



asset management  
& hospitality consulting

# Phuket

## Hotel Market Update

Mid-Year Edition August 2009

**“Looking forward, short term trading will focus on occupancy at the expense of long term rate strategies. Cash flow is a key underlying consideration in this market with most hospitality assets largely carrying low debt ratios. Defying the trends are the luxury tier properties which operate in a favorable supply/demand segment, and the budget/economy tier hotels which have captured changing demographics and are experiencing a trade down by price conscious travelers. Mid and upper scale properties have been hit by a domino effect through declining numbers and thus created substantial rate volatility. The long term outlook remains positive with brand concentration, growing airlift and infrastructure improvements, though recovery in 2009 has effectively been written off with prospects pushed into 2010.”**

- Bill Barnett, Managing Director C9 Hotelworks

Negative market sentiment and media perception linking Phuket to the larger Thailand political dilemma were strongly at play during the first six months of 2009. With the majority of regional Asian markets declining for the same period and shift in segmentation from lower paying short haul travelers, the island has largely tracked the wider marketplace seeing softening of room rates and lower occupancies. Key destination competitor Bali surpassed Phuket in volume back of a redirection of visitors affected by the high profile anti-government demonstrations together with a series of airport closures.

## 2009 Mid Year

- Tourist arrivals declined by 14% (198,946) in 2009 versus the same period for 2008.
- Hotel wide occupancy of 60.4% and average room rate of US\$141.00 for combined luxury, upscale and midscale segments. RevPAR of US\$85.00.
- Branded hotels outperformed non-branded properties on average room rates by 33.7% and the non-branded outperformed the branded by 12.4% on occupancy.
- Hotel pipeline sees 48% of projects delayed due to current economic slowdown, while total pipeline registers increase to 38 properties totaling 6,231 keys in development cycle.
- Non-traditional hotel products (condo hotels, villas and mixed use properties) now account for 34% of overall pipeline.

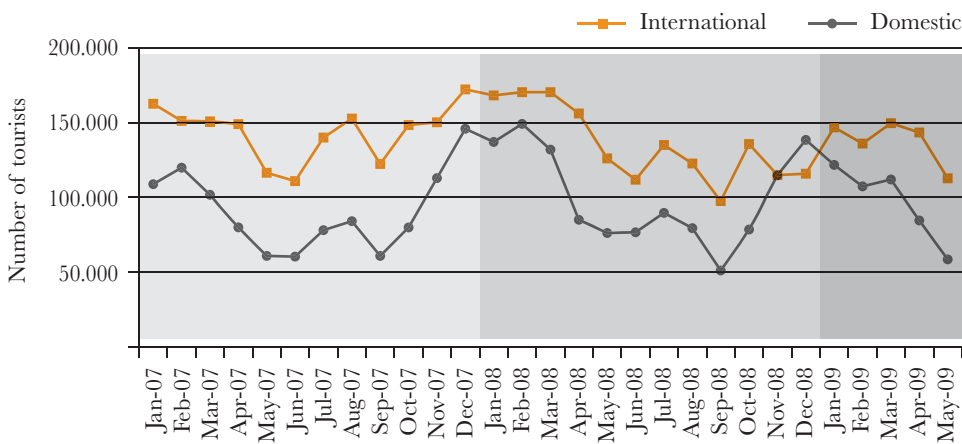
## Forward Outlook

- Market recovery expectations now pushed into 2010 back of the continued economic slowdown, domestic political concerns, threat of H1N1 virus and hotel oversupply.
- Long haul airlift shrinks, with regional capacity growing mainly through low cost carriers (LCC's) resulting in a shift to increased reliance on lower yielding Asian and domestic visitors.
- Occupancy vs. rate to be hotels' primary target back of hotel owners' cash flow concern and increased destination competition. Long term rate damage remains a critical issue.
- Luxury and economy/budget segments set to outperform upscale and midscale properties with favorable supply/demand ratios and shift in market composition.
- Limited leveraging of hotel projects will result in few transactions or business failures, while debt and equity continues to stay on sideline, thus constraining new developments.

## Tourism Indicators

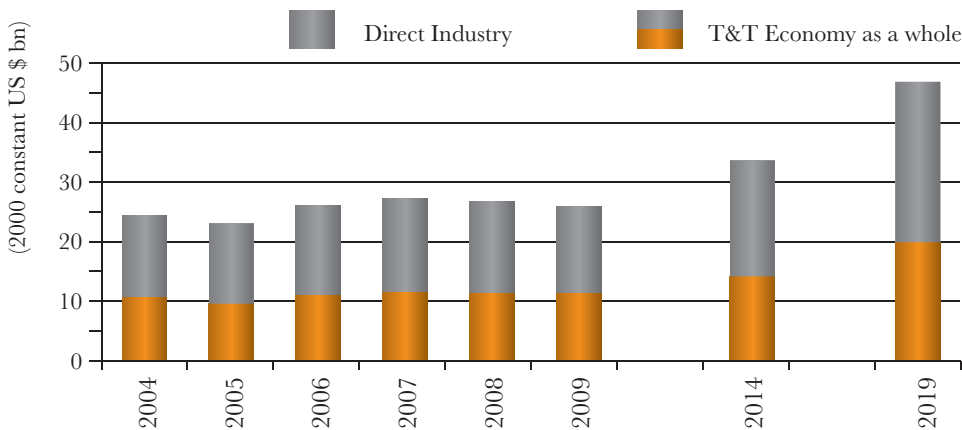
- Uncertainty in Thai domestic politics, continued volatility of oil prices and currencies, and rising unemployment shroud current outlook.
- Relatively strong regional economies coupling with favorable door to door travel time to regional hubs, and rise in seat capacity to destinations provide ability to attract volume markets.
- Seasonal trends creeping back into islands trading pattern require return of MICE market and more widespread segmentation along with geographic diversification.
- Hotel critical mass, brand concentration and continued growth in demand generators (marinas, golf, shopping, and tourist attractions) support recovery prospects.
- Tourism infrastructure investments announced back of AoT (Airports of Thailand) approval of construction for a new overseas terminal at Phuket International Airport. This will double handling capacity to 12.5 million passengers by 2013. Other recent announcements were a new four-lane bridge connecting the island to Phang Nga mainland, and a new airport road from the north to the bypass intersection near Phuket City.

### Tourist Arrivals at Phuket International Airport (2007-2009)



Source: C9 Hotelworks Market Research

### Thailand Travel & Tourism Gross Domestic Product



Source: World Travel & Tourism Council

## Risk Metrics

*H1N1 Virus*

*Political Instability*

*Thaksin Shinawatra*

*Global Economic Downturn*

*Oil Prices*

*Hotel Oversupply*

*China Meltdown*

*Currency*

*Terrorism*

▶ *2009 January to May tourist arrivals decline to 1.2 million*

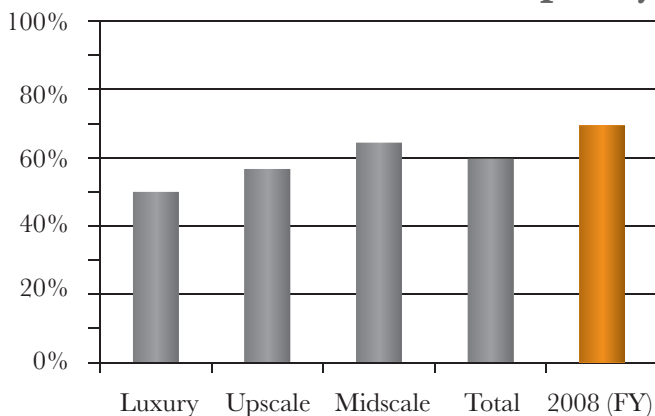
▶ *Tourism's contribution to GDP expected to rise from 14.7% in 2009 to 15.6% by 2019*

## Hotel Benchmark

- Hotels highly discount rates to attract occupancy, resulting in ADR (average room rate) volatility. Expectation for emphasis on rate strategy to continue market wide.
- Bali occupancy performance as destination surpasses Phuket back of visitor redirection after high profile Thai political events in late 2008/early 2009. Vietnam and Malaysia reap benefits.
- MICE market (meetings, incentives, conventions and exhibitions) evaporates with sustained economic crises and Phuket reverts to seasonal trading trend.
- Depreciation in currencies of countries such as Korea and Australia swings business into these markets; while appreciation of Thai Baht against major currencies restrains demand.
- New products at all tiers entering supply stream throughout the year impact fundamentals.
- Forecasting business trends becomes markedly challenging with media and external events influencing travel, shorter lead time in bookings together with rise in internet reservations.

## Hotel Performance by Tier (January-June 2009)

### Occupancy

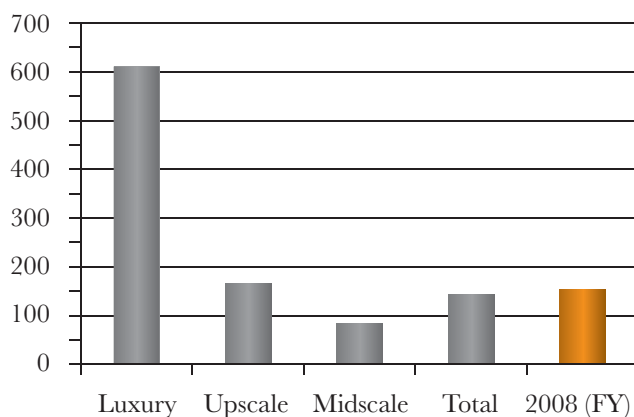


Source: C9 Hotelworks Market Research

*Luxury tier hit by long haul travel slump while rates hold*

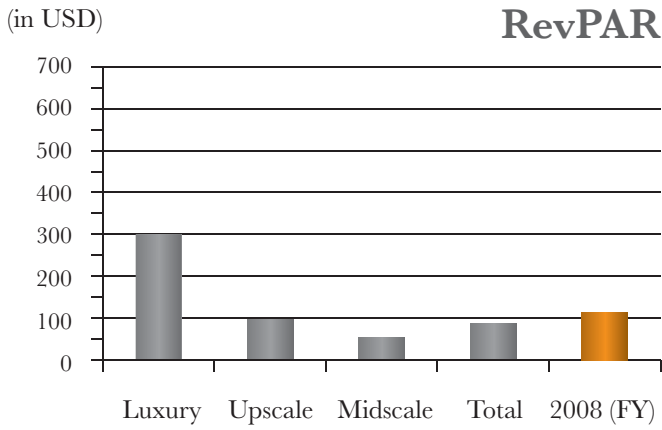
(in USD)

### ADR



Source: C9 Hotelworks Market Research

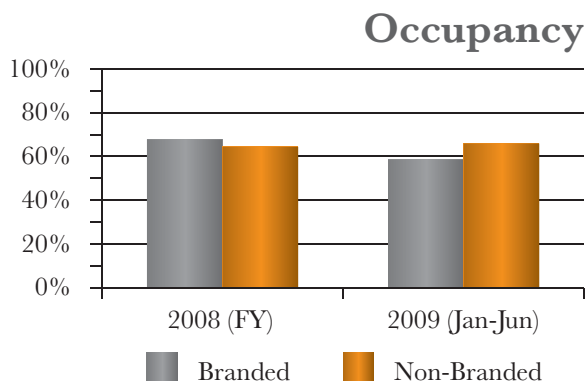
*Midscale rates hit as focus on occupancy*



Source: C9 Hotelworks Market Research

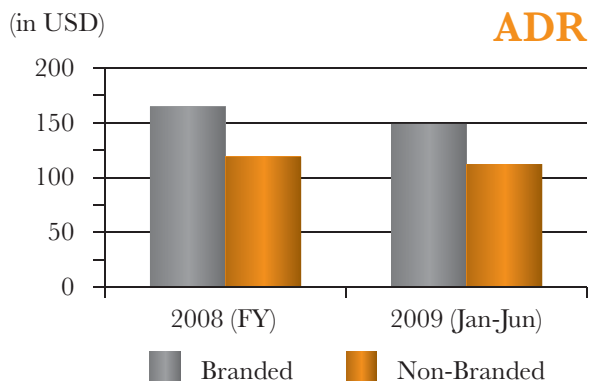
*RevPAR pressure on upscale and midscale hotels*

## Branded vs. Non-Branded Performance



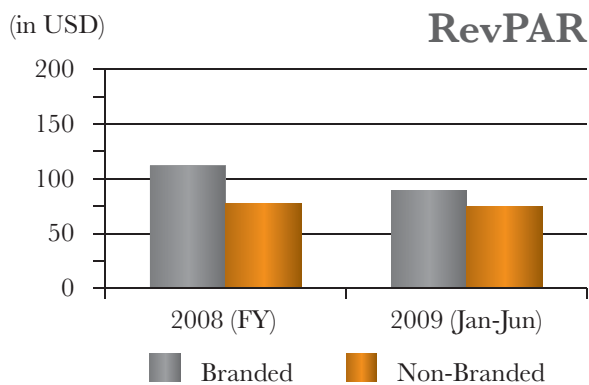
Source: C9 Hotelworks Market Research

*Non-branded midscale hotels use rate strategy to attract occupancy*



Source: C9 Hotelworks Market Research

*Branded hotels outperform the non-branded but smaller niche non-branded properties still defy trend*



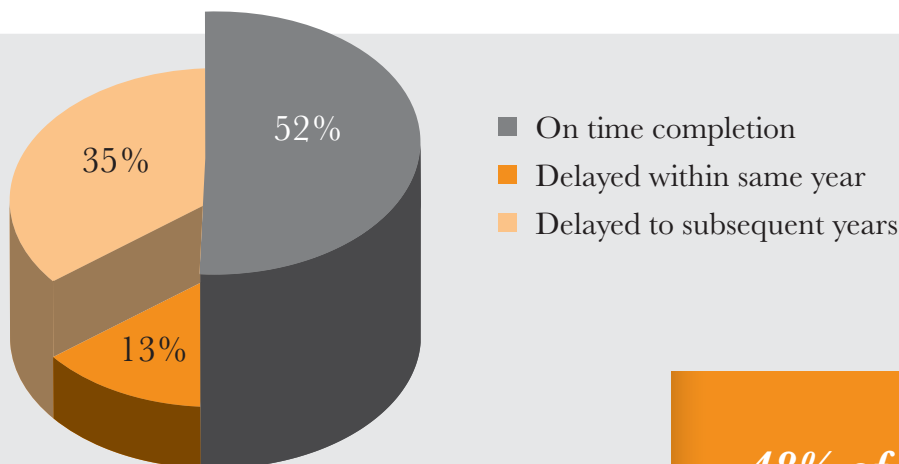
Source: C9 Hotelworks Market Research

*As long haul higher yield visitors decline, domestic/regional tourists key into rate sensitivity over brand loyalty*

## Development Insight

- Substantial number of projects now delayed or on hold have a relatively small amount of leveraging. Thus, as financial market becomes more accessible, materialization factor of pipeline is expected to remain largely intact.
- Thai investors have moved to the sidelines joining international institutions' concerns over political risk and unclear government stability. Debt and equity continue to remain at low volume.
- Increased target of 100% foreign ownership under BOI (Board of Investment) incentives by developers such as Jumeirah Private Island and Taj Exotica projects. Phang Nga to be severely limited in attracting larger growth due to restrictions constraining hotels to 79 keys.
- Residential pre-sales utilized as funding tool for hotel component of mixed use projects risk becoming obsolete operating model for developers given sustained property market decline.
- Going forward, greater pressure on transactions of existing completed or partially developed projects versus green field opportunities. Institutional buyers look to be replaced by Asia-based family conglomerates, private equity and high net worth individuals.
- With pipeline slowdown, mid-term equilibrium is set to enter into the supply and demand dynamic. Resulting absorption of new products into market in longer term will represent sound underlying fundamentals.

## Projects Delayed



Source: C9 Hotelworks Market Research

At the beginning of 2009, there were 37,884 hotel rooms in Phuket's registered tourism establishments. The new inventory will increase exiting supply by 17% and represent 6,455 rooms comprising 6,231 in the pipeline and 224 back of openings in first half 2009 at Cape Sienna and Outrigger Serenity. 2009 is set to see the largest surge in supply with 1,904 new rooms scheduled to open in the second half of the year.

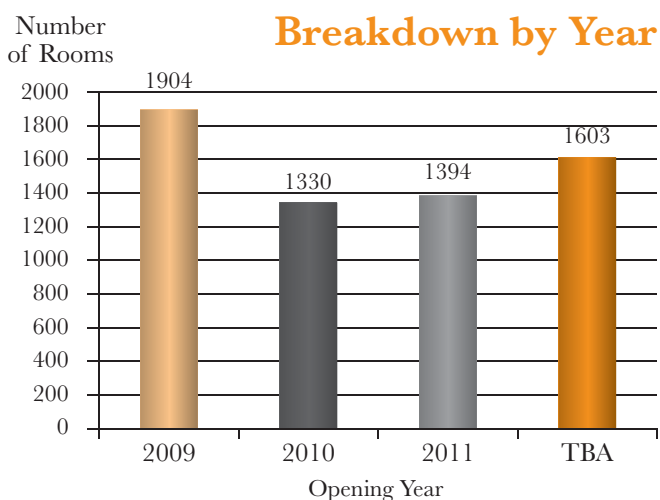
*48% of projects listed since C9 Hotelworks Year End 2008 Hotel Pipeline Update have incurred delays. Most developers have cited the political instability and global economic slowdown as contributing factors.*

# Hotel Openings

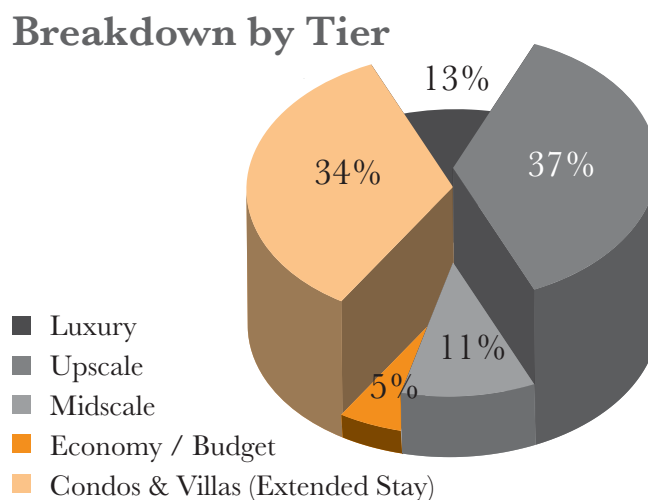
Hotel Name	Location	Rooms	Opening Date
Piraya Resort & Spa	Mai Khao	114	Jan 2010
West Sands Phuket	Mai Khao	84	Nov 2009*
Renaissance Resort and Spa Phuket	Mai Khao	150	Q1 2010
Holiday Inn Phuket Mai Khao Beach Resort	Mai Khao	266	Q3 2011
Mai Khao Dream	Mai Khao	54	TBA
West Sands Outrigger Resort Phuket	Mai Khao	433	TBA
Hyatt Regency Phuket Resort and Spa	Nai Yang	151	TBA
Outrigger Laguna Phuket Resort and Villas	Bangtao	309	Q4 2009 / 2011**
The Palm Beach Club	Bangtao	46	2010
Angsana Phuket Resort and Spa	Bangtao	134	TBA
Shangri-La's Phuket Resort and Spa	Bangtao	315	TBA
Paresa	Kamala	49	Aug 2009
Sunwing Resort - Kamala Beach	Kamala	289	Sep 2009
Phuket Marriott Resort and Spa at Kamala Cove	Kamala	202	Q3 2009
Andara Resort and Residences	Kamala	37	Dec 2009
Novotel Phuket Kamala Bay	Kamala	172	Q1 2011
Absolute Nakalay Beach Resort	Nakalay	33	Sep 2009
IndoChine Resort & Villas	Kalim	123	Oct 2009
Wyndham Vacation Resort Pantipa Phuket	Kalim	133	Q1 2010
Langham Place Miora Resort and Spa	Kalim	78	2010
Absolute Bangla Suites	Patong	47	Sep 2009
B-Lay Tong Hotel	Patong	125	Oct 2009
Best Western Sawaddi Patong Hotel	Patong	136	Oct 2009
Absolute Sansabai Resort and Spa	Patong	139	Oct 2010
yooPhuket	Kathu	256	2011
Ibis Phuket Kata	Kata	258	Dec 2009
Kata Rocks	Kata	34	Q4 2010
Le Bayburi Kata D'azure, Phuket	Kata	79	Nov 2011
Centara Grand Phuket Beach Resort	Karon	262	Q1 2010
Taj Exotica and Spa Resort Phuket	Koh Lone	79	2011
Radisson Plaza Resort Phuket Panwa Beach	Panwa Bay	211	Oct 2009
Regent Phuket Cape Panwa	Panwa Bay	106	Q3 2010
Four Points by Sheraton Phuket, Makhm Bay	Makhm Bay	232	Mar 2011
Westin Siray Bay Resort and Spa, Phuket	Koh Siray	268	Mar 2010
Baan Yamu Residences by Twinpalms	Cape Yamu	58	Q4 2009
The Yamu	Cape Yamu	91	Q4 2009
Jumeirah Private Island Resort	Koh Raet	83	Q4 2011
Luxury Resort (Branded Operator TBA)	Bo Dan, Phang Nga	79	Q4 2011

\* Nov 2009 (60 condos and 24 villas) and TBA (516 units)    \*\* Q4 2009 (161 units) and 2011 (148 units)

Source: C9 Hotelworks Market Research



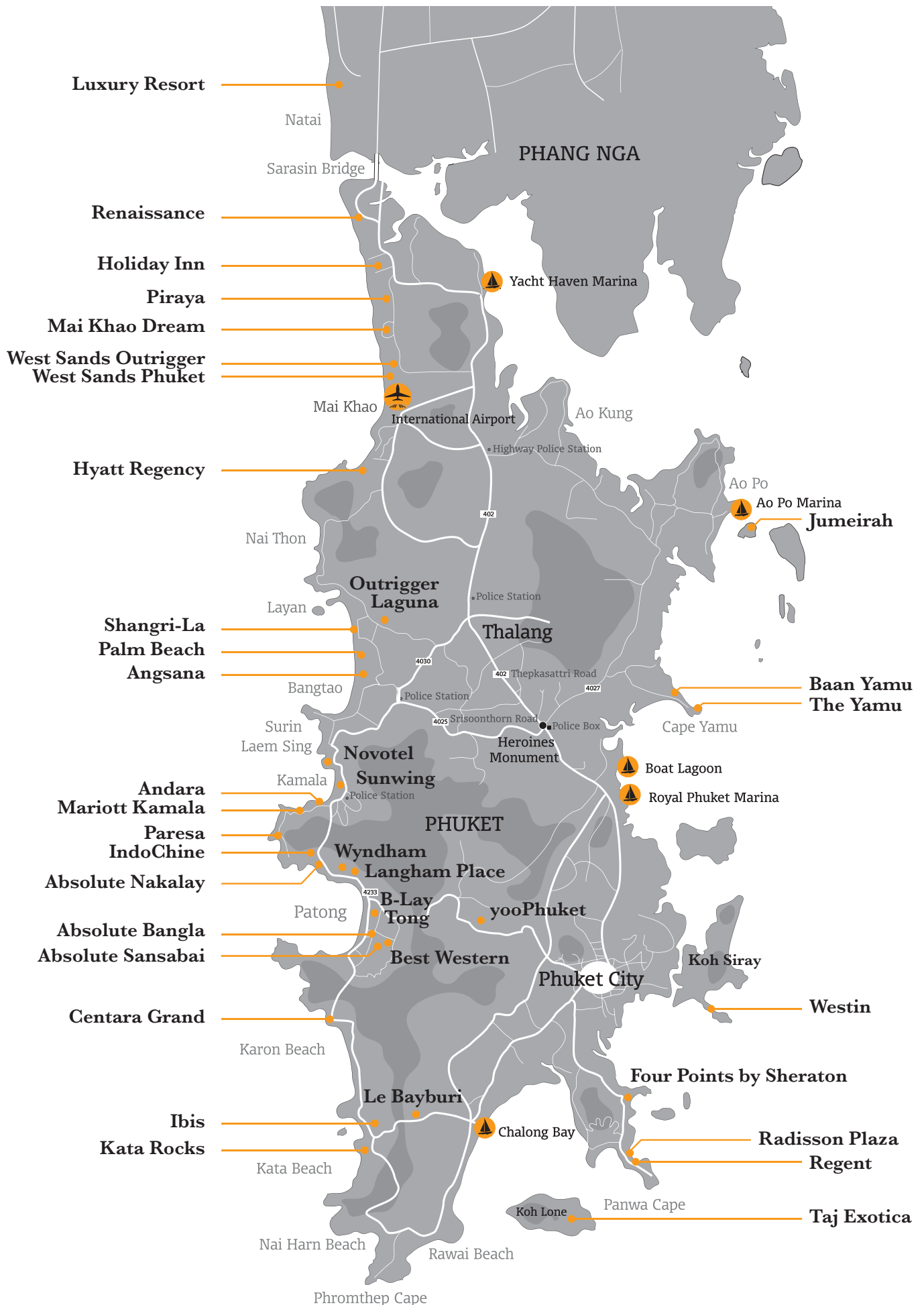
Source: C9 Hotelworks Market Research



Source: C9 Hotelworks Market Research



# 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. Their 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 their clients in achieving solid results. Based in Phuket, Thailand and led by Managing Director Bill Barnett, who has 23 years of experience in Asia Pacific, the firm is well situated to serve an increasingly demanding marketplace.



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