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IN FOCUS: KOH SAMUI

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Koh Samui has witnessed a complete transformation, from an island traversed by jungle tracks in 1970s to an upscale tourism destination. The island's tourism was originally characterized as a 'party' stop on the backpacker trail. In recent years, Koh Samui has rapidly developed into a deluxe resort destination with increased air and sea connections and numerous upper-tier, internationally branded resorts.

Airport Statistics

Koh Samui is served by two international airports, Koh Samui International Airport (USM) and Surat Thani Airport (URT).

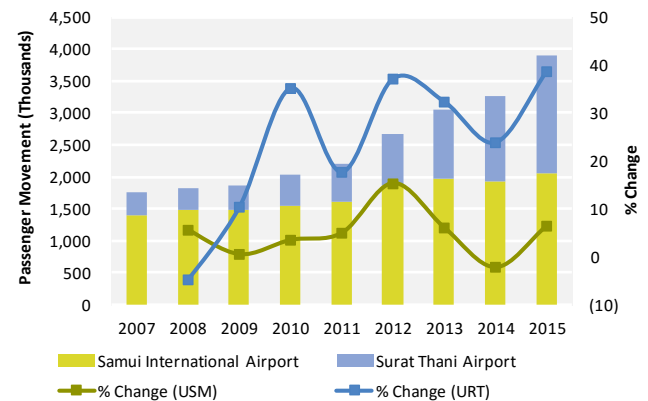
USM is owned and operated by Bangkok Airways, a private airline and the main carrier flying to Koh Samui. The development of Koh Samui's air accessibility, and therefore its demand for the hotel market, is directly linked to Bangkok Airways' capability and willingness to expand its fleet capacity, route network, frequency of existing routes and airport infrastructure. In late 2014, USM secured permission from the Department of Civil Aviation to raise the flight movement limit from 36 to 50 flights per day. This move aimed at resuming growth in passenger numbers, after a decline in 2014.

Following an expansion in 2007, the airport today has a 2,100 meter runway, allowing it to accommodate narrow-body aircrafts and handle up to 6 million passengers per year. Bangkok Airways operates both domestic and international routes to USM. Domestic routes include direct flights from Bangkok's Suvarnabhumi Airport, Chiang Mai, Krabi, Pattaya-U-Tapao and Phuket. International routes include direct flights from Hong Kong, Kuala Lumpur and Singapore. Additionally, Singapore is served by Silk Air, while flights to and from Kuala Lumpur and Penang are served by Firefly. There are also charter flights during high season from Guangzhou and Kunming, operated by China Southern Airlines and Lucky Air.

USM processed 2.05 million passenger movements in 2015, an increase of approximately 6.4% over the previous year. Between 2007 and 2015, passenger movements grew at a rate of 4.9% per year. 2014 witnessed a decline of 2.2% due to increased access to

Surat Thani Airport and the political instability in Bangkok, which caused some flights to be suspended.

FIGURE 1: PASSENGER MOVEMENTS AT USM AND URT



Source: Department of Civil Aviation

Located 21 km west of the centre of Surat Thani city and approximately 95 km west of Donsak Peir, Surat Thani Airport serves as a secondary gateway to Koh Samui that has helped fuel demand to the island. The airport consists of one terminal serving both domestic and international flights and a single paved runway of 3,000 meters in length.

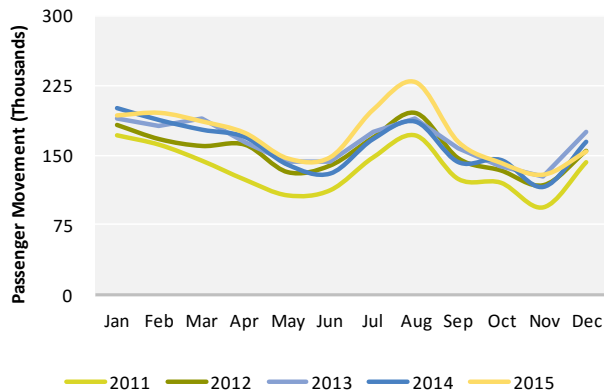
Between 2007 and 2015, passenger movements at URT have seen rapid growth, representing a compound annual growth rate (CAGR) of 22.9%, from 356,053 passenger movements in 2007 to 1.86 million passenger movements in 2015. Thai Airways, Air Asia, and Nok Air operate daily flights to Surat Thani from Don Mueang International Airport and Suvarnabhumi International Airport in Bangkok. There are also direct flights from Kuala Lumpur, Wuhan and Chengdu, which are operated by Air Asia, Air China and China Eastern Airlines, respectively. Additionally, Air Asia launched an all-in-one service that includes flights from Bangkok to URT and transfer from the Airport to Koh Samui via Donsak Pier, in order to further ease access to the island. In addition to commercial services, URT is an active Royal Thai Air Force base.

Seasonality

With a strong dependency on leisure demand, Koh Samui remains a seasonal destination. The primary high season in Koh Samui is from December to March. In contrast to other major beach destinations in Thailand however, Samui benefits from reduced levels of rainfall in July and August, which allow it to benefit

from a secondary high season over these months, typical holiday time for the European markets.

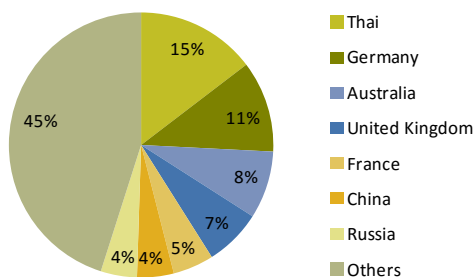
FIGURE 2: KOH SAMUI SEASONALITY



Source: Department of Civil Aviation

Source Market

FIGURE 3: SOURCE MARKET (2014)



Source: Department of Tourism

The three largest international feeder markets, according to visitor arrivals at accommodation establishments in 2014 were Germany, Australia and the United Kingdom, accounting for 11%, 8% and 7%, respectively.

In recent years, the island destination has experienced an increase in visitors originating from Asia, among which China and Korea are the most notable ones. For example, China is one of the fastest growing Asian feeder markets to Koh Samui. Between 2009 and 2014, its tourist numbers registered a growth of 56% per annum. Additionally, the popularity of Koh Samui to the domestic market has also increased over this period. The domestic market has seen a growth of 32% per annum between 2009 and 2014. In 2014, this

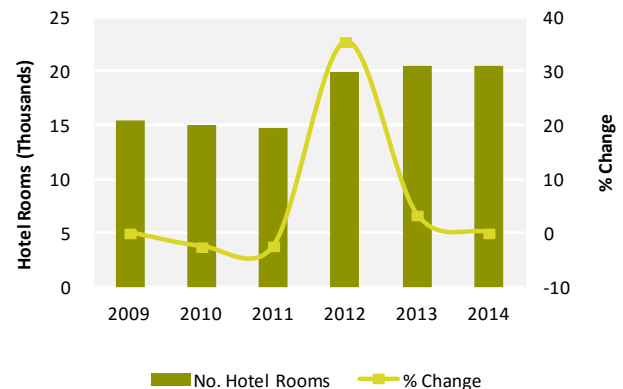
segment accounted for 15% of the total guest arrivals at accommodation establishments.

Hotel Supply

As of 2014, there were approximately 529 hotels with a total of 20,519 hotel rooms in Koh Samui. The healthy performance of tourism arrivals as well as the hotels' key performance indicators are driving increases in supply. As shown in the chart below, between 2009 and 2014, hotel room supply went up by approximately 5.9% per annum.

According to our research, in 2015, there were 22 internationally branded hotels and resorts in Koh Samui with a total of 2,164 hotel rooms.

FIGURE 4: KOH SAMUI HOTEL SUPPLY



Source: Department of Tourism

Upscale Hotel Market Performance

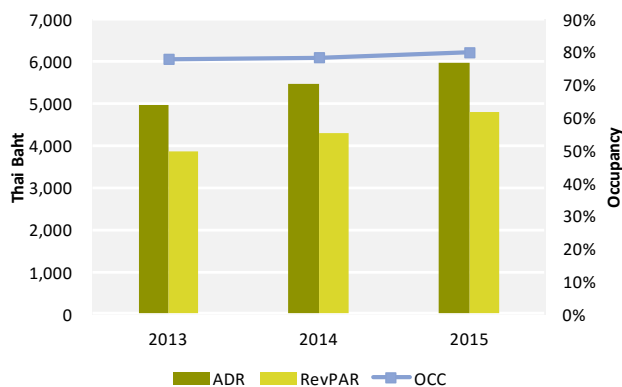
The upscale hotel market in Koh Samui performed well in terms of both occupancy and rate in 2015, resulting in an 11.6% RevPAR increase over 2014 levels, largely driven by Average Daily Rates (ADR).

In 2015, ADR in the upscale hotel market saw an increase of 20% over 2013, whilst occupancy grew by two percentage points during the same period. Consequently, the market-wide RevPAR recorded a 23.5% increase from 2013, which stood at approximately THB4,800 in 2015.

Between 2013 and 2015, room rates grew thanks to increasing international demand to the destination and a general market recovery. Occupancy remained

relatively stable, despite the political demonstrations that occurred in Bangkok in 2014. However, compared to the raise in demand, occupancy growth appears modest. This can be partly attributed to the increases in supply and partly to the shortening of the average length of stay of visitors to the destination. As Koh Samui becomes more popular with regional Asian feeder markets, these add to total visitor arrivals, without directly correlating with occupancy growth.

FIGURE 5: KOH SAMUI UPSCALE HOTELS MARKET PERFORMANCE



Source: HVS Estimates

Hotel Pipeline

FIGURE 6: PIPELINE IN KOH SAMUI

Proposed Property	Number of Rooms	Area	Estimated Opening Date
Holiday Inn Express	200	Bophut	2017
Sofitel So	120	Choeng Mon	2017
The Sol Beach House (Conversion)	209	Choeng Mon	2017
The Ritz-Carlton	187	Plai Laem	2017
COSI Hotel by Centara	153	Chaweng	2018
Holiday Inn	150	Bophut	2018
Sala Chaweng (conversion)	78	Chaweng	2018
Total	1,097		

Source: HVS Research

The pipeline of new resorts in Koh Samui is extensive and includes both new developments as well as conversions, i.e. older independent properties being renovated and converted into branded hotels. In 2015, conversions included Sheraton Samui Resort, Outrigger Koh Samui Beach Resort, and Mövenpick Resort Laem Yai Beach Samui.

It is expected that within the next three years, the supply of hotels rooms in Koh Samui will increase by approximately 3.9% from 2014 levels and it is anticipated that over time, given the international appeal of Koh Samui as a tourist destination, there will be further increases in the hotel supply.

Outlook

Koh Samui is benefiting from its growing status as a developed destination, leading to an increasingly strong international demand and the ongoing development of branded international accommodation. However, it is estimated that the island has already exceeded its carrying capacity in terms of infrastructure (namely electricity and water), posing a threat to the overall environment. This situation, coupled with the growth of residential supply, will likely dampen growth of new hotel supply to the market.

The bottleneck of air access to Koh Samui has contributed to a paced growth in demand over the past ten years. The restriction on the number of flights at USM kept the cost of air travel to Koh Samui at a level that deterred lower-end visitors. However, the increase in flight slots to USM, coupled with flight expansions at URT, should ease the access to the island and lower its cost. Hence, we expect demand for hotel accommodation to increase across all segments in the foreseeable future with the improvement of accessibility.

We also anticipate that the increase of Asian tourists to the destination should over time further reduce the overall seasonality of Koh Samui.

Looking ahead, new and existing hotels will have to find ways to diversify their business, as we expect competition to stiffen. New opportunities, for example, might arise from the Meetings, Incentives, Conferences, and Exhibitions/Events (MICE) market, especially the high-end segment, given the island's relative high cost of air lift. From our research, we gather that within the domestic market, industries such as banking, insurance, automotive and pharmaceutical are showing interest in hosting events on the island. Regionally, this demand is generated predominately from Singapore. Existing supply faces constraints in catering for this segment due to limitations in facilities (such as room count, event space, etc). New hotel developments could take this and other emerging trends into consideration to be better equipped to cater for this growing segment and the maturing market environment.



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About the Authors



Ecole Hôtelière de Lausanne.

Paola Orneli Bock has recently joined the team as the Vice President to head HVS office in Bangkok. Paola has over 10 years of hospitality consulting experiences. In her last engagement prior joining HVS, Paola headed the hospitality team of Cushman & Wakefield in China. Paola holds a BSc from



Ecole Hôtelière de Lausanne in Switzerland and with previous work experience in hotel development, Setthawat contributes extensive knowledge of the hospitality industry to HVS.

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