hospitality

Expert

luxury branding stimulus investment high net-worth property financing incentives cash flow hospitality

Bill is the founder and managing director of C9 Hotelworks, a leading hospitality consulting based in Phuket, Thailand. He is a columnist for the Phuket Gazette and The Nation, and hosts a popular blog, ThePhuketInsider.com.

Investment Heart Failure

Looking at the current level of overseas institutional investment in the hospitality sector in Thailand is a bit like the search for Bigfoot; be it myth or fact, it brings out sceptical opinions from most industry analysts. One thing is for sure, while the patient has been admitted to the hospital with a faint heartbeat detected, no one is quite sure as to the prospect of recovery.

Bill Barnett
managing director, C9 Hotelworks

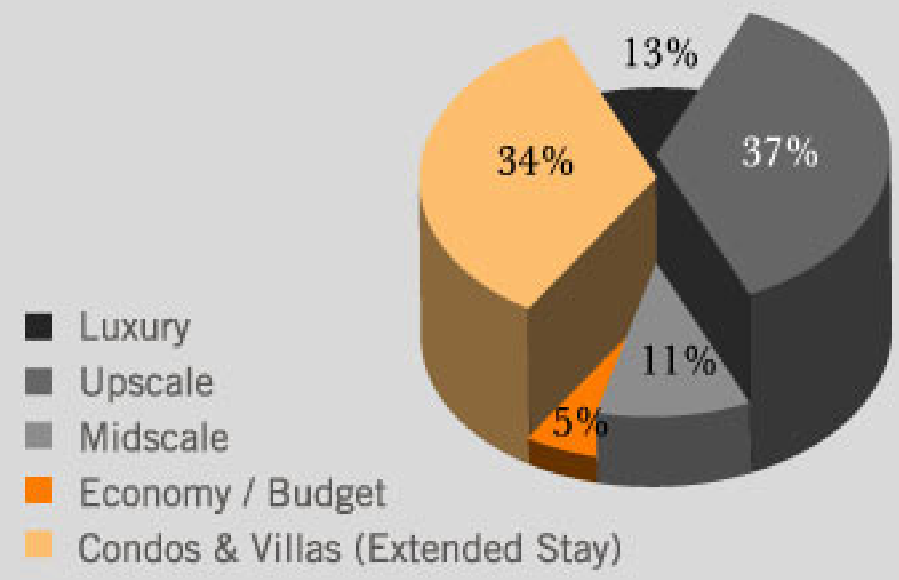
Critical Symptoms

Looking back at the boom investment market over the last five years, with the hotel, residential and mixed use projects garnering so much attention it was nearly last call at a busy bar, investors were so desperate to place funds into what looked like get rich quick casino schemes that they lost track of fundamentals. Fresh on the heels of US firms such as Lehman's came the petro-dollar and sovereign wealth funds from the Middle East, which blossomed alongside the fast and furious increase in oil prices. Trophy assets and luxury branding was the key attraction for most of these offerings.

Starting with the sub-prime crisis, the collapse of more institutional houses than I'd care to list, and the eventual dismissal of the pro-business government of Thaksin Shinawatra, domestic listed firms and high net-worth individuals stepped up to the table and filled the gap in dominating the pipeline of projects we see in the works today. On the back of the political turmoil and battering of the Stock Exchange of Thailand, coupled by a series of yellow and red shirt events, many of these investors decided to call a time out, being hit in a stream of decreasing cash flows and liquidity.

Market sentiment towards Thailand is at an all time low, and while most of our Asian neighbour's took heed during the past two years in preparing for a sustained economic handover, here domestic politics took centre stage, which equated to putting our heads in the sand and ignoring the world outside. For the most part, the stance of the democrat government to attracting overseas investment and long-term financial strategies remains a mystery, akin to the search for the Holy Grail. Initiatives to boost tourism and also domestic property taxes have been announced but have had little positive impact to date.

Hotel Openings Breakdown by Tier



Source: C9 Hotelworks Market Research

For residential property investment key concerns continue to be voiced along the lines of the lack of debt or mortgages for foreign buyers, the limit on leasehold property to 30 years and a threshold in non-Thai ownership of condominiums to 49% of the total saleable area. For most of this decade the same issues have remained, in particular the inability of foreigners to obtain financing onshore, ensuring property remains a sleeping giant for international investors.

Recovery Treatment

Meanwhile in hospitality, the Board of Investment (BoI) has offered 100% foreign ownership of hotels to overseas investors, but the emergence of mixed use property has negated this for a lion's share of projects. There remain issues in provinces such as Phang Nga, which restricts beachfront hotels to 79 rooms, thus negating the ability to obtain BoI incentives. As of yet, no new significant post-crisis stimulus packages for the hospitality and property sectors have been announced.

Turning to other counties in Asia, we see the Philippines has launched a large scale 2009 Hotel Act which shows a commitment to the industry; Sri Lanka, fresh from a prolonged war, has already issued guidelines to stimulate investment from abroad through the loosening of foreign ownership laws. Without new incentives, Thailand runs the risk of bringing up the rear of the class.

Having attended a number of recent Hotel Investment Conferences both in Hong Kong and Singapore, the common wisdom seems to be that 2009 is best left as a bad memory and we will see an upswing in 2010, though it may be a long slow road versus a fast altitude romp. With the Lehman's of the world disappearing and US and European investment redeployed, the main question remaining is who will fill the gap going forward.

Long-term Prospects

Looking at transactions in the market today, the only activity we see is mainly Asian family money, typically from conglomerates with high net-worth and private equity firms. In the case of the latter though, many of these are looking to vulture and purchase distressed assets rather then develop new projects. For many regional high net-worth individuals, they are also looking at markets such as Australia which, as the currency has plummeted, presents solid performing assets to buy or trophy assets that may be a once in a lifetime acquisition.

Taking a turn to the future, both Thailand's property and hospitality sectors have considerable scale and have demonstrated long-term viability during troubled times, such as the 1997 Asian crisis. Slowing down the pipeline can be viewed as a positive in order to adsorb excess supply and better balance supply fundamentals. The current Prime Minister's government and democrat-led coalition have shown staying power, so perhaps its best to file this as an ongoing story. While the key question going into the next decade is 'who will be the next wave of investor's in these sectors?', a similar one is currently being asked around the globe. Until the restoration of the global debt and equity markets, attracting international investment looks to be a long-term challenge as opposed to a quick fix.