



asset management
& hospitality consulting

Phuket

Hotel Market Update

Mid-Year Edition August 2010

28% first half surge in Phuket visitor arrivals

Research indicates shift to gradual path of recovery

“Phuket hotels are back on track from the low point of last year. Passenger traffic through Phuket International Airport in H1 2010 surged 28% from a year ago, and 13% from the latter half of 2009 signaling a solid return in its tourism industry.

A significant sign of recovery can be seen in the improvement of hotel wide performance. Hoteliers saw higher occupancies rise from 61% in H1 2009 to 70% in the same period this year. This came at a cost resulting in a decrease in room rates by 9%.

Market dynamics are evolving with a game changing shift in tourist profile from a historical ‘Eurocentric’ dependence on long haul European visitors to short haul Asian travelers.

There might be blood as the hotel pipeline still shows development resilience and investment confidence with an additional 4,538 rooms or an 11% spike over the next four years. A concern on oversupply could be cushioned by induced demand and larger trading volumes come into play in the long term prospects.

The key storyline of infrastructure enhancements aimed at supporting a mass tourism model continues to create controversy about the future of Phuket 2.0.”

Bill Barnett, Managing Director C9 Hotelworks

2010 Mid Year

- Leading indicator airline passenger traffic continued to strengthen. Total visitor arrivals rose 28% from H1 2009 to 1.74 million, with international travelers rising 49% and domestic numbers up 13%.
- Market experienced a move upwards in hotel wide occupancy of 9% and RevPAR at 4% from the same period last year.
- Average room rates declined by 9% affected by luxury and budget/economy tier.
- U.K. visitors dropped due to the ongoing depreciation of the British pound impinging higher rate profile long haul segment.
- Number of suspended hotel projects decreased in excess of 50% indicating an easing in developer liquidity.

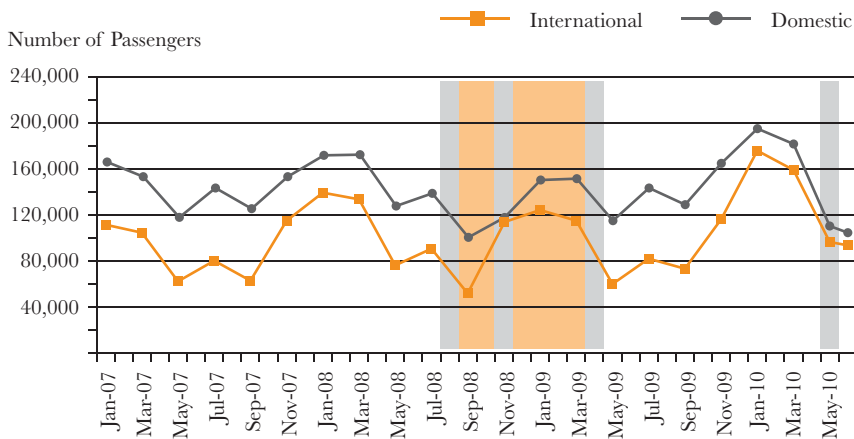
Forward Outlook

- Upward trend in room demand will gradually drive average daily rates and RevPAR higher.
- As east coast hotels reach critical mass, questions remain on market acceptance and resulting penetration.
- Forecasted robust growth from Asia and Eastern European visitors will create challenges to hotels with new pricing sensitivity, shift in location preference and demand generators.
- Currency devaluation of the euro and U.K. pound could prolong a move back to sustained growth.
- Increasing concern on supply and demand with new openings representing 33% of the development pipeline expected to enter the market supply within the second half 2010.

Airline Indicators

- First half of 2010 signaled a rebound of Phuket tourism with a growth of passengers by 28% vs. H1 2009 and 11% compared to H1 2008.
- A boost in direct flights from Asia and Australia contributed to a surge in the number of flights by 30% and 11% compared to first half of 2009 and 2008 respectively.
- The effect of political demonstrations in Bangkok hit passenger traffic through Phuket International Airport in Q2 2010 as evidenced by a 38% decrease from the previous quarter comparing to a 26% shortfall for the same period last year.
- Thailand's Airport Authority (AOT) expansion program of Phuket International Airport is underway with a start of construction activity by the end of this year announced. Scheduled to complete by 2013 the improvements will double annual airport capacity to 12.5 million passengers.
- AOT is soliciting bids for a jet terminal as part of its business development strategy. The proposed terminal is planned to be up and running in the next three years to serve demand from private charter jets and high net worth individuals.

Visitor Arrivals at Phuket International Airport



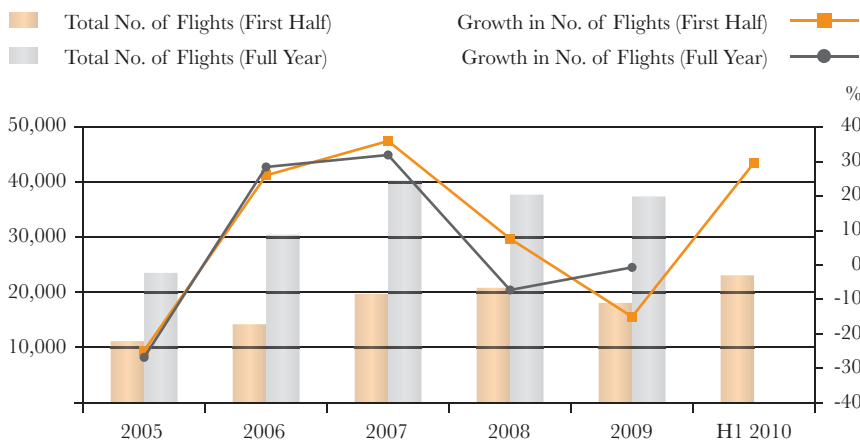
Source: Phuket International Airport and C9 Hotelworks Market Research

First half 2010 recorded a 1.74 million passengers or 28% rise vs. H1 2009

- Global Financial Crisis
- Political Related Events

Phuket airport closure (Aug-08)
 Bangkok airport closure (Nov-08)
 ASEAN Summit disruption (Apr-09)
 Bangkok red shirt protest (May-10)

Number of Flights at Phuket International Airport



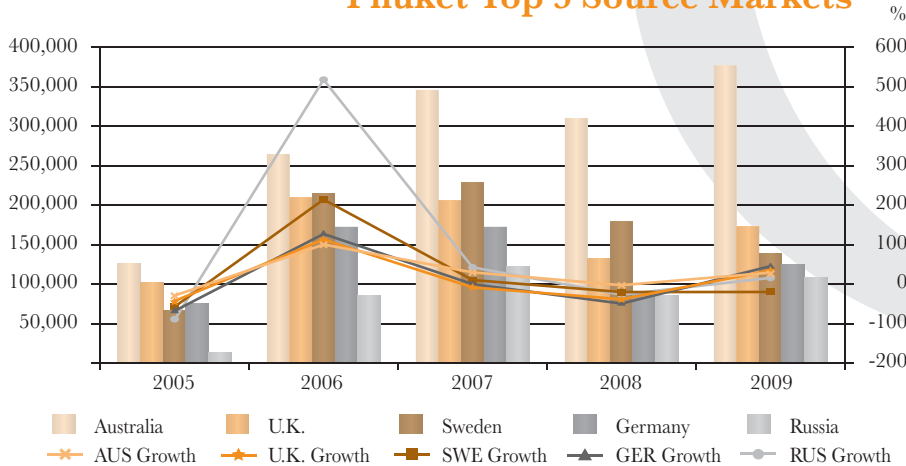
Source: Phuket International Airport and C9 Hotelworks Market Research

H1 2010 indicates a return in passenger traffic to pre-crisis numbers

Tourism Indicators

- Australian visitors have been the number one source market since 2005 with a compound annual growth rate (CAGR) of 31%.
- The global economic crisis in 2008 initiated a dramatic shift from the long haul European tourists to the short haul Asian and Middle East market, contributing to a transition in guest profile and needed adjustment of product offerings.
- Korean travelers declined due to political uncertainties and have been redirected to other Asian destinations.

Phuket Top 5 Source Markets



Russia is strongest growth market with CAGR of 66% over past 5 years

CAGR - Compound Annual Growth Rate

Top 5 Source Markets*

1. Sweden
2. Australia
3. Finland
4. Russia
5. Denmark

Top 5 Growth Markets*

1. Indonesia
2. China
3. India
4. Middle East
5. Australia

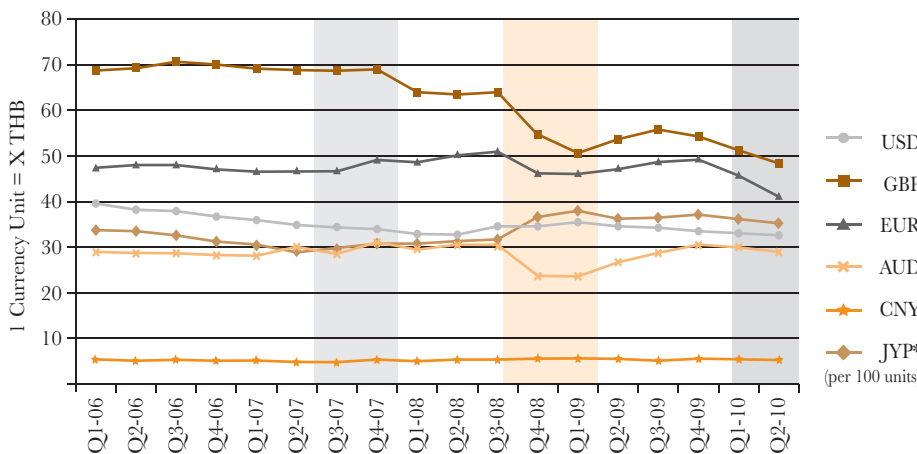
Top 5 Asian Markets*

1. China
2. Middle East
3. Japan
4. Malaysia
5. India

* First quarter 2010

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

Tracking Exchange Rate Fluctuation (2006 – 2010)



Source: Bank of Thailand and C9 Hotelworks Market Research

Sustained devaluation of U.K. pound has directly impacted shrinking British inbound market

U.S. Credit Crunch
Global Financial Crisis
Greece Debt Crisis

- U.S. and European currencies remain volatile and have contributed to a potential transformation in Phuket's guest profile towards greater reliance on Asian countries with growth economies.

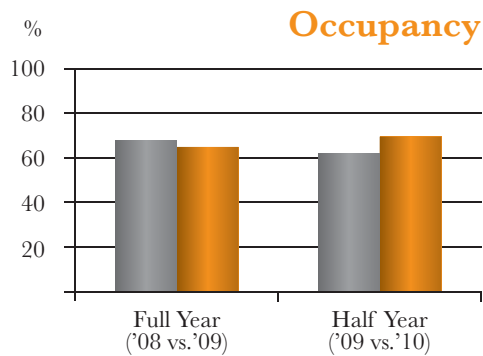
HOTEL MARKET

Hotel Benchmark

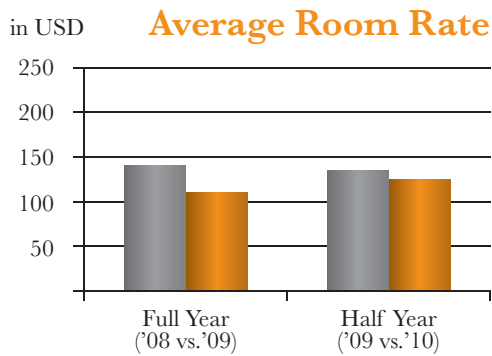
- Industry shows upward trading trend despite effect from external events. Occupancy was up 9% from H1 2009. Luxury tier underperformed as figures contracted across the board.
- Back of increasing competition for leisure travelers both within key Asian resort destinations such as Bali and the continued influx of a bludgeoning Phuket hotel pipeline have forced hotels to adopt aggressive pricing strategies. Overall average room rates dropped by 9% with a plunge in the budget and economy tier of 14%.
- Seasonal patterns continue to create a road block to key market drivers and establish a stable and sustained year round demand.

Hotel Performance

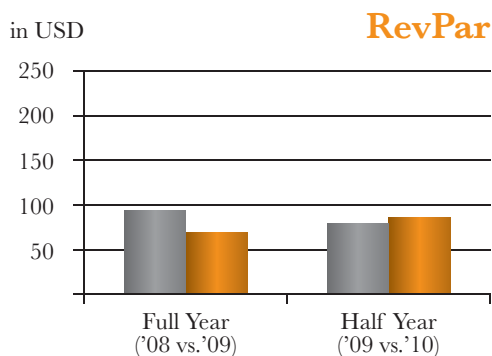
By Tier



Source: C9 Hotelworks Market Research



Source: C9 Hotelworks Market Research



Source: C9 Hotelworks Market Research

Change	
Luxury	▼ 5%
Upscale	▲ 9%
Midscale	▲ 9%
Budget & Economy	▲ 2%

Ongoing geographical shift in source markets pushed demand downward in chain scale tiers

Change	
Luxury	▼ 3%
Upscale	▲ 5%
Midscale	▲ 1%
Budget & Economy	▼ 14%

Average rates remain soft with flat short term growth drivers

Change	
Luxury	▼ 13%
Upscale	▲ 22%
Midscale	▲ 16%
Budget & Economy	▼ 12%

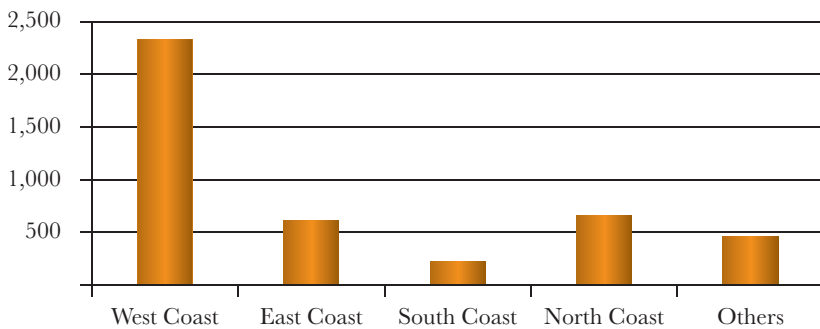
RevPAR increase of 4% flags a bottoming point has been reached with a protracted rate recovery forecasted

Development Insight

- The supply pipeline is anticipated to grow 3.2% in second half of 2010 and then accelerate to 4.1% in 2011. A softening of activity by 2012 will reduce growth to 2.5%. Almost half of the hotel pipeline are midscale hotels.
- The west coast of the island is dominating development activity, led by Patong beach with 1,407 keys representing 6 projects to open over the next three years.
- A volatile political and economic situation has caused a number of projects to delay their schedules. Four projects or 455 keys have suspended construction and one project accounting with 79 rooms has been discontinued.
- An ongoing slowdown in hotel construction schedules continues to be a key element in the foundation for recovery in operating performance of existing hotels. This effect is most pronounced in the luxury tier.
- A continued increase in hotel transaction activity and redevelopment of existing projects may cut into the new build project prospects.

Number of Rooms

By Location

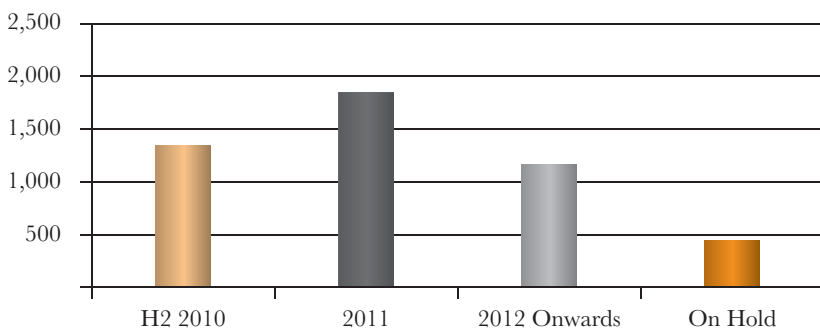


Source: C9 Hotelworks Market Research

38% of total rooms under development are in Patong

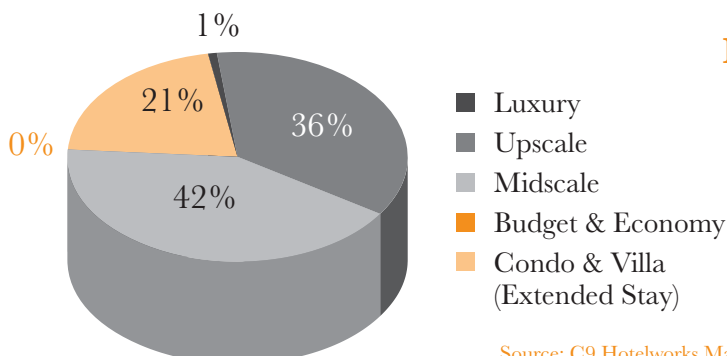
Number of Rooms

By Opening Year



Source: C9 Hotelworks Market Research

Total projects on hold retracted 60% vs. 2009 indicating increasing investor confidence



Source: C9 Hotelworks Market Research

By Tier

Lack of new budget & economy projects signals opportunities in tier

Hotel Openings

There were 43,036 rooms in Phuket's registered accommodation establishments at the beginning of 2010. The existing hotel supply in H1 2010 grew by 734 with more than 50% of these in the midscale tier. One-third of the development pipeline or 1,378 keys will enter the market by the end of 2010. The Phuket pipeline represents an 11% increase or 4,538 new rooms into total supply. Ten projects with 1,233 rooms will open in Phang Nga and Krabi through 2012.

Hotel Name	Location	Rooms	Opening Date
PHUKET			
Maikhao Dream Villa Resort & Spa, Mai Khao, Phuket	Mai Khao	22	Nov 2010
West Sands Phuket	Mai Khao	426	Q1 2011
Holiday Inn Phuket Mai Khao Beach Resort	Mai Khao	244	Q3 2011
Pullman Phuket Arcadia Naithon Beach	Nai Thon	281	Jul 2012
The Pavilions, Phuket (Expansion)	Layan	24	Nov 2010
PIA Mind Centre Boutique Hotel	Thalang	38	Nov 2010
PIA Sports and Leisure Club Lifestyle Hotel	Thalang	77	Nov 2011
Novotel Phuket Kamala Bay	Kamala	172	Q4 2011
U Kamala Phuket	Kamala	70	Q4 2012
Wyndham Resort Phuket	Kalim	133	Dec 2010
The Kalima Resort and Spa	Kalim	168	2012
Centra Otong Resort Patong	Patong	108	Nov 2010
Absolute Sansabai Resort and Spa	Patong	104	Dec 2010
Absolute Twin Sands Spa and Resort	Patong	96	Q3 2011
Novotel Phuket Dahlia Hotel	Patong	305	Q4 2011
Bay Cliff Hotel Patong	Patong	286	Q1 2012
Mercure Phuket Deevana	Patong	508	Q4 2014
4 Dreams	Phuket City	80	Q4 2011
yooPhuket	Kathu	256	Q4 2012
Centara Grand Beach Resort Phuket	Karon	262	Oct 2010
Kata Rocks	Kata	34	Q4 2011
Rawai Palm Beach Resort	Rawai	198	Nov 2011
Regent Phuket Cape Panwa	Cape Panwa	106	Q1 2011
Four Points by Sheraton Phuket, Panwa	Cape Panwa	200	Mar 2011
Westin Siray Bay Resort and Spa, Phuket	Koh Siray	261	Aug 2010
Maiton Island Resort	Koh Maiton	79	2013
PHANG NGA			
The Kantary Beach Hotel Villas and Suites Khao Lak	Khao Lak	152	Nov 2010
Ramada Resort Khao Lak (Expansion)	Khao Lak	32	Nov 2010
Casa de La Flora Khao Lak	Khao Lak	36	Q4 2010
Mai Khao Lak Beach Resort and Spa	Khao Lak	200	Q4 2011
Wanakarn Beach Resort and Spa	Natai	15	Nov 2010
Maikhao Dream Resort & Spa, Natai, Phang Nga	Natai	56	Oct 2010
Kameha Natai	Natai	79	2012
KRABI			
Mercure Krabi Ao Nang	Ao Nang	230	Q4 2011
Ibis Krabi Ao Nang	Ao Nang	200	2012
Centara Grand Lanta Island	Koh Lanta	233	2011

Source: C9 Hotelworks Market Research

Projects On Hold

As of June 2010, five projects with a total of 534 keys are postponed. Four of these projects are in Phuket and one in Phang Nga.

Hotel Name	Location	Rooms	Opening Date
PHUKET			
Phuket Marriott Resort and Spa at Kamala Cove	Kamala	202	TBA
Taj Exotica Spa and Resort Phuket	Koh Lone	79	TBA
The Yamu	Cape Yamu	102	TBA
Jumeirah Private Island Resort	Cape Yamu	72	TBA
PHANG NGA			
Similan Beach, A Ritz-Carlton Reserve	Bo Dan	79	TBA

TBA – To Be Announced

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 25 years of experience in Asia Pacific, the firm is well situated to serve an increasingly demanding marketplace.



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