

BALI HIGH, PHUKET NOT SO MUCH

The Indonesian island not only attracted more visitors last year, it also has more registered accommodation establishments *By Nina Suebsukcharoen*

Bali was the magical word when it came to Asian resort destinations in the early 1990s, before it was overtaken by Phuket. But now the tide has turned again and the Indonesian island has surpassed its Thai rival over the past 18 to 24 months, says Bill Barnett, managing director of C9 Hotelworks.

Although foreign tourist arrivals have bounced back in Phuket, with the 2009 total of 2.9 million equalling the number seen in 2007, a deeper look shows that a large number of people who are coming to the island have lower spending power, such as Scandinavians and Eastern Europeans. This in turn is affecting the hotel business.

"What happens when the mid-level [hotels] start dumping rates and start competing is that it forces the international hotels and the big hotels to dump rates, and when they dump rates it means their profits are shrinking," Mr Barnett explained. "So they can only control costs, they can't go back and renovate their hotels."

Research by C9 Hotelworks shows that average room rates and revenue per available room in Phuket slumped by 20% and 22%, respectively, in 2009 compared to the previous year. Hotel occupancy in Phuket stood at 64% last year, lower than in Bali (see chart).

In fact, Bali not only attracted more visitors last year, it also has more registered accommodation establishments than the Thai island. Bali's total is 1,715 establishments with 42,363 rooms while Phuket has 636 properties with 37,884 rooms.

Mr Barnett pointed out that Bali has gotten a big lift from the recovery of the Australian market, which seems to have shaken off negative feelings after the 2002 bombings at popular nightclubs there killed 202 people, including 88 Australians. More recent bombings have been in Jakarta.

"I think Bali and Phuket manage in very similar ways — Bali distances itself from the Indonesian risk scenario," he said. "And Phuket is very much the same. While people consider Phuket to be a part of Thailand they also consider it as its own destination.



LUXURY COMPETITION: Bill Barnett, managing director of C9 Hotelworks.

Phuket separates itself from the national agenda — the political risk agenda.

"So there is a bit of separation in both those markets from greater political issues in the respective national capitals.

"However, if everything is collapsing politically in Bangkok, is that going to affect Phuket?" he asked.

Mr Barnett added that Phuket is hampered by the absence of new luxury hotels opening on the island, except for Andara Resort Residences.

There is an influx of three- and four-star hotels, and he doesn't believe this bodes well for the market. On the other hand Bali, has much more in the way of luxury product coming up.

"I think travellers want something new. We are keeping an eye on Samui where the W (the W Retreat, Koh Samui) is opening this year. That is going to attract a lot of people and there is nothing like that project in Phuket. So we are seeing other destinations becoming

increasingly competitive with luxury product."

Mr Barnett observed that there was a spike in Phuket's property market last December because people became very optimistic after tourism numbers came back on track. However, now that we are well into the new year, a heavy dose of level-headedness has affected investors, with several brokers and developers on the island agreeing that people are now taking a "wait and see" approach with Thailand.

Most investors want to see what is going to happen in the first quarter and hope to get a clearer picture after that.

"I think this is the case not only in Thailand but globally. Property is not really driven by Thai sentiment, it's been driven by concerns about the global economy. So people are staying on the sidelines. A lot of buyers are coming in and saying, 'Let's see what's happening in the world, will something big happen again? Are we going to see Dubai crashing out, are we going to see something like Lehman Brothers?'"

Phuket's situation also differs from Bangkok, where the property market is much more buoyant and is attracting Asian buyers from Hong Kong and Singapore who are mainly urban property buyers and are unlikely to go to the resort markets.

"Traditionally the resort markets relied on expatriates in Hong Kong and Singapore and now you are seeing urban buyers in the central business district. You see the same thing in Kuala Lumpur — you see a lot of Hong Kong people buying in Kuala Lumpur because they get leveraging and they get stable rental yields."

Mr Barnett ruled out any dumping of property in Phuket by those who previously bought, aside from a natural impact from projects that were sold three years ago and now coming to completion, as there are always going to be people reselling their properties for 100% capital appreciation.

"Even in Bangkok people buy off plan and when the project is finished they are going to try selling. So, secondary sales. When we look at the third and fourth quarters of last year, 50% of the luxury market was resales — that's an astounding figure."

While there are still speculators in Phuket, Mr Barnett thinks a lot of people who would have invested in Phuket have now moved to Bangkok to play in more stabilised market conditions.

The current situation is also affecting the move toward greater Phuket, which encompasses Phangnga and Krabi. Property and developers and investors are moving back to Phuket island because they no longer want to take a risk.

"In this kind of market condition they want to be as close to well-performing areas as possible."

Mr Barnett foresees that Phuket's development landscape will change in the years to come, with Thais increasingly undertaking property development there. This is because Thais have the advantage of access to capital and the ability to hold on to land much longer.

"So that is going to be a big shift, all those guys who bought land 20 or 30 years ago will start to develop — the land banks are owned by Thais." ■

INTERNATIONAL VISITOR ARRIVALS BY AIR



* Bali until November, 2009

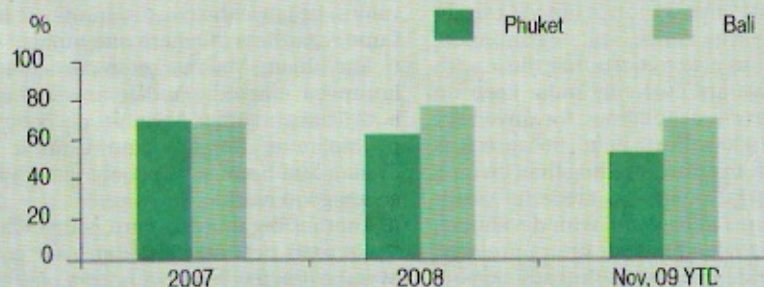
Source: BPS and Office of Tourism Development Thailand

TOP FIVE TOURIST NATIONALITIES

	Phuket	Bali
1st	Australian	Australian
2nd	Swedish	Japanese
3rd	British	Chinese
4th	German	Malaysian
5th	Russian	South Korean

Source: Bali Tourism Authority and Office of Tourism Development Thailand

HOTEL OCCUPANCY COMPARISON



Note: Figures obtained from international -class hotels

	Phuket	Bali
Change		
Occupancy	▼ 24.6%	▲ 0.6%
ADR**	▼ 1.6%	▲ 27.7%
Change		
Occupancy	▼ 16.0%	▼ 9.5%
ADR**	▼ 15.5%	▲ 14.2%

*11 month comparison **Based on local currency

Source: STR Global and C9 Hotelworks Market Research