



GHN MARKET REPORT - Phuket



Bill Barnett
Managing Director
C9 Hotelworks



Phuket's Evolution To Mass Tourism Model

Phuket passenger traffic smashed all previous records with 3.5 million arrivals during 2010 - or 22% growth over the previous year with new markets such as Russia and China emerging as the major drivers of growth.

According to our firm C9 Hotelworks latest market research report, *2010 Phuket Hotel Market Update* indicates annual tourism figures soundly recovered from early political angst to hit new highs.

Both Russia and China have emerged as star performers, with charter and direct flight capacity fast tracking growth.

The departure of legacy geographic markets has come at a cost with shrinking average room rates. While new replacement players have become dynamic revenue sources, the shift in arrival markets continues to baffle hotel strategy sessions into how to capture these new revenue sources.

Lack of clarity over questionable recovery of traditional long haul Eurozone countries are creating a sales and marketing conundrum.

Data from the report highlights market capitulations and reactionary pricing resulting in a market-wide occupancy increase of 4%, offset by a 3% fall in room rates.

During 2010 there were new hotel openings adding 1,389 keys, reflecting an increase of 3.2% for



Phuket's existing 43,036 rooms registered in accommodation establishments.

The real storyline remains airlift as traffic surpassed 2007's peak year by 19% with growth of 28% over 2009. China sprouted wings, ranking second overall among international source markets.

A transforming change is underway as the rise in new hotels rooms is widening a split between the traditional lower density resort areas on the island and a growing urban leisure model. This transition is expected to create destination marketing challenges going forward.

Patong is experiencing wildfire growth and a transforming change is underway for the central entertainment district where projections show more than 50% of new hotel supply will be massed over the next five years.

This evolution will see a destination emerging within a destination for the growing price sensitive mass tourism market.

There is a possible disconnect between passenger capacity at Phuket International Airport and a lag in expansion completion which is not expected to complete until 2014.

Passenger traffic of 7.05 million passengers through the airport in 2010 strained existing capacity. An expansion to 12.5 million passengers will commence in the second quarter of this year.

Thai developers increasingly dominate the overall hospitality investment horizon mainly in the mid-market segment, contributing 77% of new projects in the pipeline.

A shift in hotel investor profile to domestic developers is creating a void for luxury and mega projects that would induce new demand to the destination.

Umbrella future development for Phuket sees 5,749 more rooms, representing a 12.9% increase to existing supply. Delayed openings from 2010 pushed into 2011 of which 723 keys will contribute to total of 1,472 rooms entering supply this year.

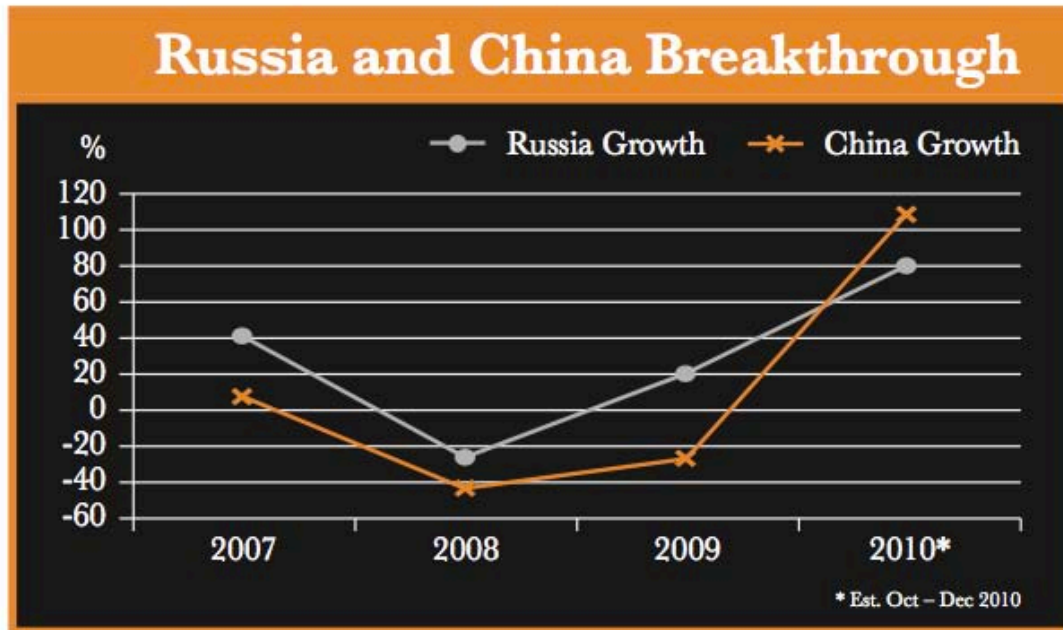
But it's not all blue sky for Phuket's future.

Supply outpaced demand for the first time in a decade which undermines market stability. Challenging supply and demand conditions are forecasted for 2012-2014 with 55% of forward supply in midscale segment.



Key storylines for the year will be hotel transactions and increasingly vocal Phuket business owners and residents asking the poignant question is more better?

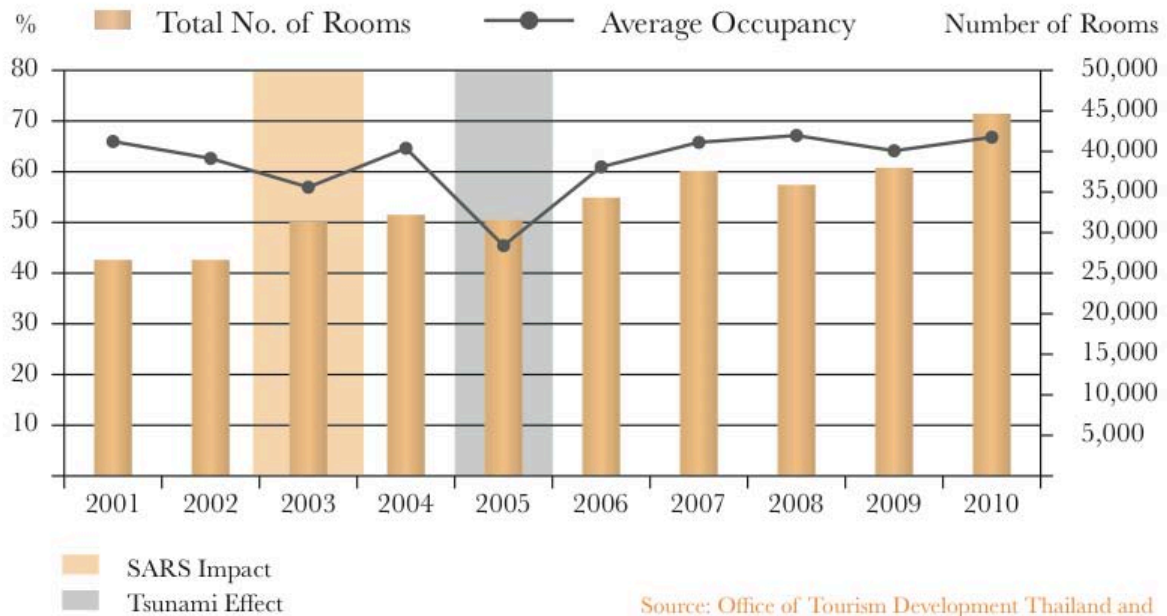
Russia and China Breakthrough



Source: C9 Hotelworks Market Research

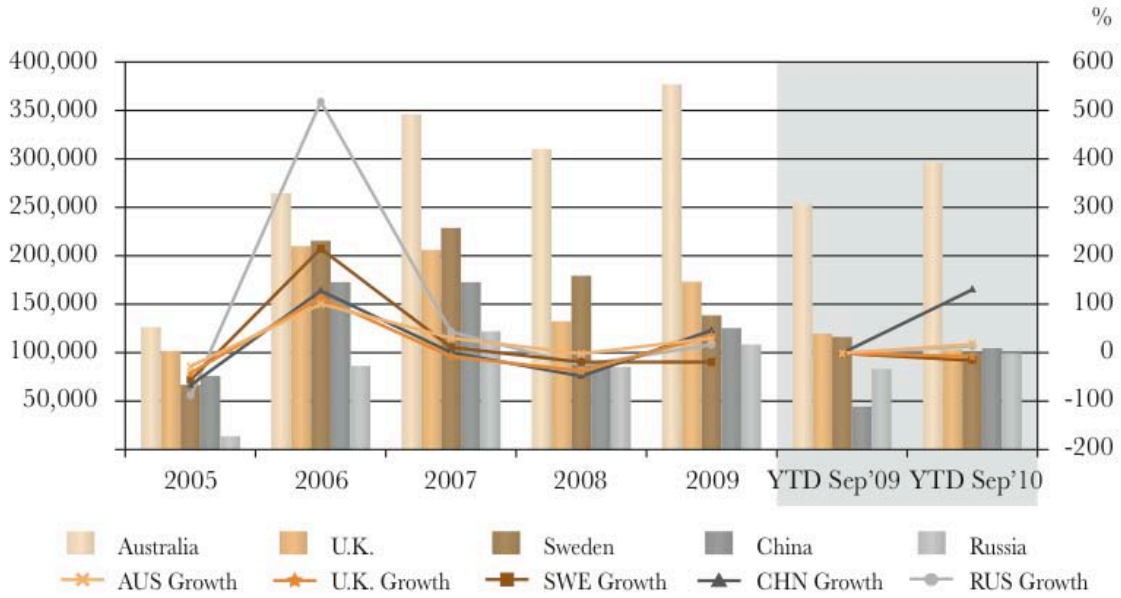


Hotel Supply vs. Demand 2001-2010





Phuket Top 5 Source Markets



Source: Office of Tourism Development Thailand and C9 Hotelworks Market Research



Hotel Openings

| Hotel Name | Location | Rooms | Opening Date |
|--|------------|-------|--------------|
| PHUKET | | | |
| Maikhao Dream Villa Resort & Spa, Mai Khao, Phuket | Mai Khao | 22 | Apr 2011 |
| West Sands Phuket | Mai Khao | 426 | May 2011 |
| Holiday Inn Phuket Mai Khao Beach Resort | Mai Khao | 276 | Q3 2011 |
| Pullman Phuket Arcadia Naithon Beach | Nai Thon | 281 | Q4 2012 |
| Thanyachiva Lifestyle Resort | Thalang | 77 | Nov 2011 |
| Phuket Grandville Resort | Thalang | 105 | 2012 |
| Novotel Phuket Kamala Bay | Kamala | 172 | 2012 |
| The Naka | Kamala | 95 | Q1 2012 |
| Wyndham Resort Phuket | Kalim | 133 | Q2 2011 |
| The Kalima Resort and Spa | Kalim | 168 | 2012 |
| Absolute Twin Sands Spa and Resort | Patong | 96 | 2012 |
| Novotel Phuket Dahlia Hotel | Patong | 305 | Q1 2012 |
| Sleep With Me Hotel | Patong | 286 | Q3 2012 |
| Mercure Phuket Deevana | Patong | 508 | Q4 2014 |
| Patong Bay Hill | Patong | 744 | Q4 2012 |
| Moringa Resort | Patong | 350 | Q4 2012 |
| Four Points by Sheraton Phuket, Patong | Patong | 290 | Jan 2014 |
| Aloft Phuket Patong | Patong | 300 | Jul 2014 |
| yooPhuket | Kathu | 256 | Q4 2013 |
| Kata Rocks | Kata | 34 | Dec 2011 |
| U Serene Phuket | Nai Harn | 140 | Q4 2011 |
| Rawai Palm Beach Resort | Rawai | 198 | Nov 2011 |
| Regent Phuket Cape Panwa | Cape Panwa | 106 | 2011 |
| Four Points by Sheraton Phuket, Panwa | Cape Panwa | 200 | Mar 2011 |
| The Yamu | Cape Yamu | 102 | 2012 |
| Koh Maiton Resort | Koh Maiton | 79 | 2013 |
| PHANG NGA* | | | |
| Casa de La Flora Khao Lak | Khao Lak | 36 | Feb 2011 |
| Mai Khao Lak Beach Resort and Spa | Khao Lak | 200 | Q4 2011 |
| Wyndham Resort Khao Lak | Khao Lak | 205 | Feb 2012 |
| Sentido Graceland Khao Lak | Khao Lak | 316 | Q2 2012 |
| Maikhao Dream Resort & Spa, Natai, Phang Nga | Natai | 56 | Mar 2011 |
| Similan Beach, A Ritz-Carlton Reserve | Bo Dan | 79 | H2 2013 |
| KRABI* | | | |
| Mercure Krabi Ao Nang | Ao Nang | 200 | 2012 |
| Ibis Krabi Ao Nang | Ao Nang | 230 | Q4 2011 |
| Centara Grand Lanta Island | Koh Lanta | 233 | 2012 |

*Phang Nga and Krabi projects depicted for information purposes only and not included in Phuket data.

Source: C9 Hotelworks Market Research

ABOUT BILL BARNETT & C9 HOTELWORKS

C9 Hotelworks is hospitality consulting firm based in Phuket, Thailand and led by Managing Director Bill Barnett. With 26 years of experience in Asia Pacific, he is a leading specialist on hotel and property development issues. C9 is a leading hospitality market research and intelligence reporting concern working with financial institutions, private equity groups and private hotel developers. Bill is a columnist with a number of leading newspapers, including the Phuket Gazette and The Nation and has appeared on CNBC, the BBC and CNN. His popular blog www.thephuketinsider.com is the authoritative source of all Phuket hotel tourism and real estate issues and trends. More information on the company can be found at www.c9hotelworks.com.

Bill Barnett is a Member of GlobalHotelNetwork.com's [Investment Committee](#).

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