



asset management
& hospitality consulting

Phuket

2009 Hotel Market Update

January 2010

Phuket hotels lose US\$300 million in rate plunge

Discounting by 20% in 2009 targeted occupancy

“Despite tourism arrivals bouncing back the Phuket hotel industry has suffered a blow to key metrics, revenue per available room (RevPAR) and average room rates (ADR). Wide scale discounting of 20% led to losses last year of approximately US\$300 million in room revenue.

The 2 P’s ‘pricing and pool villas’ represented key dynamic drivers of business. Operating profits were hit as hoteliers scrambled to induce demand and meet increasing consumer and industry pressure for

lower rates. Virtually every chain scale tier was affected with the exception found in the budget and economy level which experienced growth.

Our research points to a positive upward trend in 2010, pairing a growing critical mass of hotels and demand drivers to capitalize on the global upswing. More Asian airlift and increased spending power in feeder markets remains up-tempo. Hotel oversupply could undermine long term fundamentals if not addressed.

As Thailand continues to recover from the political driven events of late 2008 and early 2009, market confidence remains cautiously optimistic.”

Bill Barnett, Managing Director C9 Hotelworks

2009 Trends

- Annual visitor arrivals of 2.9 million back to 2007 level.
- Average room rates and RevPAR slumped by 20% and 22% vs. 2008. Hotel wide occupancy of 64%.
- Budget and economy tier defied downturn with positive growth in room revenue.
- Suspension of significant projects due to economic and political concerns shrank 19% of future hotel supply.
- Total Phuket pipeline of 31 properties during next 3 years with 4,600 rooms set to increase market by 12%.
- Luxury tier declines in rate and occupancy tracked global trend.

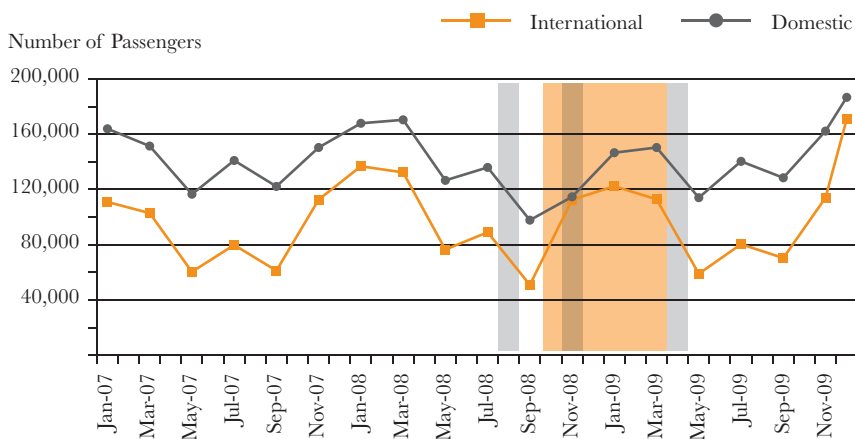
Forward Outlook

- Market equilibrium returns as visitor numbers rise, though offset by increases in new hotel supply coming online.
- Continued brand penetration and airlift growth create strong volume fundamentals.
- Heavy discounting trend continues back of consumer and wholesaler pressure, resulting in ongoing rate and RevPAR volatility.
- Delay in new luxury projects impacts growth potential vs. other regional destinations.
- Mass tourism model along with return to highly seasonal trading focuses aging upscale tier on costs against upgrading.
- Potential oversupply concern becomes reality in midscale and upscale tiers.

Tourism Indicators

- Growth of direct international flights and creation of Phuket as a regional low cost carrier hub with a rising new domestic network is a key stimulator for the all important airlift factor. However flight additions should be planned to match demand growth to prevent a backtrack to the 2007 oversupply which forced airlines to bear increasing costs by the Peak Oil Crisis in 2008.
- Infrastructure improvements continue with the new Convention and Exhibition Center in Mai Khao, and growing highway links to various parts of the island. The expansion of Phuket International Airport by 2013 will nearly double capacity from 6.5 million to 12.5 million passengers per year.
- Fast Asian recovery from the GFC (Global Financial Crisis) creates continued opportunities in volume regional arenas and the lucrative Mainland China, Indian and Russian markets. Meanwhile long haul visitor markets and the MICE segment appear heading for a much more gradual recovery.
- Continued political instability creates short to medium term concerns which look to continue through 2010. As booking trends are evolving into less predictable patterns and shorter lead time, and global, regional or domestic events can change travel patterns at increasingly shorter period normal business cycles look to continue to capitulate.

Visitor Arrivals at Phuket International Airport

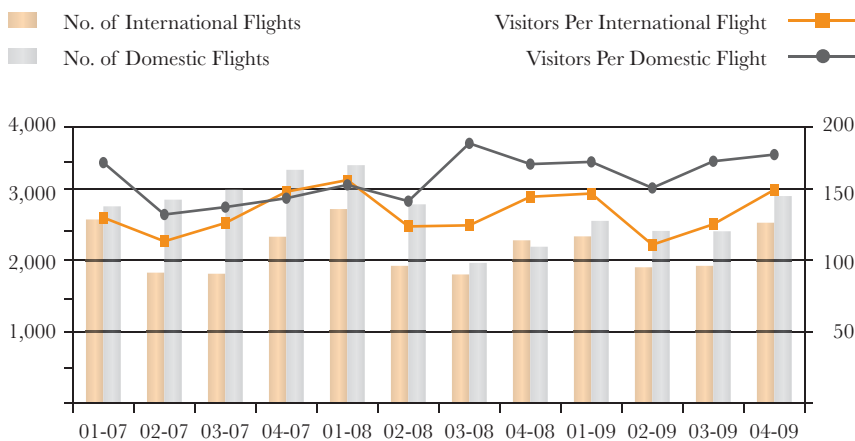


Source: AoT and C9 Hotelworks Market Research

Q4 2009 arrivals up 8% vs. 2007

- Global Financial Crisis
- Political Related Events
- Phuket airport closure (Aug-08)
- Bangkok airport closure (Nov-08)
- ASEAN Summit disruption (Apr-09)

Average Load for Inbound Flights to Phuket

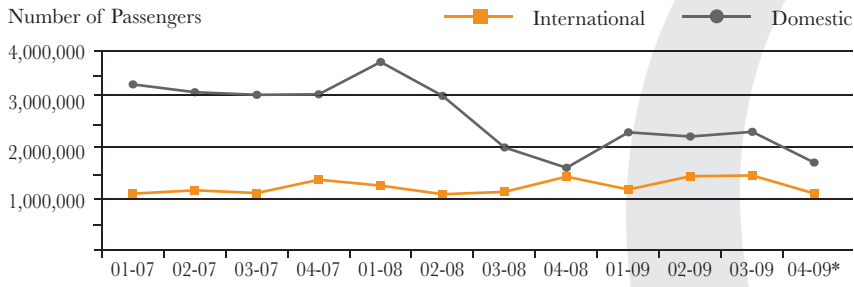


Source: AoT and C9 Hotelworks Market Research

Potential excess airlift situation as in 2007 should see market correction

Tracking Low Cost Carriers (LCC's)

Passenger Movement on Low Cost Carriers



* Through November 2009

Source: AoT and C9 Hotelworks Market Research

Direct regional traffic remains steady despite political and economic events

- Stable international passenger movements have shown sustained tourism demand from regional visitors back of perception of Phuket as a value destination and favorable door to door travel time.
- Marked 2008 downward trend in domestic flight demand following airport closure, ban of One-Two-Go Airlines in H2 2008 and H1N1 virus concern in Q3 2009.
- New flight additions, rate fencing and special fare promotions by full service Thai and Bangkok Airways in 2009 diverted demand from low cost carriers.

Resort Destination Case Study: Phuket vs. Bali

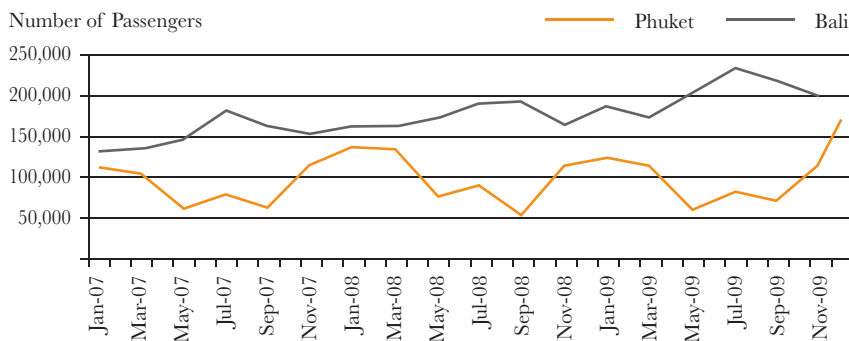
Bali hotel performance surpassed Phuket in 2008 after the recovery of the Australian market. Coupling a re-direct of tourists from Thailand back of political risk issues and less reliance on declining long haul visitors, the destination has outperformed Phuket over a two year period.

FAST FACT

Registered accommodation establishments for Phuket are 636 properties (37,884 rooms), compared to 1,715 (42,363 rooms) for Bali.

Source: BPS and Office of Tourism Development Thailand

International Visitor Arrivals by Air



* Bali through November 2009

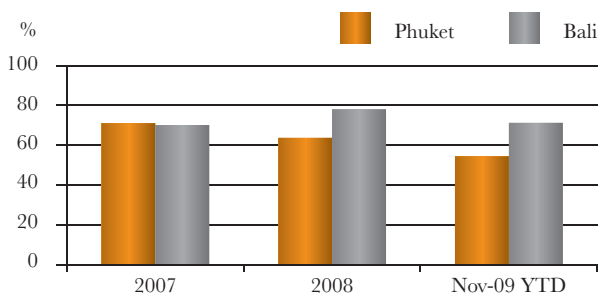
Source: BPS and Office of Tourism Development Thailand

Top 5 International Source Markets

	Phuket	Bali
1st	Australia	Australia
2nd	Sweden	Japan
3rd	UK	China
4th	Germany	Malaysia
5th	Russia	South Korea

Source: Bali Tourism Authority and Office of Tourism Development Thailand

Hotel Occupancy Comparison



Remark: Figures obtained from international class hotels

		Phuket	Bali
Change 09 vs. 07*	Occupancy	▼ 24.6%	▲ 0.6%
	ADR**	▼ 1.6%	▲ 27.7%
Change 09 vs. 08*	Occupancy	▼ 16.0%	▼ 9.5%
	ADR**	▼ 15.5%	▲ 14.2%

*11 month comparison **Based on local currency

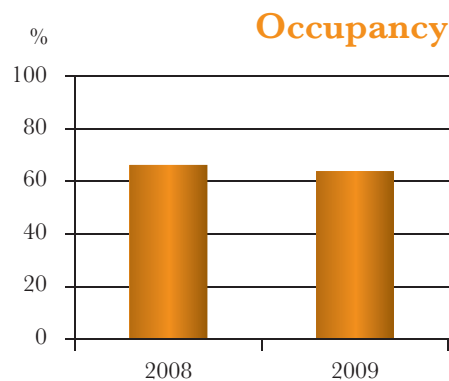
Source: STR Global and C9 Hotelworks Market Research

HOTEL MARKET

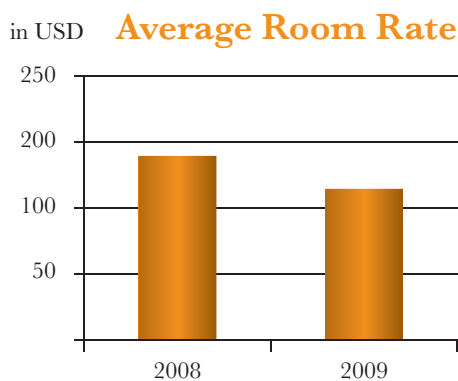
Hotel Benchmark

- An evolving consumer spending pattern has created both real and perceived pressure on pricing. The broad hotel market has taken a strong occupancy versus rate positioning which has seen a dramatic decrease in ADR and RevPAR in most tiers. Heavy discounting continues to dominate the short to medium term horizon.
- Emerging budget and economy sector outperformed the overall market coupled with introduction of limited service brands such as Accor's ibis and locally owned properties in high demand locations like Patong.
- Marked return to seasonal trading pattern with over reliance on long haul markets and absence of MICE (Meetings/Incentives/Conferences/Exhibitions) business has forced the large internationally managed properties to compete with local independent hotels in order to maintain operating cash flows.

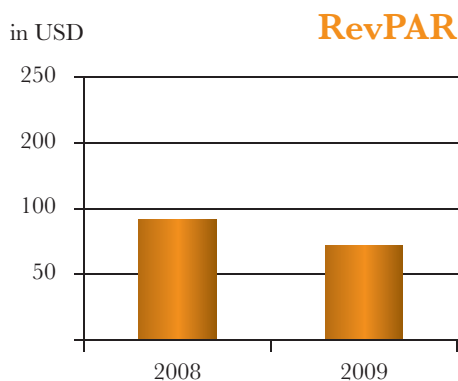
Hotel Performance



Source: C9 Hotelworks Market Research



Source: C9 Hotelworks Market Research



Source: C9 Hotelworks Market Research

By Tier

Change	
Luxury	▼ 11%
Upscale	▼ 9%
Midscale	▼ 7%
Budget & Economy	▲ 25%

Occupancy drops despite rate reduction, yet budget and economy hotels defy trend

Price sensitive guests trading down to lower tiers

Change	
Luxury	▼ 12%
Upscale	▼ 15%
Midscale	▼ 18%
Budget & Economy	▲ 9%

Aggressive discounting among upscale and midscale properties creates domino effect on market

Change	
Luxury	▼ 21%
Upscale	▼ 23%
Midscale	▼ 24%
Budget & Economy	▲ 36%

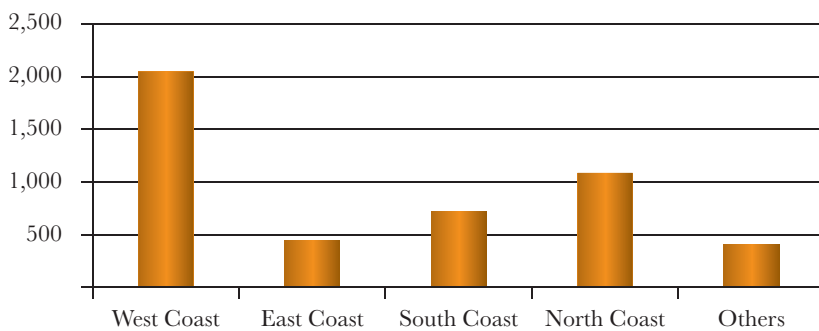
Declining RevPAR forces hotels to focus on expense reduction and cost control

Development Insight

- Profile of hotel grade assets developers has shifted firmly to Thai listed companies and local Phuket enterprises who are looking for an ongoing yield business model, have access to debt financing and/or benefit from low acquisition cost of pre-acquired land.
- Despite considerable interest by Thai and foreign based investors on acquisition of existing distressed hotels, there remains very few transactions in this sector similar to the trend back of the 1997 Asian Financial Crisis.
- Branding to chain operators continues to rise as hotel owners perceive development risk mitigation and better performance using operators' distribution systems. Active in 2009 were Absolute Resort Management, Best Western, Outrigger, InVision Hospitality (B-Lay Tong), and Golden Tulip (Mangosteen Resort and Spa).
- Market uncertainties have forced the suspension of significant projects including Shangri-La and Angsana in Bangtao, Langham Place above Kalim, Hyatt Regency at Nai Yang and West Sands Outrigger on Mai Khao Beach, resulting in a potential loss of 1,111 new rooms.

Number of Rooms

By Location

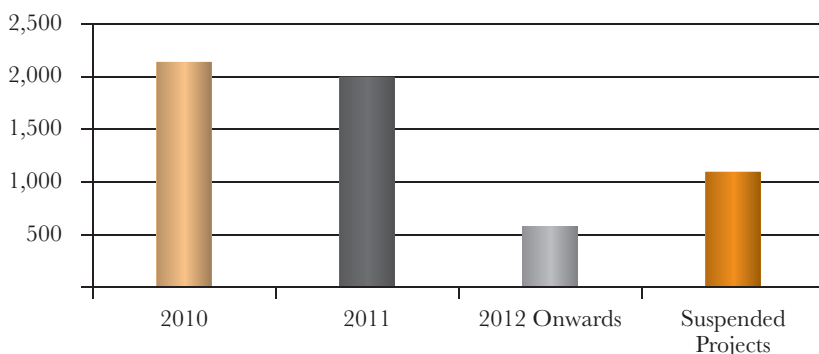


Source: C9 Hotelworks Market Research

Beach location drives new development site selection, western shoreline making up two thirds of new supply

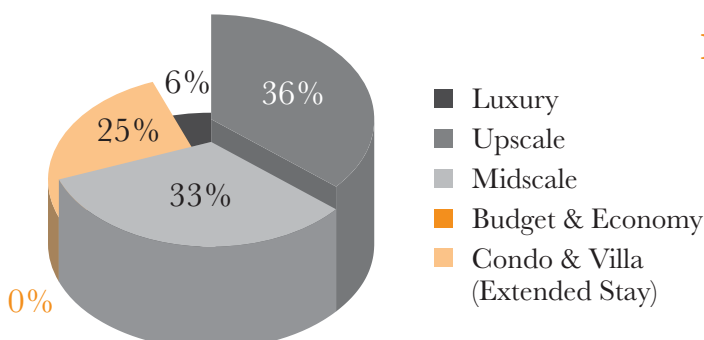
Number of Rooms

By Opening Year



Source: C9 Hotelworks Market Research

Annual supply growth by 6%, 5%, and 5% from 2009 to 2011



Source: C9 Hotelworks Market Research

By Tier

Oversupply warning for midscale and upscale hotels but opportunity in budget and economy tier

Hotel Openings

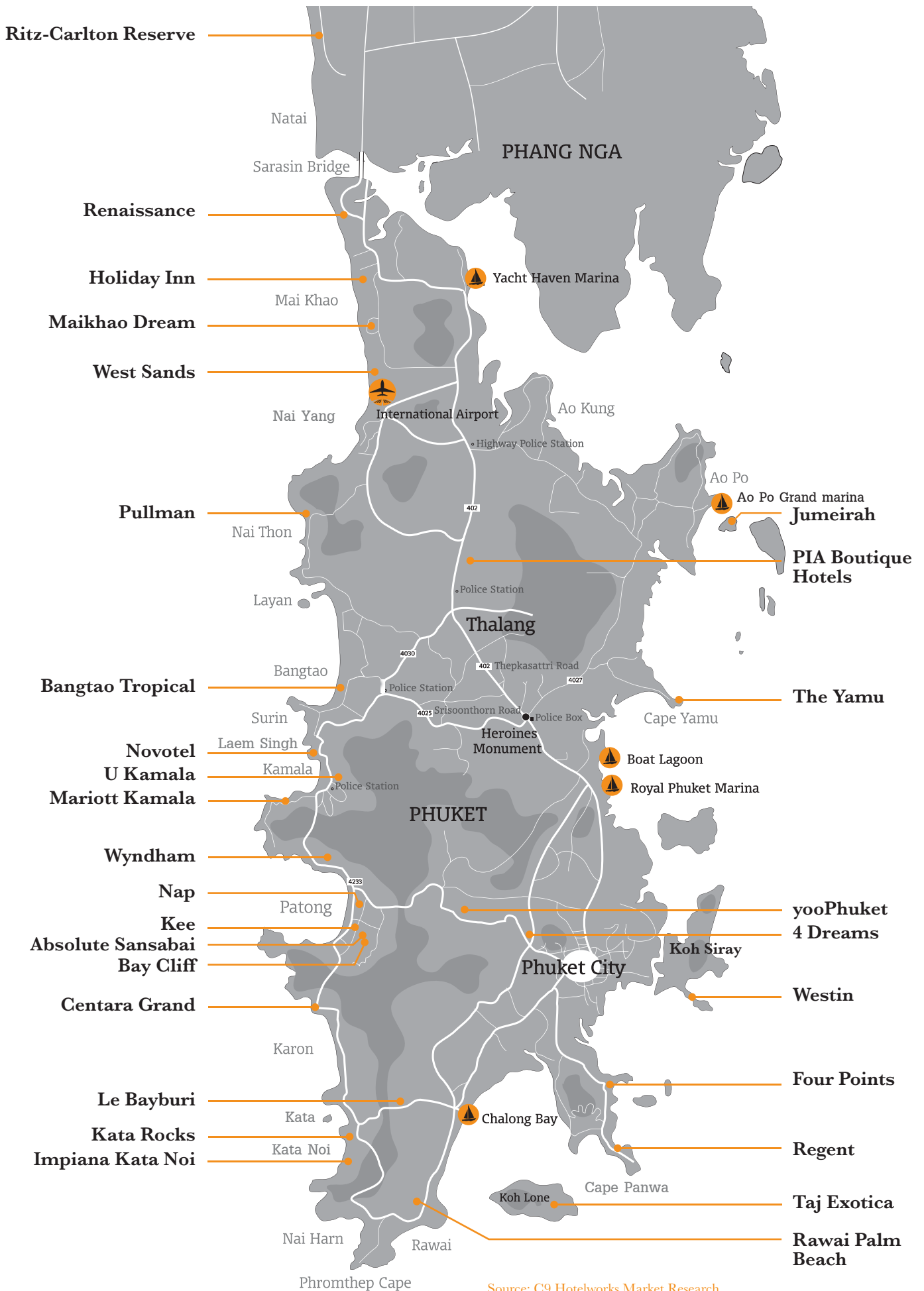
At the beginning of 2009, there were 37,884 rooms in Phuket registered accommodation establishments. A total of 2,116 new rooms were opened in 2009, increasing the existing supply by 6%. Over 89% of the additional supply was launched in the second half to serve demand for the coming high season. The total future supply of 4,600 rooms in Phuket will expand the market by 12%. In 2010, 45% of the Phuket pipeline is scheduled to open. Phang Nga and Krabi are seeing new developments with an additional 1,287 rooms from 8 projects.

Hotel Name	Location	Rooms	Opening Date
PHUKET			
Piraya Resort and Spa	Mai Khao	114	Jan 2010
West Sands Phuket	Mai Khao	426	Feb / Nov 2010*
Renaissance Phuket Resort and Spa	Mai Khao	180	Apr 2010
Maikhao Dream Villa Resort and Spa Phuket	Mai Khao	22	Q2 2010
Holiday Inn Phuket Mai Khao Beach Resort	Mai Khao	244	Q3 2011
Pullman Phuket Arcadia Naithon Beach	Nai Thon	281	Q4 2011
Bangtao Tropical Residence Resort	Bangtao	55	Mar 2010
Outrigger Laguna Phuket Resort and Villas (Phase 2)	Bangtao	148	Jul-05
PIA Mind Centre Boutique Hotel	Thalang	38	Apr 2010
PIA Sports, Arts and Wellness Boutique Hotel	Thalang	38	Apr 2011
Novotel Phuket Kamala Bay	Kamala	172	Q1 2011
U Kamala Phuket	Kamala	70	2011
Phuket Marriott Resort and Spa at Kamala Cove	Kamala	202	TBA
Wyndham Resort Phuket	Kalim	133	Q2 2010
Nap Patong	Patong	91	Apr 2010
Absolute Sansabai Resort and Spa	Patong	115	Sep 2010
Kee Resort and Spa	Patong	244	Nov 2010
Bay Cliff Hotel Patong	Patong	286	2012
yooPhuket	Kathu	256	2011
4 Dreams	Phuket City	80	2011
Centara Grand Beach Resort Phuket	Karon	262	Q3 2010
Kata Rocks	Kata	34	Q2 2011
Le Bayburi Kata D'azure, Phuket	Kata	79	Q4 2011
Impiana Private Villas Kata Noi	Kata Noi	12	Mar 2010
Rawai Palm Beach Resort	Rawai	198	Jul 2011
Taj Exotica Spa and Resort Phuket	Koh Lone	79	2013
Regent Phuket Cape Panwa	Cape Panwa	106	Q1 2011
Four Points by Sheraton Phuket, Makham Bay	Cape Panwa	200	Q1 2011
Westin Siray Bay Resort and Spa, Phuket	Koh Siray	261	Apr 2010
The Yamu	Cape Yamu	102	Q1 2011
Jumeirah Private Island Resort	Koh Raet	72	Q4 2011
PHANG NGA			
Similan Beach, A Ritz-Carlton Reserve	Bo Dan	79	Mar 2012
Casa de La Flora Khao Lak	Khao Lak	40	Q3 2010
Kantary Beach Suites and Villas Phang Nga	Khao Lak	152	Nov 2010
Mai Khaolak Beach Resort and Spa	Khao Lak	200	2011
KRABI			
A Gallery Resort and Spa Phi Phi	Koh Phi Phi	147	2010
Ibis Krabi Ao Nang	Ao Nang	206	2011
Mercure Krabi Ao Nang	Ao Nang	230	Q4 2011
Centara Grand Lanta Island	Koh Lanta	233	2012

* Feb 2010 (106 units) and Nov 2010 (426 units)

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



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