



HOSPITALITY CONSULTING

Phuket

Luxury Villa Rental Market

December 2015

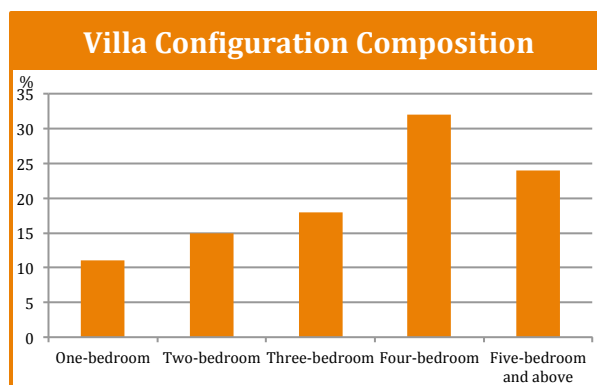
Changing demand for larger villas and shorter stays

Emerging Hong Kong, Mainland China and Singapore source markets lead the pack

“As one of Asia’s leading leisure destinations, Phuket has been a strategic location for high-end property investors and developers since the late 1980’s. The island’s luxury inventory is the most demonstrated and prolific in the region. One fundamental offshoot of this real estate element is a rising tide of holiday villa rentals.

Researching the sector, four-bedroom villas are the most popular unit type within the rental market; this is led on the back of an increasing number of guests coming in larger groups. In the past, Asian’s favored smaller unit sizes more, while bigger unit configurations were predominantly occupied by European guests.

A surge in short haul multi-generational travel and combination of friends and family is seeing the regional rental market demand gradually shifting toward larger unit types ranging from five to eight-bedroom villas.



Source: C9Hotelworks Market Research

The market trait for renting these villas is primarily through property management companies with on-line booking capabilities, rather than hotel groups. Over the next 36 months the island is expected to see an increased influx of larger branded luxury hotel-managed villas given the strong incoming supply pipeline.

For Phuket’s hotel industry the key underlying message is that non-traditional accommodation is rapidly growing in influence and appeal.”

Bill Barnett, Managing Director, C9 Hotelworks

Market Highlights

- Phuket’s luxury holiday villas have broadly seen upward trading during the low season this year vs. 2014 with a shift from long haul to regional markets.
- Hong Kong, Mainland China, and Singapore are Phuket’s key geographic sources for villa rental business with the legacy European market decelerating.
- Hotel-managed villa inventory is broadly geared to smaller unit configurations while property managed villas most often larger unit configurations.

Forward Outlook

- Volatile trading is expected this high season given challenges from external political and the overhang of the economic downturn.
- New supply of ultra large unit configurations between eight- to ten-bedroom villas are expected to enter the market .
- The market is expected to see an uplift in regional guests staying in larger villa configurations, though trending toward a shorter length of stay.

MARKET OVERVIEW

Rental Performance

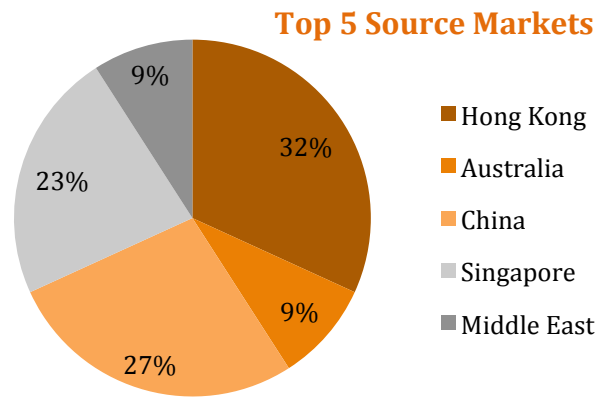
Phuket luxury holiday villas are categorized into three types—hotel-managed, property-managed and owner-managed. Our research reflects the first two types' average annual occupancy stands at 44% with an average daily rental rate of US\$1,300. Rate and occupancy variables are dictated by location, management type and bedroom configuration.

Feedback from the sector is that in 2015 market-wide performance improved during the low season compared to last year. This was due to the end of the latest political crisis in Thailand. However, the performance expected for the 2015/2016 high season is seen as with slowing booking pace largely attributable to the impact of global economic factors.

Key Geographic Markets

Hong Kong is the top market for Phuket luxury holiday villas, followed by Mainland China, Singapore, Middle East and Australia. The majority of Hong Kong and Singapore guests are expats from Western countries. These segments mostly rent villas for family vacations or trips with friends. Weddings and special events are often drivers of demand.

In the past, Western and Eastern Europe were more prominent; however, financial factors have impacted numbers due to currency depreciation, economic stress and consumer confidence.



Sources: C9 Hotelworks Market Research

Seasonality

The seasonality for rentals is divided into three periods—high, low and shoulder. High season is split into two periods, as the first starts in December and ends in February. This period is compressed within the international holiday season consisting of Christmas and New Year. Additionally, Chinese New Year sees strong demand. Phuket mostly receives a mix of European and Chinese markets during these two time frames. The second high season falls between July through August when many villas are filled with Australian and the Middle East markets as it is parallel to school break in Australia, coupled with high temperatures in Middle East countries.

The low season is also split into two periods, with the first falling between May and June, and the second period starting in September and going through to November. March and April are the shoulder months. Villa rentals are becoming less seasonable given both the Chinese and Middle East markets are less influenced by inclement weather.

Average Length of Stay

For the luxury villa market, the island's average length of stay (ALOS) is approximately 4.7 days. Western markets tend to rent the villas for a longer period of 5 to 10 days. In contrast, the Asian market prefers to stay for a shorter period of 3 to 4 days. Increasing regional take-up is impacting the ALOS and driving the ALOS downwards.

Location

While luxury villa inventory is spread throughout the island the most popular locations are in Bangtao, Surin, Layan, Kamala and Cape Panwa areas where a significant amount of high-end villas cluster. A high proportion of properties are either located on hillsides or else feature elevations and/or dynamic views or aspects.

Average Rental Price and Unit Configurations

Currently, the median rental band for luxury holiday villas ranges from US\$1,500 to US\$4,000 for hotel-managed villas and US\$580 and US\$3,000 for property-managed villas. The rental prices vary based on location, seasonality, configurations, facilities/services offered and the selected management classes.

Pricing points for rentals are generally priced higher on a year-around basis when the property is managed by branded hotels as compared to the property company managed villas. This incremental pricing is often a reflection of the management team, facilities and services, that may or may not exist in the villas that managed by the property management companies.

In terms of villa offerings, property management companies typically have inventory with larger unit configurations, which is in contrast to properties provided by the hotel-managed villas are slanted towards smaller unit configurations.

Rental Management

From an investment perspective, villa owners differ from other real estate classes such as condominiums and apartments as they generally aim for capital appreciation, rather than rental yields. Within the luxury class, villas are often rented out with the expectation that ongoing operating costs are covered. Given the high market values of Phuket luxury villas and considerable inventory of upscale hotel villas there often remains a disconnect between owner expectations and trading realities for stabilized holiday rentals.

There are various options for villa rentals. The most common practice is to rent through an online travel agencies (OTAs) such as Airbnb, Agoda, Expedia, Booking.com, Villas.com and Luxury Retreats. Hotel-managed, property-managed, and owner-managed villas all use these sites along with others as a major booking channel for their properties. Currently, there are approximately 229 luxury villas on the island on Airbnb, 103 listed on Agoda, 27 listed on Expedia, 53 for Booking.com, 160 at Villas.com and 58 carried by Luxury Retreats.

For hotel-managed villas, the market generally sees two types of rental programs offered (i) top-line revenue share and (ii) a bottom-line profit share. For the top-line method, the rental yield is calculated in the form of revenue split which of the owner would receive a fixed proportion of the rental revenue after the deduction of taxes, service charges and in certain cases some other offsets. The bottom-line method where owners receive a profit share after all operating and management fees charged.

For stand-alone villas and properties that are not part of a rental program, owners have the alternative to package up their products and rent it out through the property management companies. This approach is referred to as property-managed villas. Here villa owners will most often receive a portion of the rental while the property management companies or agents are paid on a commission basis or fixed fee.

About C9 Hotelworks



Bill Barnett
Managing Director

C9 Hotelworks is an internationally recognized consulting firm with extensive experience in the Asia Pacific region. Its core business focus includes:

- **Hotel and Resort Development**
- **Asset Management / Ownership Representation**
- **Project Feasibility and Analysis**

Key competencies include international hotel operator search, selection and contract negotiation, mixed use hotel and residential planning and operation reviews.

A wide range of both institutional and private developers and a comprehensive portfolio of completed projects give C9 the skill set and background to focus on key issues, evaluate complex ones and assist clients in achieving solid results. Based in Phuket, Thailand and led by Managing Director Bill Barnett, who has 30 years of experience in Asia Pacific, the firm is well positioned to serve an increasing demanding marketplace.



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