

Looking for Columbus

If it was not for Christopher Columbus and his dogmatic vision that the world was not flat, perhaps we'd all be crowded into a claustrophobic continent called Europe. While personally I do like my morning espresso and a croissant from time to time, breakfast discussions lately have been dominated by talks of a flat property market in Thailand's premier destination Phuket.

Upscale Market Moving

While talk remains cheap and speculation is often as subjective as the changing weather patterns, numbers are now rolling in so we can take a peak behind the curtain of the state of real estate. Based on the C9 Hotelworks 'Luxury Villa Market Update Mid-Year Edition' which focuses on upscale products priced from THB 65 million and above, first half figures are considerably better than the negative broader market sentiment would have us believe.

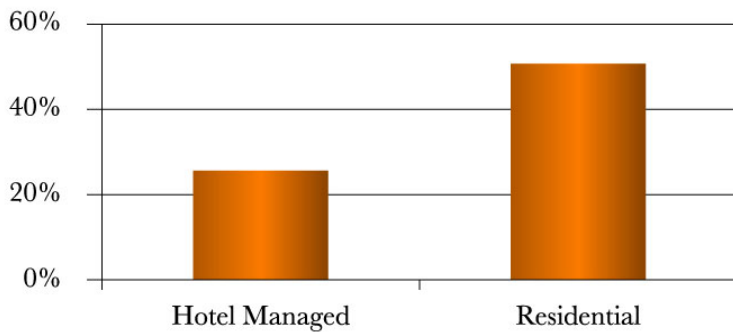
By the numbers there was a total sales volume of THB 3.5 billion in villa sales with 19 units transacting during this period. This can be compared to a market size of available inventory of 92 units, which represent THB 10 billion of unsold properties. There are only 15 estates in which these units have been sold, with the largest concentrations being in Kamala's Millionaires Mile, Surin/Bangtao and the rapidly growing Naithon beach area.

Branded Property Trend

Tales of the unexpected show that Phuket is bucking the mixed use trend of hotel managed residences, which have ground to a stop in Europe and the US, with 47% of H1 transactions taking place on these type of projects. Brand operators have delivered on their promises of premium selling prices per sq m with a market average of 55% higher materialised value. Sales pace for these units also outpaced those of residential only offerings. Mixed-use projects, which offered guaranteed returns, led the pack in absorption rates and remain the single most effective tool to stimulate sales.

While this year has seen no new launches in the market this is now creating pressure on the

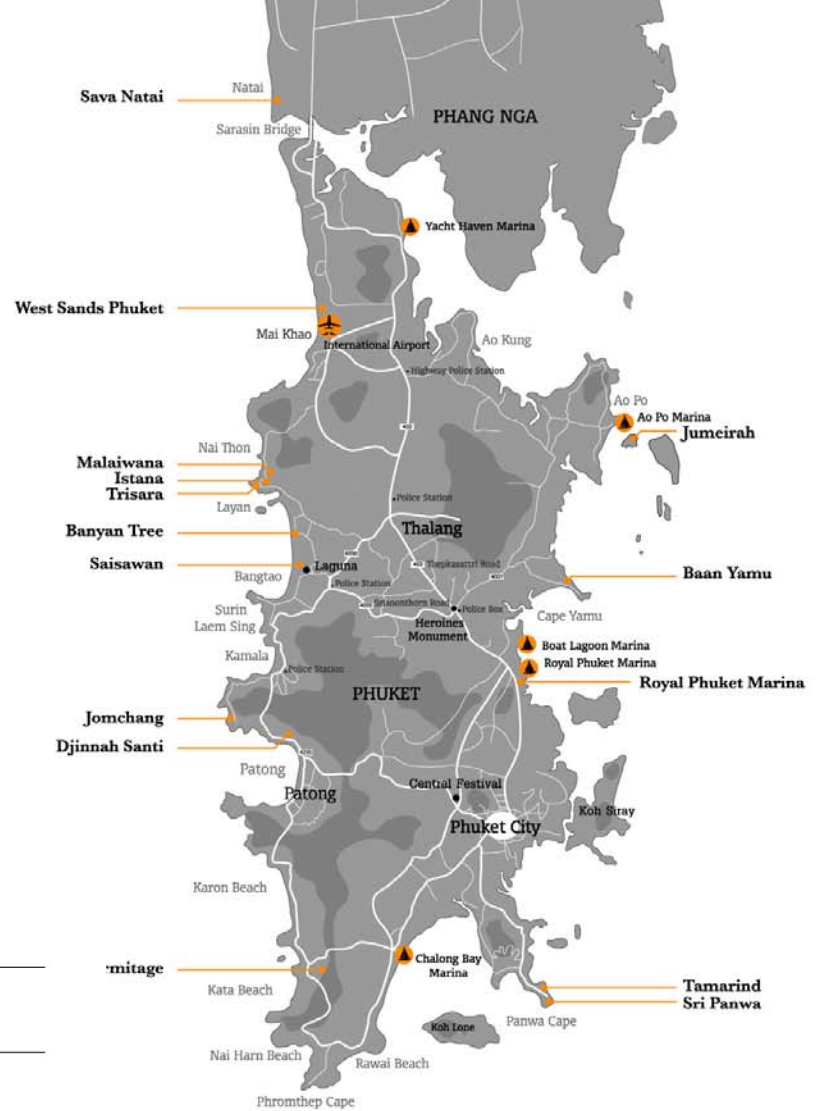
resale market which grew considerably the first half of the year registering THB 1 billion in sales and is expected to continue to grow further in size. Viewing the pipeline Raimon Land's well-heeled Amalfi project adjacent to Amanpuri, and Gaysorn Group's Cape Paradise projects continue to be on hold. The newly announced Similan Beach, a Ritz-Carlton Reserve hotel is moving ahead but the residential launch is pending. The only new entrant appears to be Laguna Phuket's Banyan Tree Grande Residences, with 18 units priced from THB 125 million, which will come into the stream this year.



Percentage of Unsold Units Mid 2009 (Hotel Managed vs Residential Villas)

Project Name	Location	Total Units	Launch Period
West Sands Phuket	Mai Khao	2	2006
Malaiwana (Phase 1)	Nai Thon	19	2007
Istana	Nai Thon	19	2008
Trisara (Phase 3)	Nai Thon	19	2005
Banyan Tree (Phase 1 Double Pool Villas)	Bangtao	26	2005
(Phase 2 Double Pool Villas)		8	2009
Saisawan	Bangtao	13	2007
Jomchang (Phase 1)	Kamala	9	2001
(Phase 2)		14	2004
Djinnah Santi	Kalim	11	2006
The Hermitage	Kata	12	2009
Sri Panwa (Phase 1 Estate Villas)	Cape Panwa	19	2004
Tamarind Phuket (Phase 1)	Cape Panwa	7	2004
Royal Phuket Marina	Koh Kaew	6	2007
Baan Yamu (Phase 3 Executive Villas)	Cape Yamu	12	2007
Jumeirah Private Island Phuket	Ao Po	56	2006
Sava Natai	Phang Nga	5	2008

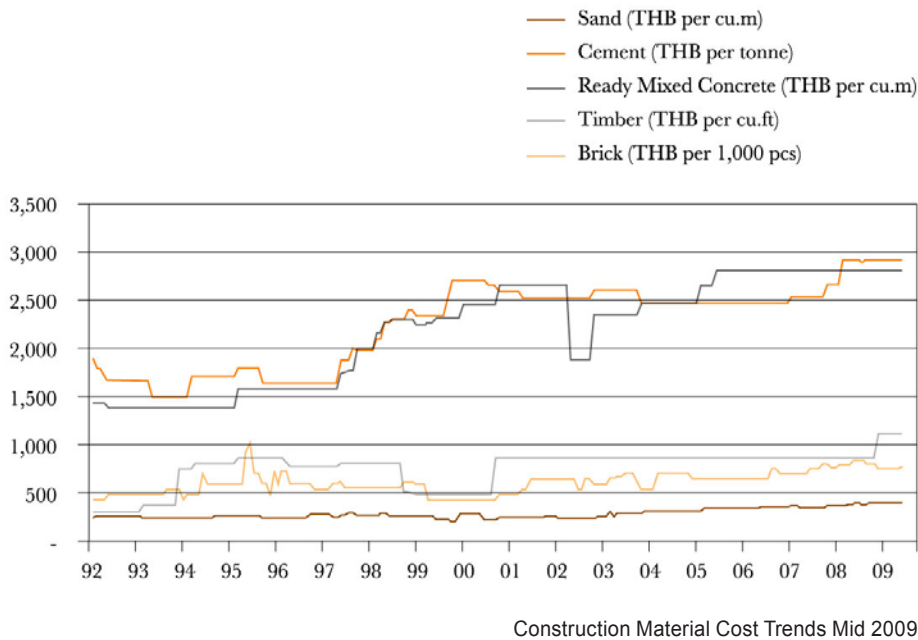
Luxury Villa Projects at 30 June 2009



Luxury Villas Property Map Mid 2009

Stabilising Costs

Viewing developer margins and construction costs, we spoke to a number of quantity surveyors in the sector who share a common opinion, that it's doubtful the current lower volume of building site will see a knock-on effect of significantly lower cost; and what has been a volatile commodity market is not levelling out. Steel over the past boom years was a wild card with China's continued infrastructure demand and oil prices spiking. Commodities in the first half of 2009 are now back in line with costs from the same period of 2008. Labour costs though, continue to climb on an annual basis on the back of Thailand's government policy to track inflation. The key consensus is that looking forward, developers will be able to mitigate risk more, and a stabilisation of gross margins will result.



at a greater pace than new units entering the fray. As global GDP is recovering already in many of the key purchaser markets this will see a staggered return to higher demand. Property remains a highly cyclical business and expectations are to see market recovery geared to 2011. As Phuket's real estate industry moves higher in maturation both resales and an emerging high end fractional market looks to establish greater presence in the transaction scene.

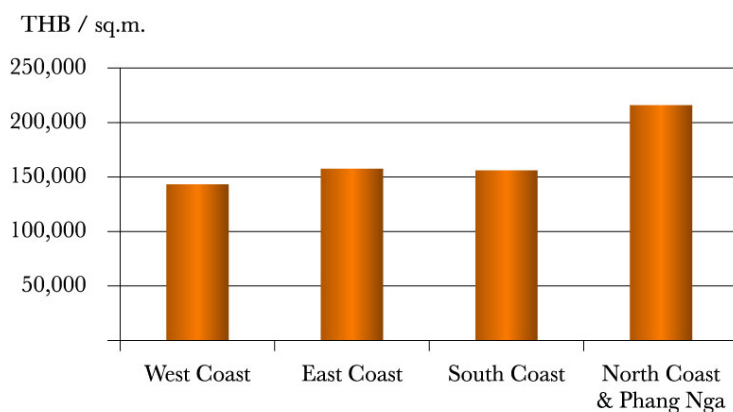
Heading into the last half of the year, for most businesses, they just wish it would end like a bad television sitcom. There also remains question marks on Thailand's political and economic uncertainty. Phuket's resort grade property market remains highly dependant on foreign demand and there are no marked shifts in growing domestic consumption, where comparative markets such as Hua Hin, and the eastern seaboard are more attractive due to driving

versus flying. The lack of foreign ownership and more importantly non-availability of debt look to have a profound dulling effect in the short to medium term.

Future Outlook

As for the luxury villa market, supply and demand fundamentals are strong in this sector, with considerable barriers to entry for new projects and the current lull in launches seeing products absorbed

To sum it all up, while we don't have a Christopher Columbus and the world is not flat; the luxury villa market has demonstrated a resilience in troubled times and looks to continue to grow in the coming months and years ahead.



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