



asset management
& hospitality consulting

Phuket

2010 Hotel Market Update

January 2011

Best year ever for Phuket tourist numbers

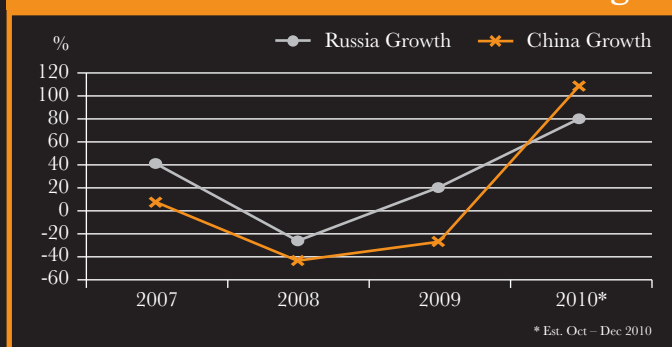
Passenger arrivals smash previous record with 3.5 million or 22% growth over 2009

“Phuket tourism soundly recovered from early 2010’s political inspired angst to hit new highs by year end. Both Russia and China firmly 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 falling average room rates. While the new replacement players remain dynamic revenue sources, the mash up continues to baffle hotel strategy sessions.

A transforming change is underway as Patong’s hotel district is expected to account for over 50% of the island’s accommodation supply over the next five years.

Russia and China Breakthrough



Source: C9 Hotelworks Market Research

Increasing supply has hit hard with a widening split between traditional lower density beach resort areas and a growing urban model. This transition is expected to create destination marketing challenges.

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

Bill Barnett, Managing Director C9 Hotelworks

2010 Trends

- Airline traffic surpassed 2007’s peak year by 19% with growth of 28% over last year. International flights accounted for 37% with domestic flights at 21%.
- China market sprouted wings achieving a ranking of second in international source markets.
- Market capitulations ruled as counter trends between rates and occupancy saw a market wide 4% occupancy rise offset by a 3% fall in room rates. RevPAR ended with a 3% jump as midscale hotels took center stage.
- Wildfire growth of Patong hotel supply is creating a destination within a destination for the growing price sensitive mass tourism market.

Forward Outlook

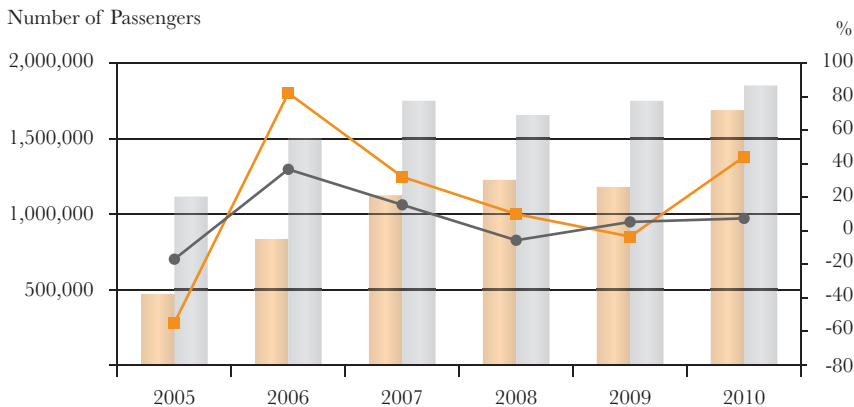
- Disconnect between passenger capacity at Phuket International Airport and a lag in expansion completion until 2014, impacting growth.
- Challenging supply and demand conditions forecasted for 2012-2014 with 55% of forward supply in midscale segment.
- Lack of clarity over questionable recovery of traditional long haul Eurozone countries creating sales and marketing conundrum.
- Shift in hotel investor profile to domestic developers creating void for luxury and mega projects that could induce new demand to destination.

Airline Indicators

- Phuket achieved a “personal best” record of 3.5 million passenger arrivals in 2010, with 22% growth over 2009. This compared to a 17% compound annual growth rate over the previous five years.
- New direct flights from China, Australia, Russia, Middle East and regional destinations supercharged Phuket’s tourism growth as seen in a 21% boost in number of flights for the year vs. 2009.
- Number of charter flights ticked up by 64% compared to 2009 and made up 25% of international flights during peak months or 16% of full year figures. Flights originating in Russia jumped 128% providing airlift which was effectively converted into visitor arrivals.
- Passenger traffic of 7.05 million passengers through Phuket International Airport in 2010 strained existing capacity. An expansion to 12.5 million passengers per annum by 2014 sees construction set to commence in March 2011.

Visitor Arrivals at Phuket International Airport

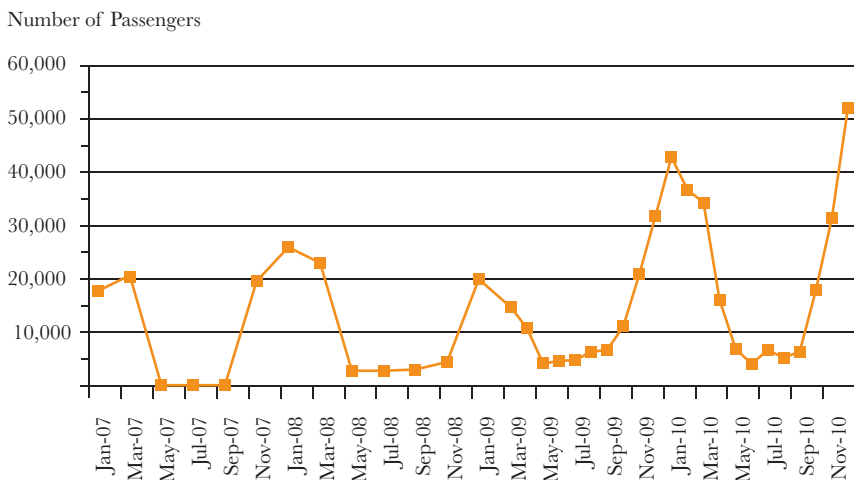
■ No. of International Passengers Annual Growth of International Passengers —■—
■ No. of Domestic Passengers Annual Growth of Domestic Passengers —●—



Source: Phuket International Airport and C9 Hotelworks Market Research

International arrivals register 44% increase over 2009

Visitor Arrivals from Charter Flights at PIA



Source: Phuket International Airport and C9 Hotelworks Market Research

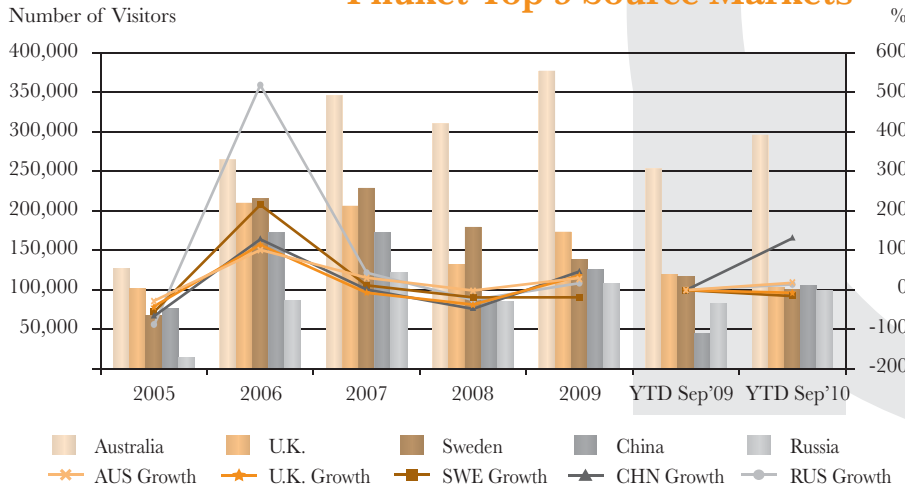
Charter flights soared by 49% CAGR over past three years

CAGR - Compound Annual Growth Rate

Tourism Indicators

- Figures for 2010 show a significant 44% increase in Asian travelers, compared to the previous year. Main contributors being China, Middle East and South Korea.
- Overall European visitors dropped by 1%. U.K. and Sweden travelers declined in 2010 by 13% and 12% respectively from 2009, offset by 15% growth from Finland, Norway and Denmark.

Phuket Top 5 Source Markets



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

China U-shaped recovery from 2007 to present has created a launch pad for growth

Top 5 Source Markets*

1. Australia
2. China
3. United Kingdom
4. Sweden
5. Russia

Top 5 Growth Markets*

1. China
2. Middle East
3. Denmark
4. South Korea
5. Australia

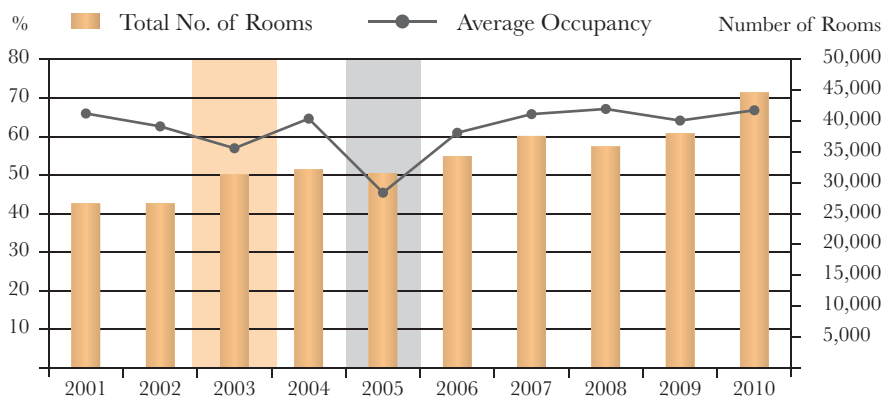
Top 5 Asian Markets*

1. China
2. Middle East
3. South Korea
4. Malaysia
5. Japan

* January – September 2010

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

Hotel Supply vs. Demand (2001 – 2010)



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

Supply outpaced demand for first time in a decade

■ SARS Impact
■ Tsunami Effect

- Market absorption in 2010 slowed as supply growth edged higher by 17%, outpacing demand growth of 8%. Key result demonstrated in expanding competition with downward pressure on room rates as hoteliers struggled to retain occupancy.

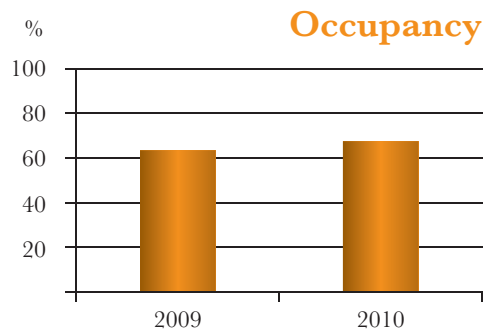
HOTEL MARKET

Hotel Benchmark

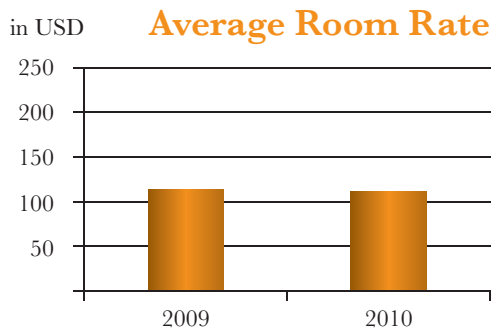
- A reactionary pricing trend drove occupancy growth by 4%. This came at the expense of average rates which dipped 3% compared to 2009. RevPAR increased by 3%, led by the midscale.
- Increased trading volatility continued, driven by extraordinary appreciation of the Thai baht, political risk and the European economic situation.
- A pivotal altered state in broader guest profiles, highlighted by a substantial reduction of Europeans and a significant rise in Chinese and Russian visitors have dramatically dropped the market wide average length of stay.

Hotel Performance

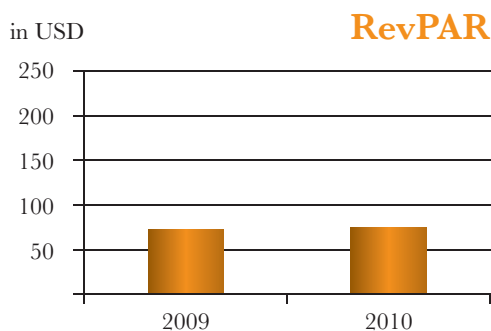
By Tier



Source: C9 Hotelworks Market Research



Source: C9 Hotelworks Market Research



Source: C9 Hotelworks Market Research

Change	
Luxury	◀▶ 0%
Upscale	▲ 2%
Midscale	▲ 11%
Budget & Economy	▼ 3%

Mass tourism driving volume highlighted by charter flight growth

Change	
Luxury	▼ 3%
Upscale	▼ 24%
Midscale	▲ 16%
Budget & Economy	▼ 35%

Aggressive revenue strategies pushing down room rates

Change	
Luxury	▼ 3%
Upscale	▼ 22%
Midscale	▲ 36%
Budget & Economy	▼ 38%

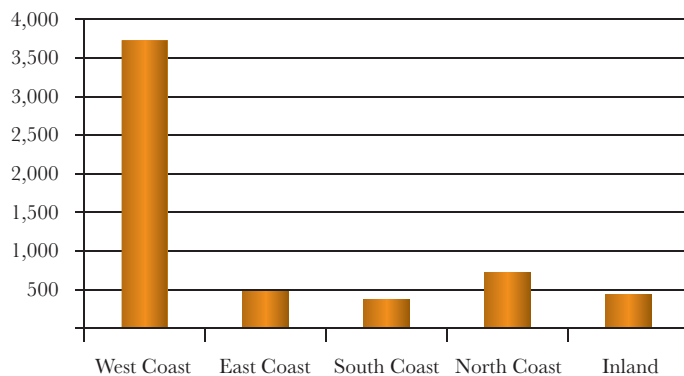
Market velocity zeroing in on surging price sensitive mid market travelers

Development Insight

- Total pipeline of 5,749 keys represents a 12.9% increase to existing supply. Delayed openings of 723 keys from 2010 to 2011 will contribute to 1,472 rooms entering supply this year.
- Thai developers increasingly dominate hospitality investment horizon, contributing 77% of new projects.
- The year ahead is expected to see a record number of hotel transactions, bolstered by clearing economic overhang from financial crises and existing owners deciding to liquidate aging assets versus costly renovations.
- Alternative accommodation sector of condos, apartments and villas displacing increasingly larger amounts of revenue from traditional hotels. Market size is estimated to account for 10% of entire international standard supply on the island.

Number of Rooms

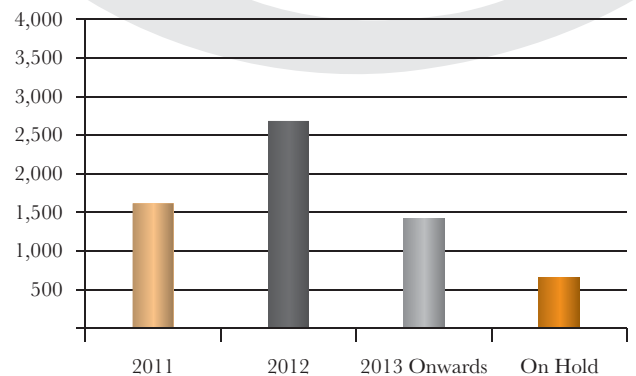
By Location



Source: C9 Hotelworks Market Research

Number of Rooms

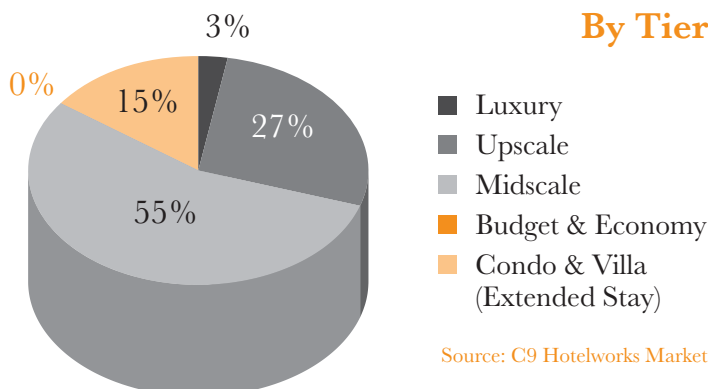
By Opening Year



Source: C9 Hotelworks Market Research

Phuket based businesses fueling development boom in established west coast tourism areas

Warning signals for 2012 as 48% of new supply hits market



By Tier

- Luxury
- Upscale
- Midscale
- Budget & Economy
- Condo & Villa (Extended Stay)

Source: C9 Hotelworks Market Research

Growing imbalance reflected by over development in midscale sector raises concerns for healthy market diversity

Hotel Openings

- During 2010 there were new hotel openings of 1,389 keys, reflecting an increase of 3.2% for Phuket's existing 43,036 room in registered accommodation establishments.
- Patong accounts for 56% of entire island development pipeline.

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

Projects On Hold

- Two additional Phuket hotels were postponed in the second half of 2010 increasing suspended projects by 11% or 503 keys.

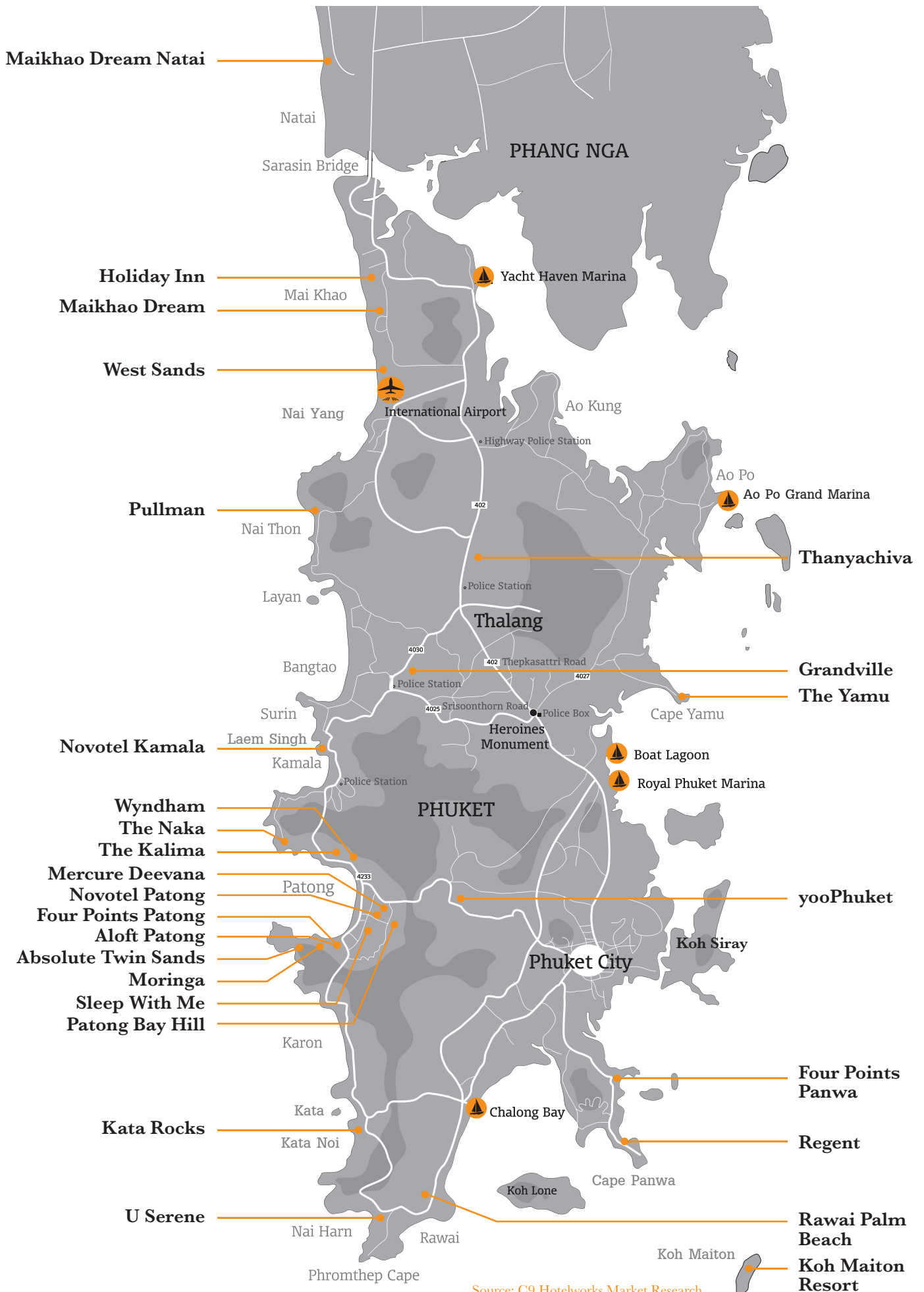
Hotel Name	Location	Rooms	Opening Date
PHUKET			
Phuket Marriott Resort and Spa at Kamala Cove	Kamala	202	TBA
U Kamala Phuket	Kamala	70	TBA
4 Dreams	Phuket City	80	TBA
Taj Exotica Spa and Resort Phuket	Koh Lone	79	TBA
Jumeirah Private Island Resort	Koh Raet	72	TBA
PHANG NGA*			
Kameha Natai	Bo Dan	79	TBA

TBA – To Be Announced

Source: C9 Hotelworks Market Research

*Phang Nga project depicted for information purposes and not included in Phuket data.

Hotel Pipeline Map



Source: C9 Hotelworks Market Research

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**

With key competencies including 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 26 years of experience in Asia Pacific, the firm is well positioned to serve an increasingly demanding marketplace.



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