



asset management  
& hospitality consulting

# Phuket

## Shared Ownership Market Report

October 2009

**“Shared ownership sales in Phuket represented over THB2 billion for the full year 2008. With a total customer base of 22,498, the developing industry while still in its early years is the sleeping giant of the islands property industry. Acting as a natural accompaniment to the destination’s tourism market which has moved well toward recovery through the 3rd quarter of 2009; the emergence of fractional ownership of properties and yachts is becoming a notable component of the real estate sector. Our expectation is for shared ownership to increase market share during the next 12-24 months.”**

*Bill Barnett, Managing Director C9 Hotelworks*

The vacation ownership, fractional and destination club segments fall into the larger market known as ‘shared ownership’. With the evolution of the traditional timeshare model into increasingly larger scale and more diverse offerings; global hotel brands and institutions have gravitated towards the sector. At a time of challenging economic conditions leisure travel remains vibrant in Asia, though visitors are increasingly cost conscious and consumer spending remains subdued. While the current landscape provides tremendous opportunities, there remains risk associated with any business model relying on transaction volume.

## 2009 Trend

- Vacation ownership sales volume of THB722 million, with fractional property revenue of THB112 million for first half of the year.
- Yacht fractional ownership transactions through August of THB37.5 million.
- Brand price premium of 62% by international organizations for point based and week based program sales.
- Total market size of 554 shared ownership units as of H1.
- Continued shift to point based programs with market share increased to 68% versus 32% for week based programs in core vacation ownership segment.

## Forward Outlook

- With consumer spending in decline greater emphasis on lower entry products, domestic buyers and financing options.
- As broader property market continue to remain flat, more developers and projects attracted to conversions, thus increasing supply pipeline.
- Resale market to develop which will test appreciation viability.
- Branded luxury and mixed use hotel managed projects to offer fractional options diversifying developers’ risk profile.
- Niche fractional products such as yachts, private aircraft and luxury autos rising.

# GLOSSARY

## Vacation Ownership

The concept of purchasing an increment of time or usage at a resort, condominium, or apartment, often with an option to exchange at different locations. Members can purchase accommodation periods in the form of weeks or points depending on the scheme. Membership prices vary according to interval, use plan, room type/size and location.

## Fractional Ownership

Ownership is sold in fractional shares of vacation units usually ranging from a 1/26 share for two weeks annual use to 1/4 share for three months annual use. Owners are entitled to capital appreciation over time.

## Vacation Ownership vs. Fractional Ownership

### Similarities

- Concept of shared versus whole ownership
- Flexibility of destinations with exchanges
- Right to share among family and friends
- The option to resell

### Differences

**Pricing:** Smaller unit size and shorter intervals for vacation ownership to attract broader volume at lower entry point versus longer periods of time for fractional ownership

**Capital Growth:** Rights over units of time in vacation ownership products against rights over shares in fractional assets, which share value potentially increases when property appreciation occurs

## Yacht Fractional Ownership

Mostly in form of shares; price is related to annual yacht usage. The general practice of a 5 year ownership period aligns with vessel life, and any residual value allocated amongst shareholders. Other expenses include annual maintenance, food & beverage expenses and fuel charges on a per trip basis.

## Destination Club

Follows a membership model but emphasizes the niche luxury segment. In exchange for one time upfront membership fee and annual dues, members gain access to a variety of luxury vacation units worldwide without usage limits. For asset-backed clubs properties are safeguarded by a trustee; therefore, insulated from business and financial risks.

## Exchange Organizations

### Resorts Condominium International (RCI)

Founded in 1974 as a pioneer of vacation exchange. RCI is the largest service provider with over 3 million members worldwide, who enjoy vacations at RCI's 3,700 plus affiliated resorts.

### Interval International (II)

Based in Miami and active in the global market for over 33 years with a network of 2,500 resorts in more than 75 countries. II has more than 2 million members around the world.

### Dial An Exchange (DAE)

Established in 1995 with headquarters in Australia and entering Thailand in July 2007. DAE has in excess of 0.25 million members globally, and its offerings include exchange service without joining fees and affiliation commitments. Open for members in other exchange programs.

### The Registry Collection

An RCI affiliate comprising more than 160 upscale properties in a global exchange of over 30,000 registered members. It provides lifestyle leisure services for members such as concierge, travel arrangements, event planning and personal shopping.

# INDUSTRY OVERVIEW

- Challenging market conditions prevail as a result of the global and regional economic downturn with large scale reductions in consumer spending for the foreseeable future.
- Phuket, Bangkok, Koh Samui, and Pattaya are top leisure destinations in Thailand. With Bali fully recovering, Vietnam, the Philippines and Malaysia are seeing positive resort growth.
- Property developers introduce fractional ownership programs to the real estate market to increase sale transactions as consumers become more cautious on purchasing a second/vacation home.
- Diversification of market with emerging fractional ownership, yachting and destination clubs.

## Growth Catalysts

- Vacation exchange flexibility
- Customized usage plans
- Value creation for underutilized real estate
- Expansion of regional low cost carriers
- Low development costs at developing resort destinations
- Branding penetration effect

## Risk Factors

- Global financial crises
- Restricted consumer financing
- Recurring political instability
- Lack of developed property laws regarding shared ownership business
- Poor market sentiment due to historical time-share litigation issues
- Price reductions of whole ownership projects

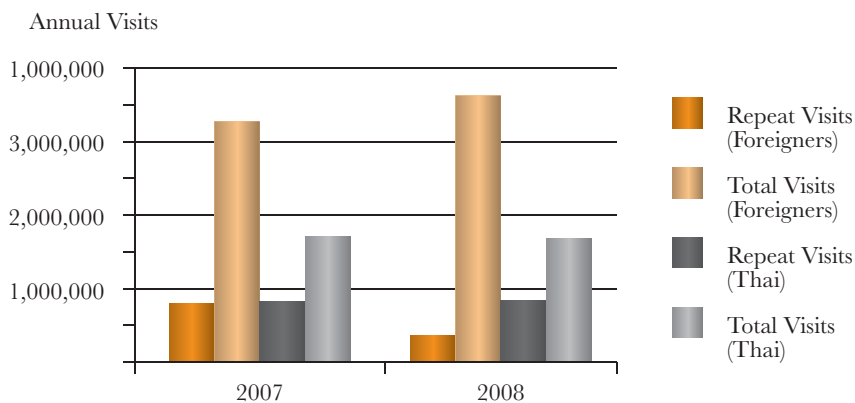
## Market Indicators

### High Net Worth Individuals (HNWI) Trading Down

In 2008, the world's HNWI population decreased by 14.9% to 8.6 million with 2.4 million in Asia Pacific. Top 5 countries with largest number of HNWIs are U.S., Japan, Germany, China, and UK. HNWI's wealth dropped 19.5% to USD 32.8 trillion, compared to 2007. Market volatilities posed a significant threat to this segment causing these consumers to be more cautious in spending. A market trait is emerging with demand for quality and flexibility in travel for these individuals who consider vacations essential, but are becoming more selective and price conscious.

Source: The Merrill Lynch - Capgemini World's Wealth Report 2009

### Phuket Visitor Arrivals



Source: C9 Hotelworks Market Research

*50% of Thai domestic visitors return to Phuket but represent less than 20% of shared ownership market*

# MARKET WATCH

## Transaction Volume (1997-June 2009)

	Units Sold
Vacation Ownership	22,410
Property Fractional Ownership	70
Yacht Fractional Ownership	18*
<b>Total</b>	<b>22,498</b>

\* Through August 2009

Source: C9 Hotelworks Market Research

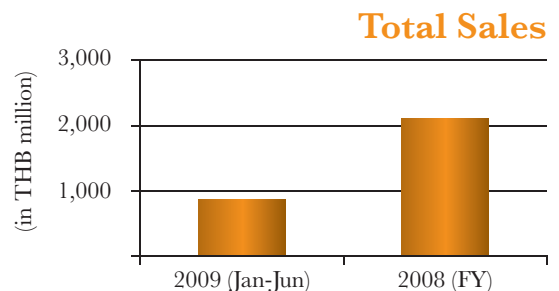
*Vacation ownership is core sector with yacht fractions entering in 2007 and property fractions in 2009*

## Recent Sales Performance\*

(in THB millions)	2009 (Jan-Jun)	2008 (FY)
Vacation Ownership	722	1,954
Property Fractional Ownership	112	-
Yacht Fractional Ownership	38**	94
<b>Total</b>	<b>872</b>	<b>2,048</b>

\*Excluding resale's \*\* August 2009

Source: C9 Hotelworks Market Research



Source: C9 Hotelworks Market Research

*Property fractional ownership sales in 2009 account for 13% of total sales; market share of vacation ownership reduced from 95% in 2008 to 83% this year*

## Existing Projects

Company	Properties	Location	Units	Launch	Exchange
<b>Vacation Ownership</b>					
Royal Resorts	Royal Lighthouse Villas	Boat Lagoon	6	1997	RCI and DAE
Laguna Holiday Club	LHC Phuket Resort	Bangtao	79	1998	RCI
	LHC @ Best Western Allamanda Laguna Phuket		33		
	LHC @ Sheraton Island Villas		5		Interval
	LHC @ Sheraton Private Pool Villas		4		
Quality Vacation Club	QVC Resort Patong Beach	Patong	18	2000	DAE
	QVC at The Andaman Beach Suite		6		RCI and DAE
Marriott Vacation Club International	Marriott's Phuket Beach Club	Mai Khao	114	2001	Interval
	Marriott's Mai Khao Beach		133		
Absolute Vacation Club	Absolute Nakalay Beach Resort	Nakalay	3	2003	DAE
	Absolute Bangla Suites	Patong	4		
	yooPhuket	Kathu	30		
Premier Property & Leisure	Club Lersuang	Bangtao	7	2007	DAE
<b>Fractional Ownership</b>					
Royal Phuket Marina Cruising Club	Sunseeker Portofino	Royal Phuket Marina	1	2007	None
Phuket Premier Yachting	M/Y Olympia (Twinpalms)	Ao Po	1	2008	None
Absolute Group	Absolute Nakalay Beach Resort	Nakalay	5	2008	Registry Collection
	Absolute Bangla Suites	Patong	7		
	yooPhuket	Kathu	100		

Source: C9 Hotelworks Market Research

# Who's Who?

## Absolute Group and Absolute Vacation Club (AVC)

Absolute Vacation Club started vacation membership in 2003; fractional ownership was introduced to its three Phuket properties in late 2008. Members can exchange within the Absolute Group free of charge regardless of destination, and also to other properties under a partnered vacation exchange network.

## Laguna Holiday Club (LHC)

Originated in 1998 as Allamanda Vacation Club and re-branded in 2004 to Laguna Holiday Club; a project of Thai listed Laguna Resorts and Hotels PCL., the owner and developer of Laguna Phuket. Members can access accommodation throughout Thailand and Bintan, Indonesia. Membership is based on combination of week based and flexible point system.

## Latour IndoChine

The hotel management company of IndoChine Resort & Villa, its first hotel venture after success with IndoChine restaurants globally. The group will be selling and managing a fractional ownership program for a select number of hotel units.

## Marriott Vacation Club International (MVCI)

Marriott's Phuket Beach Club is the Marriott chain's first club resort in Asia. Opened in 2001 and located at Mai Khao Beach in a resort complex integrated with J.W. Marriott Resort and Spa. Membership is sold on a point based system with user options of redeeming points for other Marriott accommodations under the Club Connections program, air fares, cruises and car rentals.

## Phuket Premier Yachting

Entering the market in 2008, the affiliate of Twinpalms Resort provides on-board services while the hotel can also use the M/Y Olympia yacht (Twinpalms One) for chartered services.

## Premier Property & Leisure (PPL)

The newest entrant opening in 2007, Premier Property & Leisure offers vacation ownership at designated apartment units at Club Lersuang. Members can also exchange to other properties under the DAE network.

## Quality Vacation Club (QVC)

Launched in 2000, Quality Vacation Club provides twenty four units at two properties in Patong for member vacations. Membership is sold under both week and point based systems and member service is managed by Hutchison & Co.. Members can also trade in for a wellness service (Q Life), newly launched in Bangkok.

## Royal Phuket Marina Cruising Club

Established in 2007 offering the first yacht fractional ownership program in Phuket, RPM Cruising Club relies on its marine business and offers shares in a Sunseeker Portofino yacht berthed at Royal Phuket Marina.

## Royal Resorts

The company is under the Royal Group and affiliated with Karma Resorts which specialize in luxury villa developments. It launched timeshare membership sales of six units branded Royal Lighthouse Villas at Boat Lagoon Resort and Marina in 1997, and completed sales in 1999.

## Tawan Cruising Club

Back of a successful series of upscale property developments the group formed a fractional ownership operation as an opportunity to expand its existing marine business. The club has an Azimut Evolution and plans to acquire a second smaller yacht in October 2009.

# Project Pipeline

Company	Properties	Location	Units	Launch	Exchange
<b>Vacation Ownership</b>					
West Sands Phuket Beach Club	West Sands Phuket	Mai Khao	TBA	Dec 2009	Interval
<b>Fractional Ownership</b>					
Tawan Cruises	Azimut Evolution	Ao Po	1	Aug 2009	None
Latour IndoChine	IndoChine Resort & Villas	Kalim	10	Aug 2009	None
Puravarna Hotels & Resorts	The Royal Phuket Yacht Club	Nai Harn	TBA	Oct 2009	TBA
	The Summer Palace	Nai Harn	TBA		

Source: C9 Hotelworks Market Research

## Legal Considerations

According to Desmond Hughes, Partner at leading legal firm Limcharoen, Hughes and Glanville who is active in the sector, the Phuket property market continues to grow in sophistication but in the context of benchmarking he has highlighted significant best practices:

### Vacation Ownership

- Different systems can apply such as ‘point based system’, but legally the locations and time periods plus usage restrictions should be made clear.
- Resale's are legally permitted, but assignment provisions and other restrictions should be vetted.
- Exchange programs can facilitate wider choice of vacations, accredited exchange organizations give more credibility to a vacation ownership scheme.
- Representation of pre-paid benefits and additional items requiring expense of the vacations points; a purchaser must be clear that these are in line with consumer protection laws.

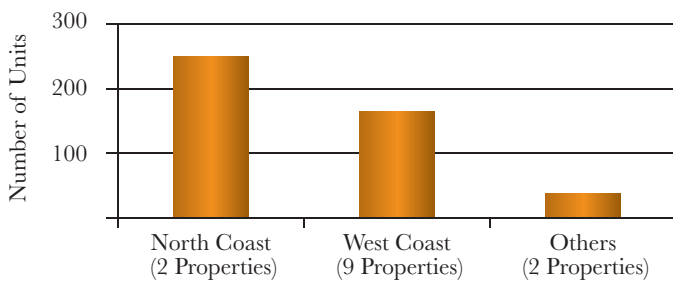
### Fractional Ownership

- Land assets should be properly structured in local legally verified protected corporate structures.
- Land asset and corporate structures are best directly linked to bespoke foreign entities set up to accommodate ‘fractionals’.
- Local contractual obligations tie land and building assets for the use of the fractional system, and typically a lease to the fractional company.
- Condominiums and resort structures require regulatory license's and consents to be in place.
- Consumer protection laws apply, so representation of use and facilities should be pre-planned.
- Legal interest or shares can be sold freely, but as in all managed products, incoming owners must abide by the rules and regulations applicable.

# VACATION OWNERSHIP

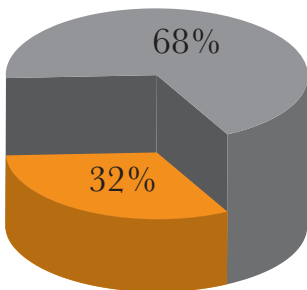
- Vacation clubs encompassing point and week based programs are increasing in popularity versus traditional timeshare. A key benefit is that members can access all club properties and in some cases hotels under the same branded group based on availability.
- In Phuket Marriott was the first large institution to use a point based system. Other organizations have adopted the point concept in parallel to a week system or either of the two schemes.
- Foreigners represent majority of outstanding members. Thai nationals account for only 20% of the market and most often gravitate to local/regional clubs, which offer shorter membership durations and lower price points.
- Vacation exchange partnerships have increased member benefits. Programs utilize RCI, Interval, or DAE with per visit exchange fee at THB4,220 and THB7,145 on average for destinations within and outside Asia respectively.
- Additional benefits include membership repurchase program and member perks such as point based reward programs, and privilege card use for hotel amenities and services.

## Supply Breakdown by Location



Source: C9 Hotelworks Market Research

*Critical mass of units located in Bangtao and Mai Khao areas*



## Point Based vs. Week Based

- Week Based (7,138 members)
- Point Base (15,272 members)

Source: C9 Hotelworks Market Research

*Point based programs account for one-third of market; reflecting shift from traditional weekly offerings*

## Solving the Puzzle: Points vs. Weekly Systems

### Points

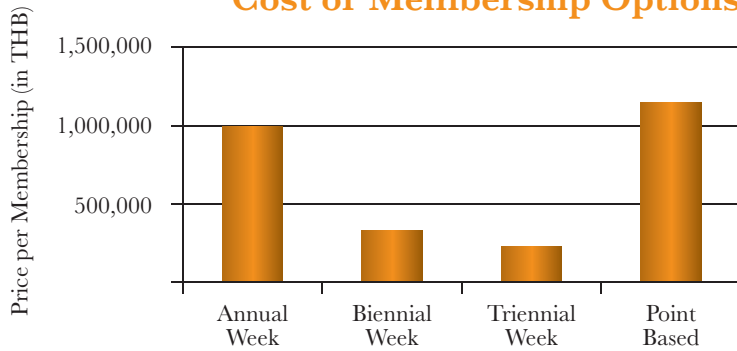
- Flexible length of stay, season, unit type, and destination to match member needs.
- Point exchange on partner businesses such as hotels, airlines, car rentals and cruises.
- Fair point consumption basis a concern as membership price continually increases.
- Costly to operate, therefore suitable for organizations with a wide range of products in multiple locations. Complicated to explain to potential purchasers.

### Weeks

- Booking priority for week members, especially those owning fixed peak week.
- Ability to book properties under exchange network further in advance than point members are able to.
- Recurring holiday at the same destination and season unless members exchange to another resort with surcharges.
- Usage in weekly increments. Some splitting or banking weeks allowed with restrictions.

## Pricing Analysis

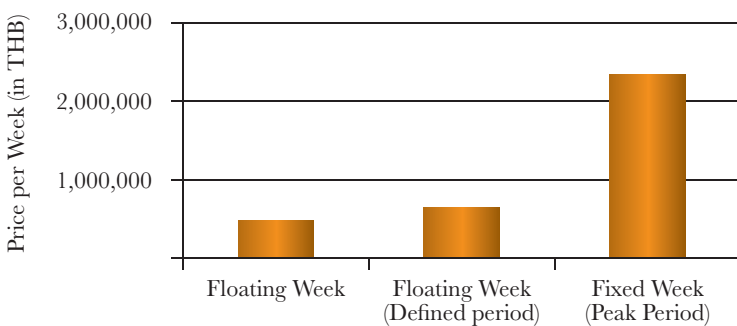
### Cost of Membership Options



Source: C9 Hotelworks Market Research

*Greater use and exchange flexibility for point based programs*

### Week Based Membership Plan

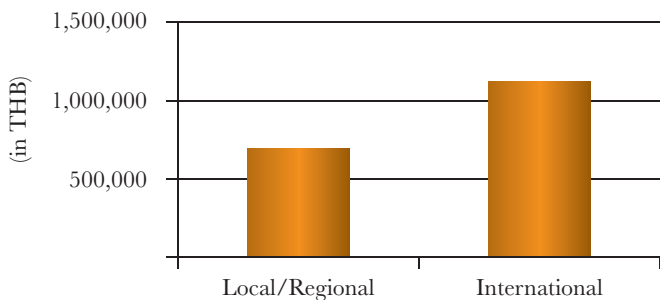


Source: C9 Hotelworks Market Research

*Peak period plans including Christmas and New Year create nearly 300% price premium*

## Branding Effect

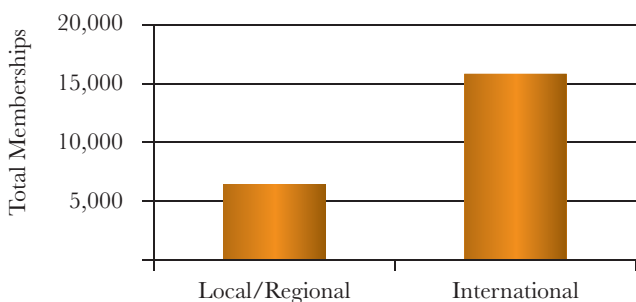
### Average Price per Membership



Source: C9 Hotelworks Market Research

*62% price premium for international vs. local/regional brands*

### Transaction Volume



Source: C9 Hotelworks Market Research

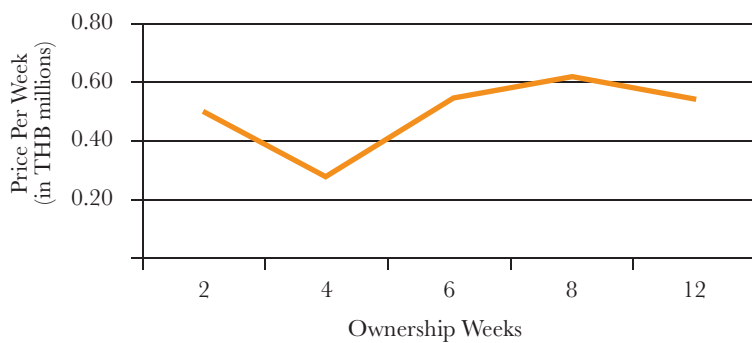
*International brands attract greater volume by 147%*



# PROPERTY FRACTIONAL OWNERSHIP

- Owners choose from a wide range of products and price points: fractional shares from 1/26 share (2 week ownership per year) to 1/4 share (12 week ownership per year), unit types from studio to 4 bedroom, and prices from THB 1 to 8 million.
- This sector in Phuket emerged at the beginning of 2009 with a limited number of projects located in Patong and vicinity.
- Sales have been 100% non Thai nationals with major source markets being Australia, South Africa, UK and Malaysia.
- Rental pooling during non usage periods is often added to attract investment yields. A growing number of developers use branded hotel management for their inventory or partner with high-end vacation home exchange firms such as Registry Collection.
- Most purchases are done on a leasehold and share basis rather than deeded property. As foreign buyers cannot own land, there is a need to enter a 30-year lease agreement with 2 renewable options of 30 years each within the holding structure.

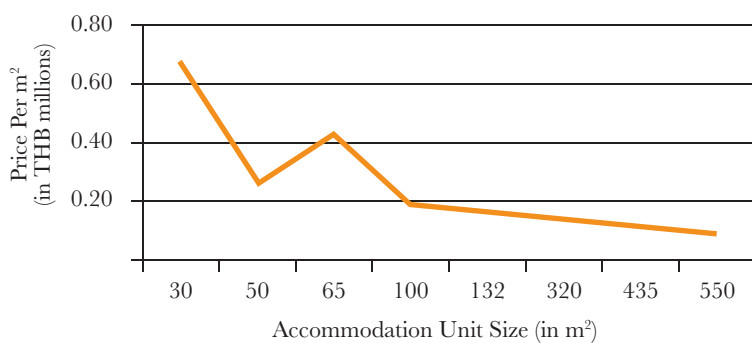
## Price and Period Relationship



Source: C9 Hotelworks Market Research

*No significant influence on length of ownership to price*

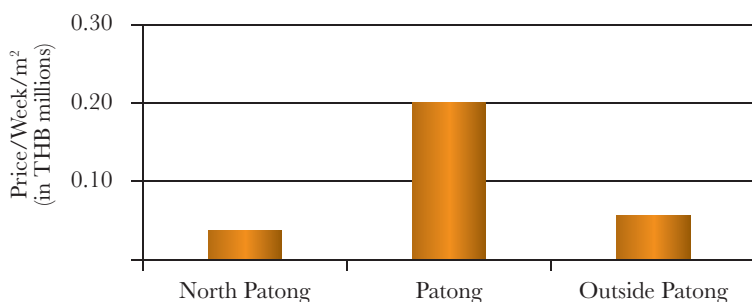
## Price and Unit Size Relationship



Source: C9 Hotelworks Market Research

*As unit size increases, pricing point per square meter decreases*

## Pricing by Location



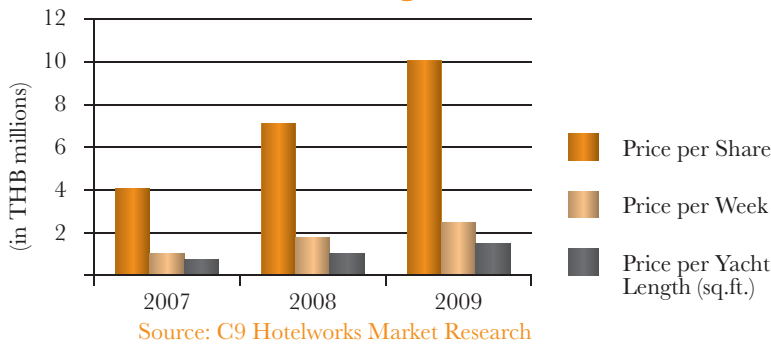
Source: C9 Hotelworks Market Research

*Most existing products are located in Patong area*

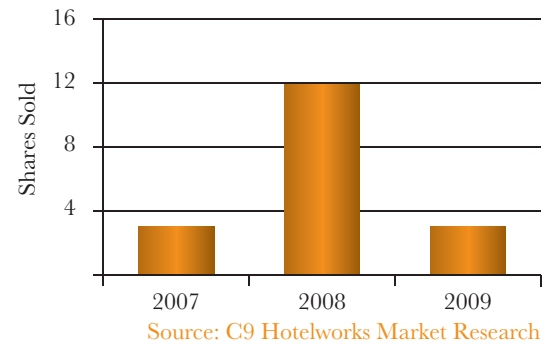
# YACHT FRACTIONAL OWNERSHIP

- In the Phuket market ownership is divided into 10 fractional shares and each share represents 28 usage days. Booking restrictions are used to control owners' usage such as defining an advanced booking period and enforcing periodic usage within a year.
- Yachts are sold by local entities with complementary businesses i.e. hotel, property, or marina.
- To date there have been no domestic Thai transactions; more than 80% of buyer nationalities are British, French and Scandinavian. Over half of the buyers reside full or part time in Asia.
- A rental program is provided in the form of private charter during the remaining period after owner's entitlement days. Average daily revenue from the charter business ranges between THB150,000 to 200,000. The revenue is offset against owners' annual maintenance charges.
- Program expenses include maintenance deposit as a major item (including crew and administration costs), insurance payment, food & beverage expenses and fuel charges.

**Pricing Trend**



**Sales Volume**



*Pricing on growth trend, though slowing in 2009 due to market volatility*

*Diminished price increase and negative growth in sales volume*

## Other Models

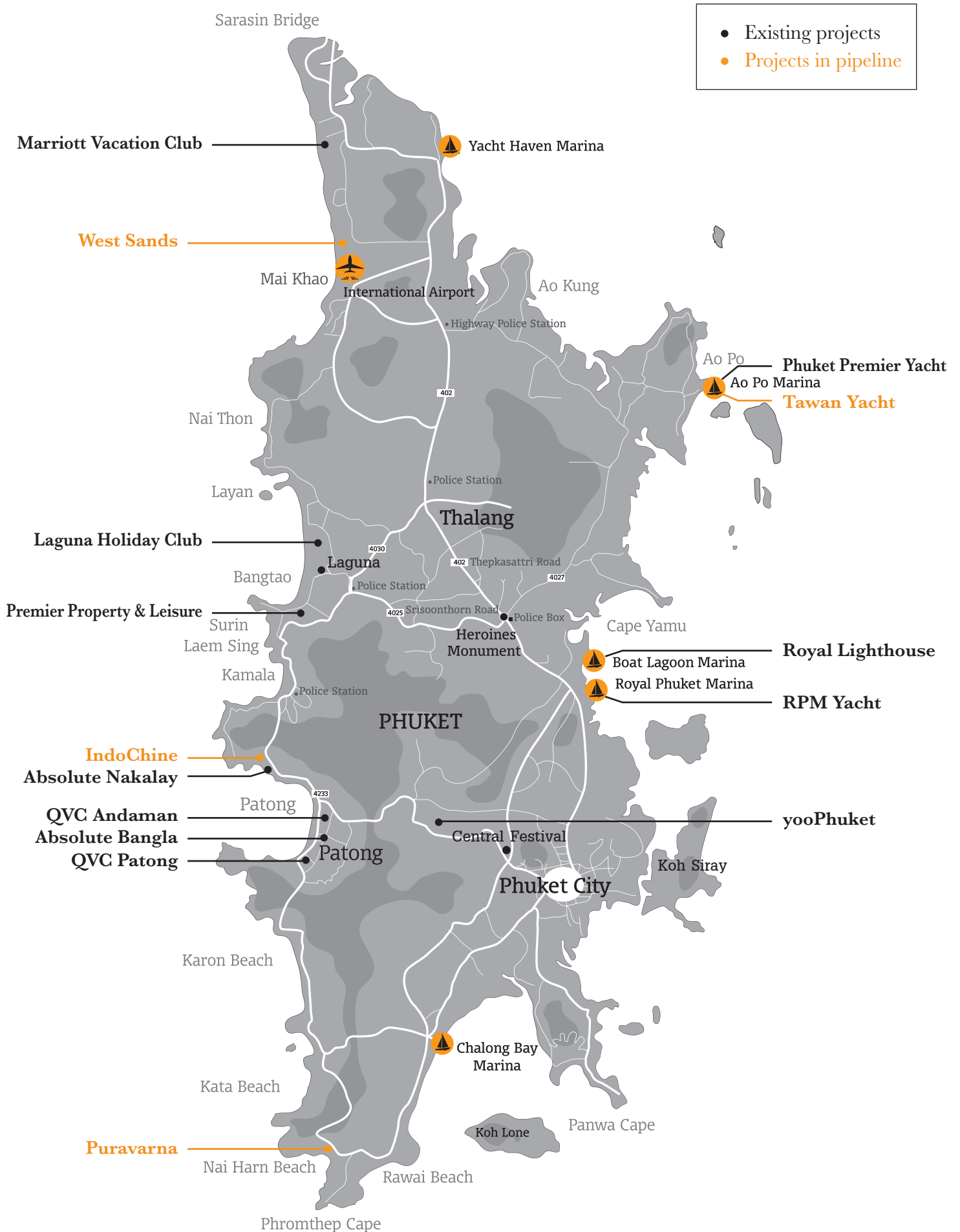
### Banyan Tree Private Collection (BTPC)

Asia's first asset backed destination club to offer transferable memberships in perpetuity. The program offering combines accommodation at Banyan Tree's top-end villas located in Asia Pacific, Europe and Central America with privileges on hotel amenities/services. Without usage limit and peak season surcharge, the membership to villa inventory ratio is limited to ensure sufficient villa availability. Sales are focused in Hong Kong and Singapore with Phuket as a destination choice.

### IFA Yacht Ownership Club (IFA YOC)

Luxury marine membership club with yachts located in the Mediterranean and Middle East. Phuket was recently added as a destination in the beginning of 2009, and IFA Phuket Maiora berthed in Yacht Haven Marina. Three types of memberships are credit based with floating days allocated to three fixed periods each year.

# 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.



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