

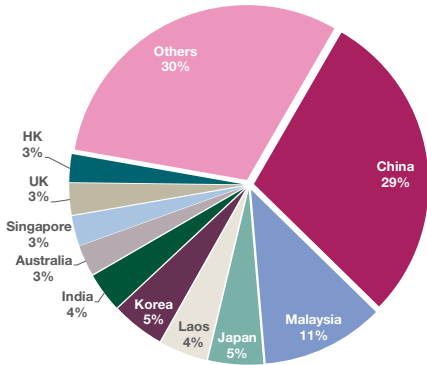


Asian Cities Report **Phuket Hospitality**

2H 2015

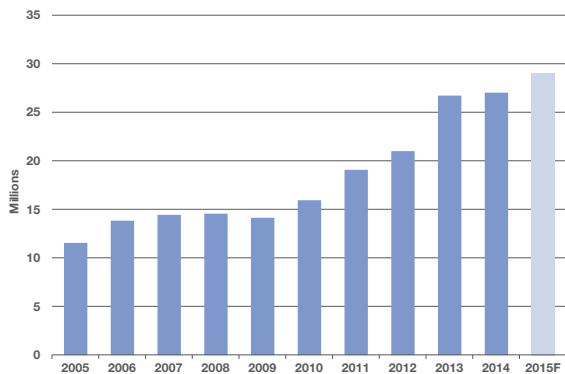


GRAPH 1
Top nationalities of international visitors to Thailand, Q3/2015



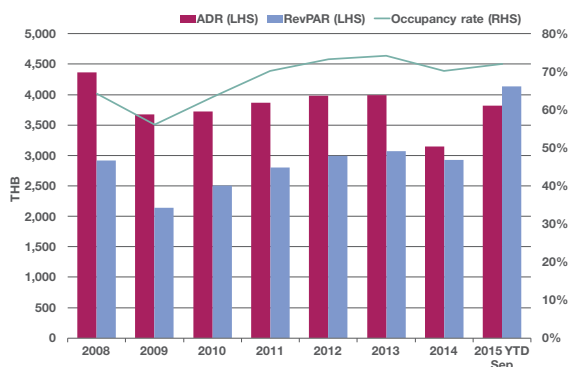
Source: TAT, Savills Research & Consultancy

GRAPH 2
International visitor arrivals to Thailand, 2005–2015F



Source: BPS, Savills Research & Consultancy

GRAPH 3
Phuket annual hotel performance, 2008–YTD Sep 2015



Source: STR, Savills Research & Consultancy

Introduction to Thai tourism

Thailand's Travel & Tourism (T & T) sector is the 18th largest globally. The second most visited country in Asia after China, it is a favourite sun and beach destination for diverse inbound source markets.

In 2014, 24.8 million international visitors travelled to Thailand. It was the tenth most visited country in the world according to the United Nations World Tourism Organisation (UNWTO) in 2013, the latest year for which UNWTO data is available. By tourism expenditure, Thailand's rank was higher, at seventh.

The total contribution of T&T to Thailand's GDP was THB2,345 billion (19.3% of total GDP) in 2014; by 2025 the World Travel & Tourism Council (WTTC) estimates that more than 25% of Thailand's GDP will be generated from T&T.

Phuket overview

Phuket is the largest island in Thailand, it is the main tourism hub of the Southern territories and its popularity shows no sign of waning, especially given its ever improving air access. Phuket Airport is the third busiest airport in Thailand after Bangkok's two main airports. The two pillars of its economy are tourism and rubber plantations. The local government supports tourism and hospitality, investing in transport infrastructure which will come to fruition in the coming years.

Phuket's land area is 543 square kilometers, one tenth of Bali's 5,780 square kilometers. Something that both destinations have in common is that they are at risk of lax zoning and over development which can decrease destination competitiveness.

Phuket visitor arrivals

In the first half of 2015 (1H/2015) 3.7 million overseas and domestic visitors arrived via the airport. During the five years to Q1/2015, airport arrivals have increased with a CAGR of 29% overall, 28% and 32% for domestic and international visitors respectively. Phuket International Airport received 5.6 million domestic and international passenger arrivals in 2014, an increase of 169,000 passengers, a 30% increase from 2013.

From January to April 2015, the top five inbound markets were China (25% share, +95% annual growth), Japan (5%, +17%), South Korea (5%, +19%), Russia (4%, -48%) and India (3%, +19%).

Asian visitation

Phuket's popularity among Asian visitors, including Thai domestic visitors, is still the main story with 53.6% of international arrivals in 2014 coming from Asia.

International visitors have shortened their length of stay from 6.6 days to 4.4 days, reflecting the shift from long haul to short haul arrivals while domestic visitors reduced from 4 days to 2.9 days.

With 95% year on year growth in Chinese visitation by air in 2014, it is evident that Phuket has been discovered by Chinese travelers but Southeast Asian customers are also increasing. ASEAN countries are implementing visa facilitation processes, reciprocal visa schemes and priority lines at immigration.

High average expenditure on shopping is a characteristic of Asian travelers to Phuket, and the average percentage of total expenditure spent on shopping by Asian foreign visitors is 32%, compared to 23% for all international visitors.

Tourism expenditure

Average daily expenditure for visitors to Phuket was THB5,368 in 2013, an increase of 14.8% over 2012 representing a 5.1% CAGR over five years. International visitors contributed THB5,799 per day, approximately 54.8% higher than Thai visitors, who spent THB3,746 per day.

In 2013, tourism receipts in Phuket were THB260.44 billion, an increase of 13.7% compared to 2012. In the five years to 2013, international tourism receipts increased at a 21% CAGR.

Hotel supply

Phuket has over 750 licensed establishments with 47,000 keys according to the TAT. The Phuket Tourism Business Association estimates there are 95,000 rooms if unregistered hotels are also counted. Future hotel supply represents 35 hotels with over 5,000 keys under construction to 2019, excluding unlicensed establishments.

Phuket and Bangkok have built numerous hotels over recent years and as a result, suitable greenfield sites are now limited, and hoteliers are now seeking to refurbish existing properties.

In April 2013, STR reported that Phuket's future hotel supply represented 0.7% of all Asia Pacific future hotel supply with an annual increase of 11% representing nearly 3,000 keys entering the market that year. It was one of only seven

destinations globally with growth of more than 11%. Now, only 5,300 keys will enter the market over the next four years to 2018. Compared to previous years and compared to other destinations such as Bali where there are 8,000 pipeline rooms as of June 2015, it is clear that Phuket has entered a quieter development phase.

Phuket hotel performance

Comparing year to date (YTD) September 2015 and YTD September 2014 figures, during two tumultuous years for Thai politics, hotels have recorded increased occupancy (+7.3%) but lower ADRs (-7.5%), resulting in a Revenue per Available Room (RevPAR) decrease of 0.8%.

According to STR data, year-to-date (YTD) September 2015 average Phuket occupancy was 72.1% (+7.3%) , compared to 67.2% for the same period last year which was during the protests of November 2013 to May 2014.

The Average Daily Rate (ADR) for YTD September 2015 was THB3,822, or US\$114.11, a 7.5% decrease on the same period of 2014 in local currency terms. In US dollar terms, the decrease is more pronounced at -9.9%. ADR growth has been slow, with a 2014 average monthly ADR of THB3,144, THB1,222 less than the 2008 ADR of THB4,365.

Revenue per Available Room (RevPAR) for YTD August 2015 was THB2,754, or US\$82.23. This is a decrease of 0.8% and 3.3% in local currency and US dollar terms respectively.

Transport infrastructure

A proposed tram system will run from Tha Noon, on the southern tip of Phang Nga, across the Sarasin Bridge, to Phuket Town and Chalong Circle, with an estimated completion in 2021. The route is 60km, with 20 stations along the way and the travel time from the airport to Phuket Old Town will be 45 minutes.

Low Cost Carrier (LCC) penetration is a great demand generator and growth is still robust with an increase of 9% in LCC international passengers and 12% in domestic passengers from 2013 to 2014. From representing 4% of total passengers in 2004, LCCs now represent 33% of total traffic or 1.9 million domestic and international arrivals. The airport served 44 scheduled airlines in 2014 and handled 74,501 flights, which is 6.1% higher than the previous year.

The Phuket International Airport Development Plan will increase passenger handling capacity to 12.5

million per year while currently the airport receives 5.7 million arrivals. After the expansion, the airport will have nearly 7 million passenger handling capacity to spare. The expansion plan's completion has been delayed to mid 2016.

The project to upgrade Phuket's marinas is now under master plan amendment which should be completed this year. Currently Phuket has 5 marinas, with a capacity of only 460 boats. Similar ports may be constructed in Krabi or Samui. The Phuket Marine Office has mooted the idea of temporary chartering licenses for foreign flagged super yachts to be operational by December 2015. Phuket will also host the inaugural 'Phuket Yacht Show' in February 2016. The director general of the Marine department estimates the number of yachts will increase from 1,600 currently to at least 2,000 in 2016. If high end yacht tourism is successfully developed, areas with good access to marinas may see increased demand for high end hotels and restaurants.

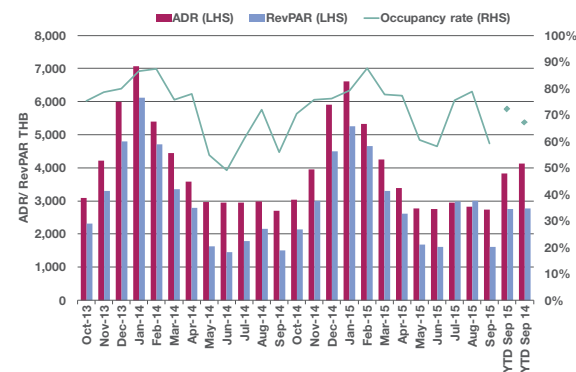
Outlook

Development of infrastructure, the ASEAN economic community and its strategic location between India, China, Indonesia and Singapore are demand generators for Phuket hotels. With this in mind, the TAT aim to attract 28 million visitors to Thailand in 2015.

Despite lesser known Southeast Asian destinations coming onto the market due to ease of travel facilitated by LCCs, Phuket will remain a relevant destination for hoteliers. Political unrest, and the detonation of a bomb in a central Bangkok shopping and tourist area on 17 August are likely to harm tourist perceptions and investor confidence in the short term. However, travelers are likely to accept a certain level of negative media coverage of Bangkok's political unrest before hotel demand for Phuket is affected.

Given there will be no drastic increases in hotel supply, both occupancy and ADR should stabilize. Despite the impressive increases in air travel, driven by Phuket's competitive air transport infrastructure, it is unlikely that hotels will be able to command higher ADRs in the foreseeable future. The market will continue to shift towards regional Southeast Asian travel as the Russian market recovers. The slow down in China is concerning for Thailand and especially Phuket where more than a quarter of international visitor arrivals are Chinese but ever more competitive LCC airfares should offset some potential decreases in demand. ■

GRAPH 4 Phuket monthly hotel performance, Oct 2013– Sep 2015



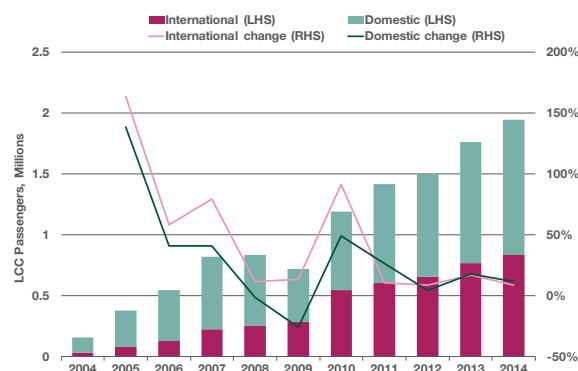
Source: STR, Savills Research & Consultancy

GRAPH 5 Phuket International Airport passenger disembarkations and growth, 2007–2014



Source: Airports of Thailand, Savills Research & Consultancy

GRAPH 6 Phuket International Airport LCC passenger disembarkations and growth, 2004–2014



Source: Airports of Thailand, Savills Research & Consultancy

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