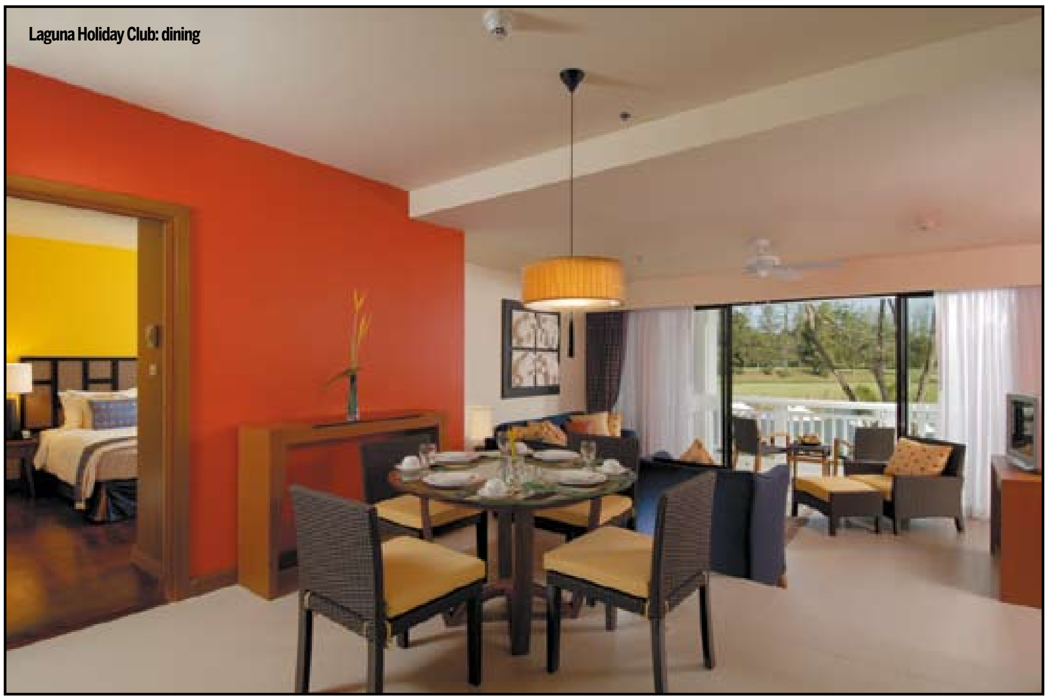
TRADING PLACES

Already popular in more developed markets, the trend towards fractional ownership is growing in Phuket, and in the current economic downturn, it offers opportunities to enjoy luxury products that might otherwise be out of reach. Bill Barnett traces the emergence of the fractional phenomena.



Laguna Holiday Club: dining

Legally speaking, Thailand does have consumer laws which address timeshare and vacation ownership, especially idiosyncrasies such as buyer 'cool off' periods. For fractionals, whereas in many developed markets undivided interest and deeded ownership is available, here it remains in the development curve. Ownership trustee issues and security are high on the 'wish list' of larger developers who would like to see the best of international practices and regulatory processes be developed here.

It's no secret that Thailand's resort real estate market has suffered over the past few years not only from the effects of the global economic recession but also from the high profile political squabbles that have continued to plague the country. While Bangkok and key holiday destinations such as Hua Hin and the eastern seaboard leverage highly in the domestic market, Phuket along with Koh Samui rely primarily on foreign purchasers.

With sustained flat demand in the broader resort grade property market and oversupply of mid market property, there are niches emerging in the upscale luxury market and also in fractional ownership. Evidence is emerging that upscale sales have been more resilient as there was a significant shift from end users who dominated the market at the onset of the property boom five years ago to now investment-driven purchasers who are currently on the sideline. While the mass mid-scale offerings still see surges of new supply and slowed sales pace; the lack of finance or mortgages for owners continues to hamper demand along with over reliance on international buyers.

Defying the broader market luxury villa sales for the first 6 months of 2009 in Greater Phuket, units priced at Bt65m and above showed transactions worth Bt3.5bn according to C9 Hotelworks recent mid-year research report. Tapping into a network of high net worth individuals, the luxury market retains the strong fundamental of the early end-user profile.

The shared ownership market for Phuket in 2008 which includes vacation ownership, property and yacht fractional's had sales in excess of Bt1bn. Most of these sales occurred in the more developed timeshare/ vacation ownership market where Laguna Vacation Club and Marriott Vacation Club International dominate the landscape.

As we move through 2009, on the back of yacht fractional's and now Absolute Group's multi property offerings, the market share is on the rise. Based on total sales, less than ten 10% of last years figures are attributed to these segments; while in 2009 through August the amount is now tipping 20%.

Let's step back for a moment to view the differences between vacation ownership and fractionals. Evolving

Top left : Tawan - 68 Evo: suite
Top right: Tawan - 68 Evo: dining
Bottom left: Absolute Bangla: bathroom
Bottom right: Absolute Beach Resort: bedroom

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from timeshare where most offerings were purchased for a week every year for a set period of time, as hotel chains moved into the sector, the vacation club concept grew based on a point system which can be redeemed, not only for stays, but can also be converted to exchanges at other locations, airline seats, car rentals and even traditional hotel room nights.

Most offerings worked on a low entry cost model and considerably wider demographics. Timeshare developments have traditionally been high density, limited services and incur higher costs in terms of sales and marketing. In most cases the pricing is often targeted to capture impulse buys from consumers caught up in the bliss of a resort holiday and in many cases represents a spur-of-the-moment transaction process. Vacation ownership took the structure considerably further with the aid of mixed-use hotel branded products and brought greater sophistication in operating models.

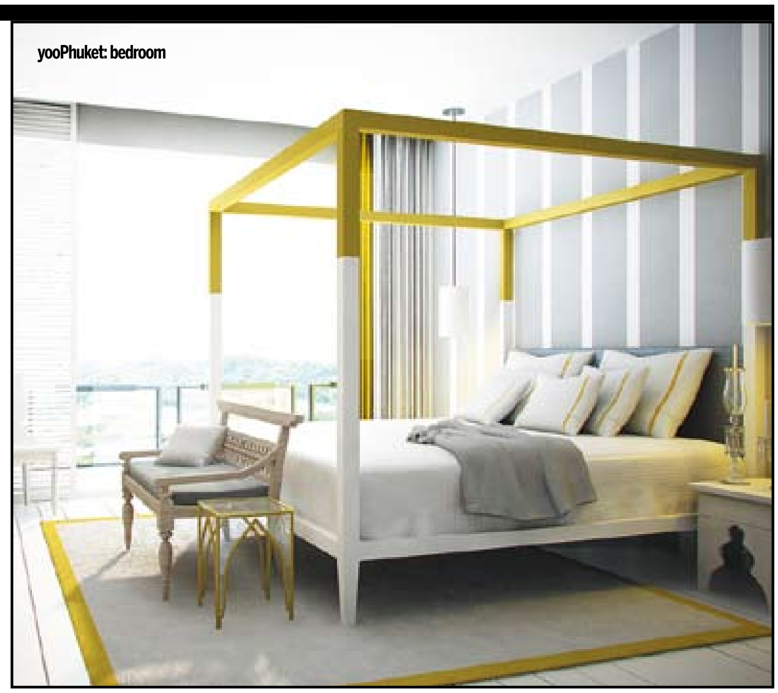
As time passed the industry realized there was the potential to take the upper income earners, who had already been loyal users of vacation ownership, and up sell them to a premium model. While pricing was higher, it provided a catchment both in conversions from existing clients and tapping into the second home or resort residential market. Much of the attraction came in usage, upscale products and uncomplicated ownership and maintenance that is often associated with a free standing unit. A resale market also emerged with offered secondary sales in order to exit the investment.

Phuket Laguna was an early entrant with what was called the Allamanda Holiday Club starting in 1998, then came Quality Vacation Club (QVC) operating in Patong in 2000, while a few years later Marriott Vacation Club International (MVCI) brought critical mass into the offerings. Allamanda changed names to its present Laguna Holiday Club (LHC); while recently Premier Property & Leisure entered in 2007.

For fractionals Absolute opened for vacation ownership in 2003 and moved into the upper-end product range at the end of 2008. Currently two other companies are yet to fully launch into the market with Purnavarna Residences the Royal Phuket Yacht Club and IndoChine Resort & Villas. On the vacation ownership front, West Sands Phuket will reportedly be launced in Q4 2009. There remain a few instances of smaller scale offerings on individual or multiple units in developments, but for the most part these are not mainstream fractionals and essentially comprise of shared ownership of a leasehold property.

Focusing on the largest player in the fractional market, Absolute initially offering two- and four-week increments in their Nakalay and Bangla Suites projects. While at the newly announced yooPhuket development »

West Sands: BeachVilla



yooPhuket: bedroom

yooPhuket: Living room

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more traditional quarter share and eighth share ownership is on offer.

Unlike most vacation ownership schemes, many groups are now offering the owners shares where they are able to use the fractional schemes to pool back the units into a hotel managed product and obtain rental yields which cover operating cost and in many cases are touted to produce above market returns.

From a source market standpoint vacation ownership over the past few years has been able to develop strong domestic sales mainly though lower entry priced units, alternative year packages and financing options. Both Marriott and Laguna have tapped considerably into the growing Thai middle class who are equally enticed by the opportunities to exchange units in leading holiday destinations abroad. Three global exchange providers are prevalent being RCI, Interval International (II) and Dial An Exchange (DAE).

One emerging market which taps Phuket's growing marina market is high-end yacht fractionals. Three key players in this segment are Twin Palms (Phuket Premier), Tawan Cruises and Royal Phuket Marina Cruising Club. Adopting what has become a bit of an industry standard, five-year units are offered with 28 days usage a year, or 10 shares per yacht. At the end of the five-year period, the craft is fully depreciated, sold and the owners receive an apportioned share of the profits.

With Royal Phuket Marina starting the trend in 2007, Twin Palms followed in 2008 and Tawan in 2009. Models being utilised include luxury yachts such as an Azimat 70 Evolution and Sunseeker 54 Portofino. Tawan Cruises is expected to add a second vessel this coming October on the back of brisk sales for the initial offering. Another key development in the sector has been Middle East conglomerate IFA Yacht Ownership Club, which utilises Yacht Haven Marina to host one of their global network of vessels for use by international members.

There is an interesting twist on yacht fractionals which is a similar attribute to luxury villas in which a strong proportionate amount of buyers are of the same nationality as the developers of these projects/products. Main geographic source markets for yachts remain Europe, UK and Scandinavia. A number of property projects are now targeting an add on such as a yacht to induce sales into a project which it sees as a complementary offering.

IndoChine Resort & Villas: pool deck

WHAT REMAINS CHALLENGING FOR FRACTIONALS IS TO BUILD CREDITABILITY AND TO BE ABLE TO ESTABLISH A PERFORMANCE TRACK RECORD...

Rounding out the sector is destination clubs which is more of a membership based programme and offers high end usage in a network of villas and upscale units. As of now, Banyan Tree Private Collection is the only significant player in the Phuket market supported by its extensive worldwide network of hotels and residential properties. Similar to private residence clubs, overseas this market is much more established but viewing the island it's conceivable that clubs will be purchasing individual high-end units to vest into the larger organisation for use by members.

Legally speaking, Thailand does have consumer laws which address timeshare and vacation ownership, especially idiosyncrasies such as buyer 'cool off' periods. For fractionals, whereas in many developed markets undivided interest and deeded ownership is available, here it remains in the development curve. Ownership trustee issues and security are high on the 'wish list' of larger developers who would like to see the best of international practices and regulatory processes be developed here.

For many, timeshare and vacation ownership remains a sector clouded by poor consumer sentiment and considered a bit arcane in structure. What remains challenging for fractionals is to build creditability and to be able to establish a performance track record and stable trend of project successes. A secondary market. remains a question mark, though leasehold property and term units such as golf memberships have effectively traded in the market for many years.

What cannot be denied is that the timing for these types of products will be a lifesaver for many during sluggish economic times. Long term profile will no doubt come when chains such a Ritz-Carlton, Four Season's and Starwood who already have specific business units for fractionals come into the market and we see the same effects as Marriott coming full scale into vacation ownership. The story is one that is going to be written and rewritten many times in the years ahead. ■