



asset management
& hospitality consulting

Phuket

Luxury Villa Market Update

Mid-Year Edition September 2009

“While demand is forecasted to be flat for the remainder of 2009 our outlook on Phuket’s luxury villa market is positive on a long term horizon, despite rolling back recovery prospects to 2011. Albeit a protracted term of political volatility key resort property demand generators such as hotel brand critical mass, international and domestic airlift capacity and growth in high end leisure facilities including yachting and golf continue to develop. Government investments into infrastructure projects, including a new international airport terminal which will double handling capacity and the islands road network expansion, are strong indicators. As the limited existing inventory continues to be absorbed, the knock on effect is that the segment will become increasingly attractive to larger institutional developers with greater financial capacity. The resulting maturation will potentially capture the ~~upswing and widen the~~ existing market base of potential buyers.”

Bill Barnett, Managing Director C9 Hotelworks

Property is by nature a cyclical business with the current market mirroring the effects of a larger global downturn. Phuket’s luxury villa market has continued to edge along from what was initially a developing market dominated by smaller private individuals and partnerships into a more traditional real estate model. Dynamics continue to favor ocean front or view locations, hotel managed units, and purchasers who have developed an affinity to the destination over many visits and placed a large emphasis on word of mouth or relationship with existing property owners.

2009 Mid Year

- Weak economic conditions and political uncertainty constrained broader resort grade property demand.
- Total luxury sales volume for H1 of THB3.5 billion representing 19 units.
- Market value of unsold luxury villa inventory of THB10 billion with 92 units for sale.
- Mixed use hotel managed projects experienced increased sales pace coupled with a premium price per square meter of 55% versus pure residential units.
- Construction costs rolled back to H1 2008 averages highlighted by steel cost reductions.

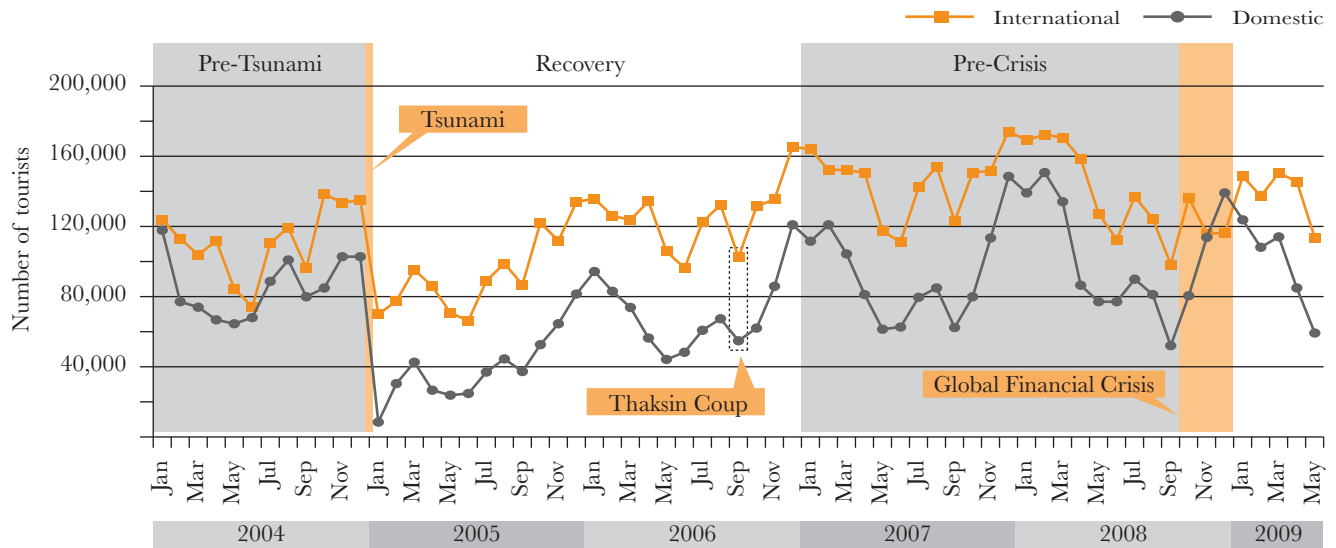
Forward Outlook

- Return to cyclical upturn by 2011 fueled by current market rationalizations and staggered mid term recovery of global financial markets.
- Supply/demand fundamentals gradually improving with continued absorption of stock and restrained new product launches.
- Lack of ocean front prime land a major barrier to entry, with tight equity and debt markets limiting smaller scale developers.
- Resale and high end fractional market growth with increased importance by purchasers on yield based returns and sophisticated villa management.
- Stabilization of gross margin’s, despite continued upward cost pressure on labor and commodities.

LEADING INDICATORS

Tourism Trend Analysis (2004-2009)

Tourist Arrivals at Phuket International Airport



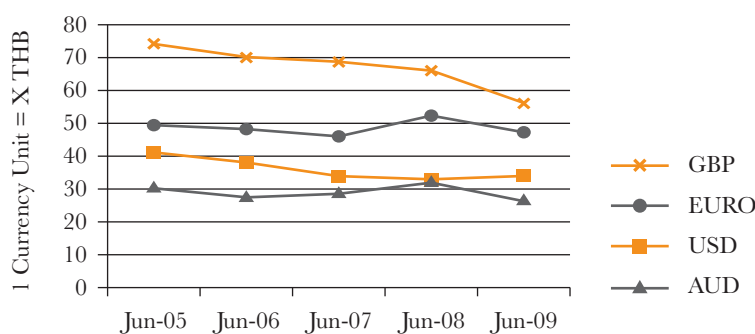
Source: C9 Hotelworks Market Research

Historical tourist patterns in what is normally a cyclical business have been increasingly erratic coupling external and internal events in Thailand, which account for spikes in visitor arrivals. Looking at the period of 2004 through mid year 2009 a more defined seasonal trading pattern has emerged, along with increases in domestic and regional travelers supplementing a declining long haul market. For residential real estate, Hong Kong and Singapore buyers still command a significant share of the transaction pool.

A flattening in the broader property market can be traced back to 2006 at a time when the political upheaval process and coup against then Prime Minister, Thaksin Shinawatra, took place. This coincided with the start of a large-scale currency depreciation of the British pound, which along with the U.S. dollar and Euro are the major home currencies of typical buyers. Following the U.S. Lehman's triggered financial crises, it was compounded by a series of high profile domestic political incidents and airport closures, which negatively portrayed the country on television screens and the internet worldwide.

Viewing the prospects of a return to political normalcy, the present Government of Prime Minister Abhisit Vejjajiva has restored a portion of confidence back into the financial markets, but this continues to be a developing story. Appreciation of the Thai baht continues to be viewed as a negative factor to stimulate property transactions, along with the absence of any firm initiatives to increase the term of leasehold property or allow direct foreign ownership.

Tracking Exchange Rate Fluctuation (2005-2009)



Source: C9 Hotelworks Market Research

Currency volatility is major property risk factor affecting sales

Luxury Villa Projects

C9 Hotelworks data and conclusions in this report are based on market research conducted on projects available for sale at the end of June 2009. Projects falling into the “Luxury Villa Market” are defined as those with prices of THB65 million and above with 15 developments falling into this segment. The list of projects and relevant index’s do not take into account developments which have been sold out, nor those which have not launched.

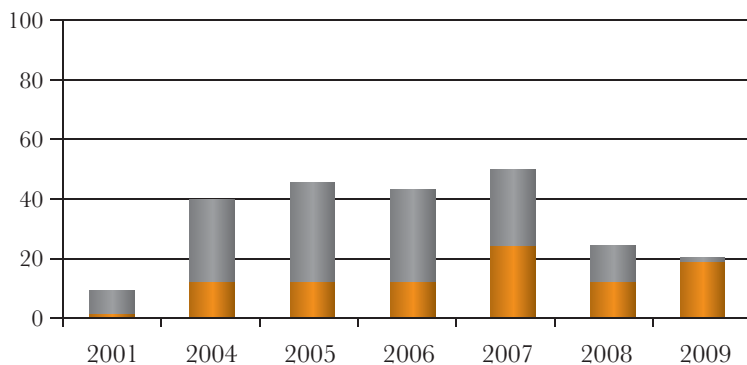
Project Name	Location	Total Units	Launch Period
West Sands Phuket	Mai Khao	2	2006
Malaiwana (Phase 1)	Nai Thon	19	2007
Istana	Nai Thon	19	2008
Trisara (Phase 3)	Nai Thon	19	2005
Banyan Tree (Phase 1 Double Pool Villas) (Phase 2 Double Pool Villas)	Bangtao	26 8	2005 2009
Saisawan	Bangtao	13	2007
Jomchang (Phase 1) (Phase 2)	Kamala	9 14	2001 2004
Djinnah Santi	Kalim	11	2006
The Hermitage	Kata	12	2009
Sri Panwa (Phase 1 Estate Villas)	Cape Panwa	19	2004
Tamarind Phuket (Phase 1)	Cape Panwa	7	2004
Royal Phuket Marina	Koh Kaew	6	2007
Baan Yamu (Phase 3 Executive Villas)	Cape Yamu	12	2007
Jumeirah Private Island Phuket	Ao Po	56	2006
Sava Natai	Phang Nga	5	2008

Source: C9 Hotelworks Market Research



Project Launched Period

No. of Villas

Supply vs. Inventory Ratio

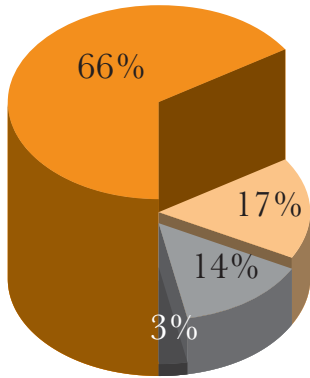


Source: C9 Hotelworks Market Research

 Total Units
 Units for Sale

Projects launched from 2008 onward have 50% or more unsold units

Location

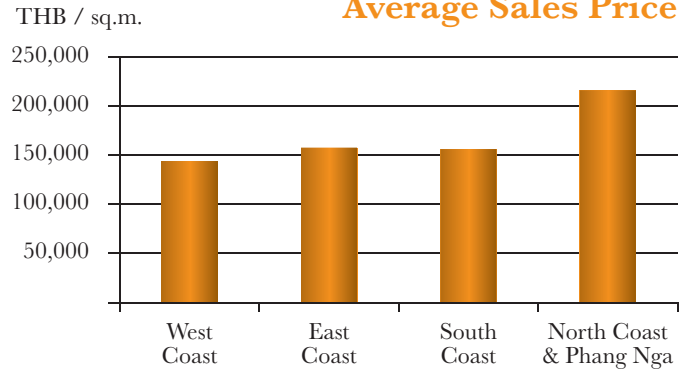


Inventory Mix

- West Coast (61 villas)
- East Coast (13 villas)
- South Coast (15 villas)
- North Coast & Phang Nga (3 villas)

Source: C9 Hotelworks Market Research

Average Sales Price

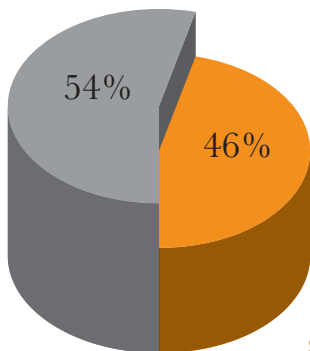


Source: C9 Hotelworks Market Research

Two-thirds of inventory along Phuket western shoreline

Beachfront locations drive sales prices higher

Hotel Managed vs. Residential Villas

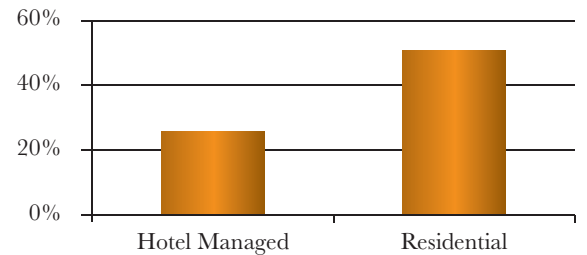


Inventory Mix

- Hotel Managed (42 villas)
- Residential (50 villas)

Source: C9 Hotelworks Market Research

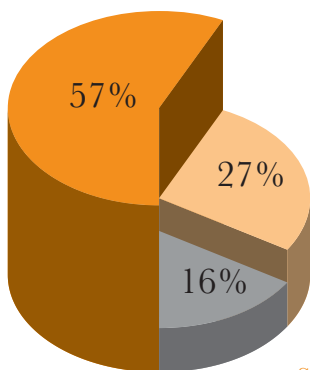
% of Unsold Units



Source: C9 Hotelworks Market Research

Slower market absorption for residential only units

Rental Program Options

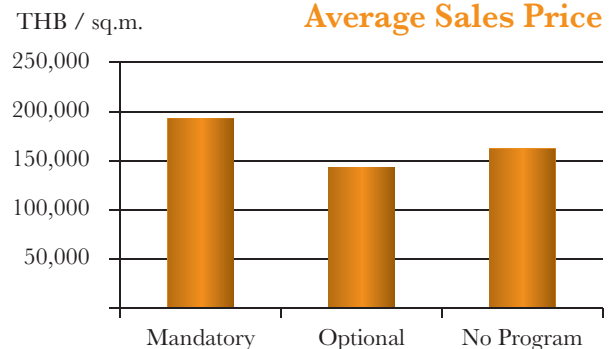


Inventory Mix

- Mandatory Rental Program with Guaranteed Return (15 villas)
- Optional Program Without Guarantee (52 villas)
- No Rental Program (25 villas)

Source: C9 Hotelworks Market Research

Average Sales Price

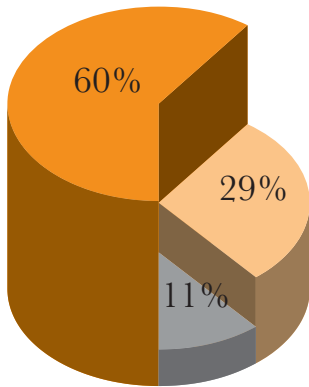


Source: C9 Hotelworks Market Research

Guaranteed yield with rental program spurs sales prices

DEMAND OVERVIEW

Transaction Type



Sales Mix 2009 (Jan-Jun)

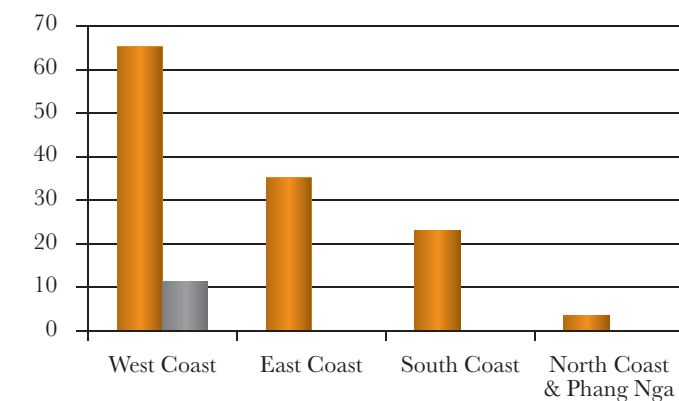
- Projects with Inventory (THB 2.1 billion)
- Sold-out Projects H1 2009 (THB 0.4 billion)
- Resale Units (THB 1 billion)

Source: C9 Hotelworks Market Research

Secondary market emerges with significant appetite for luxury segment

Location

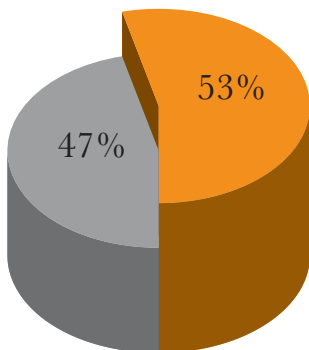
Sales of Projects with Inventory



Kamala, Bangtao and Nai Thon major demand catchment areas

Source: C9 Hotelworks Market Research

Hotel Managed vs. Residential Villas

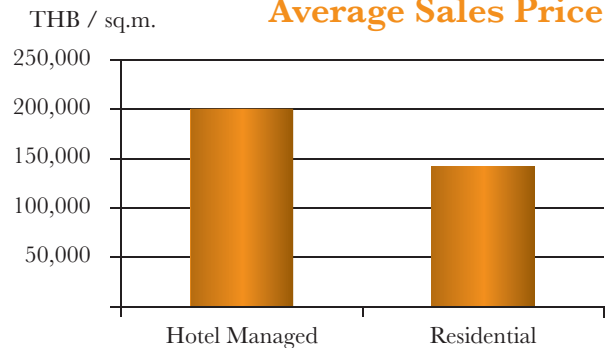


Sales Mix 2009 (Jan-Jun)

- Hotel Managed (9 villas)
- Residential (10 villas)

Source: C9 Hotelworks Market Research

Average Sales Price



Source: C9 Hotelworks Market Research

Repeat visitors represent majority of hotel unit buyers

Pricing premiums on mixed use hotel managed villas

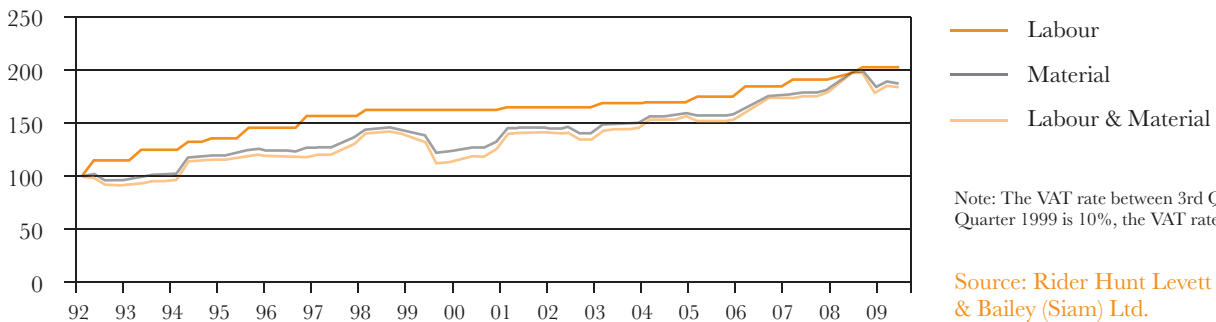
CONSTRUCTION COST TREND

During the recent property boom in Phuket construction costs together with development margins were volatile risk factors and subject to significant fluctuations. Steel prices increased in the ramp up to the Beijing Olympics and oil prices raised at a meteorical rate. While the 2008 economic downturn saw corrections in these price levels with declining demand, labor costs have continued to drive building costs up in Thailand.

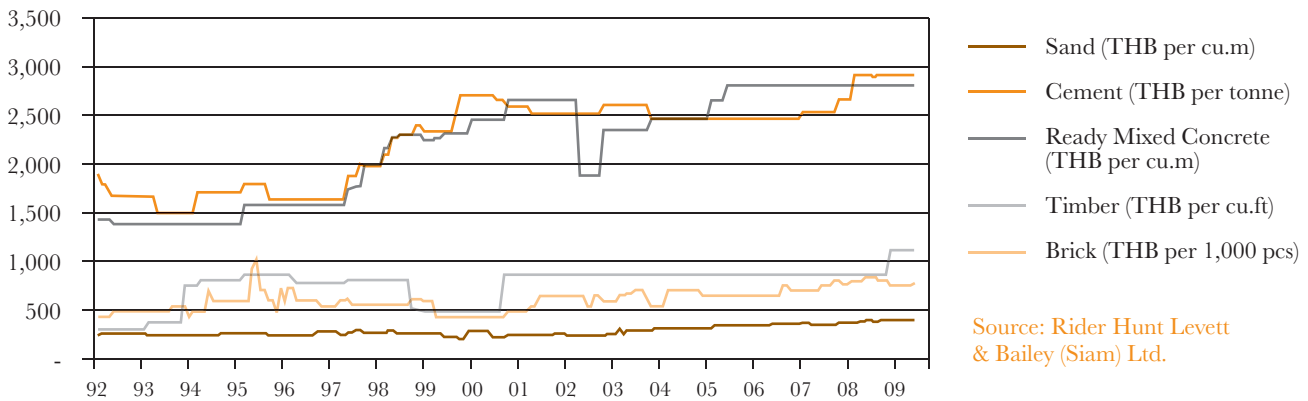
In the luxury villa market the standard band of construction costs per square meter varies widely depending on site location with many ocean front sites requiring extensive civil and structural works, custom finishes and extensive use of wood materials, and a variety of consultants involved based on the client demands.

Based on recent data of commodity costs from the Thai Ministry of Commerce, our survey of project managers on developments listed in this document and the quantity surveyor Ryder Hunt Levett & Baily mid-year forecast, the consensus is that construction costs will stay flat, rather than reduce for the remainder of the year despite lower volume.

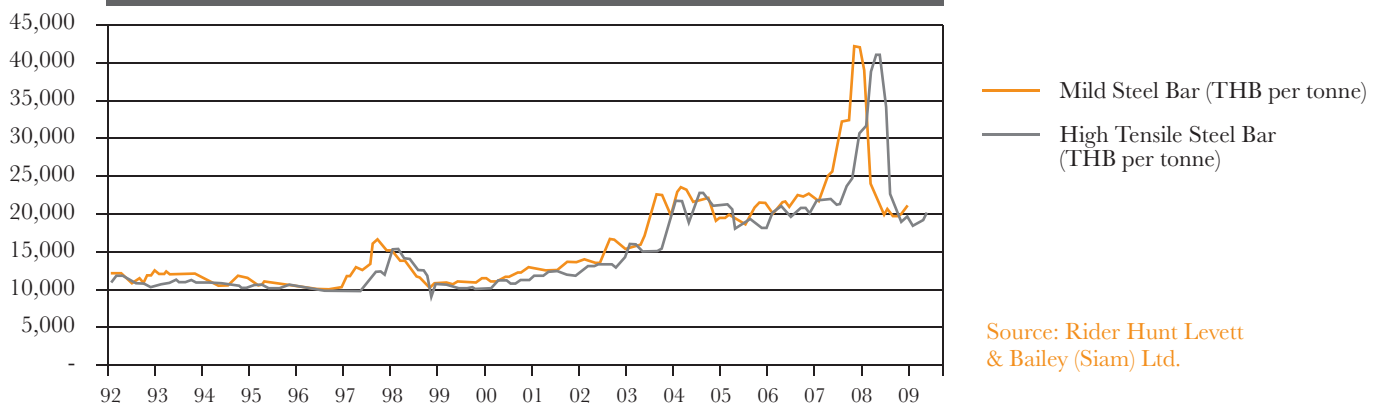
Labour & Material Cost Indices



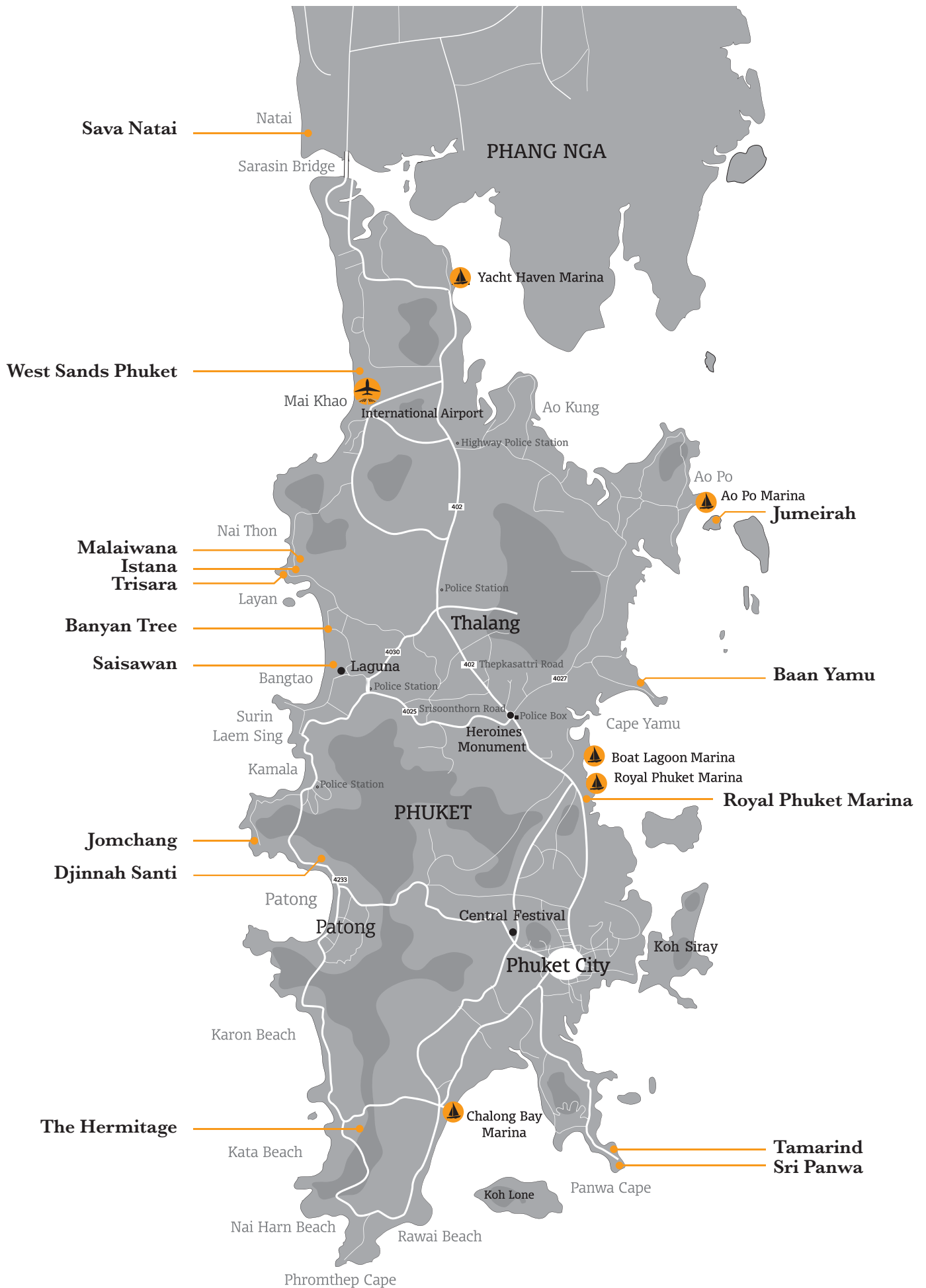
Material Cost Trends



Steel Cost Trends



Villa Property 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.



The Source for all Hotel and Real Estate News
www.thephuketinsider.com



asset management
& hospitality consulting

C9 Hotelworks Company Limited

9 Lagoon Road, Cherngtalay,
Thalang, Phuket, 83110, Thailand

(Office located at the entrance of Laguna Phuket)

T: +66 (0)76 271 535

F: +66 (0)76 271 536

www.c9hotelworks.com
info@c9hotelworks.com