Horwath HTL
Hotel, Tourism and Leisure

MARKET REPORT

Hua Hin:
Top-Tier Hotels

APRIL 2019

Source: Holiday Inn Resort Vana Nava Hua Hin

Hua Hin's top-tier hotel market is slowly coming out of stagnancy. The foreseeable future will be buoyed by improved market sentiment and moderate supply pipeline. However, uncertainty looms over a long-term vision of the Thai Riviera and potential resurgence of new hotel developments and alternative accommodation.

Once a quiet fishing village in the west coast of Thailand, Hua Hin has grown into a favourite weekend getaway spot for Bangkok residents and expat retirees. Since the Thai royal family built summer palaces there in 1920s, night entertainment has been controlled, creating a suitable destination profile for families and corporate executives. As a relatively tranquil beach destination with laid-back setting, Hua Hin presents a good vacation option in contrast to vibrant party scenes such as Pattaya, Patong and Koh Pha-Ngan.

An urbanizing trend of Hua Hin has emerged in the last decade. More international branded hotels opened in the market, namely Marriott, Holiday Inn and Avani+. The destination has also added new attractions such as the Santorini Park, the Vana Nava Water Jungle, Plearnwarn, and the Cicada Market. An ambitious development roadmap entails major infrastructure projects such as an airport upgrade for international commercial flights, a high-speed rail between Bangkok and Hua Hin, a double-track railway upgrade, a new highway from Nakhon Pathom, and the Southern Economic Corridor (SEC) development. A stretch of long coastline running through Petchaburi, Prachuap Khiri Khan, Chumphon and Ranong provinces has been earmarked for transformation into the "Thai Riviera" or so-called "Royal Coast" as part of SEC. Hua Hin will be more easily accessible and appealing to both local and international visitors. However, this long-term plan involves multiple large-scale projects and requires substantial investment, resource and time before coming to fruition.

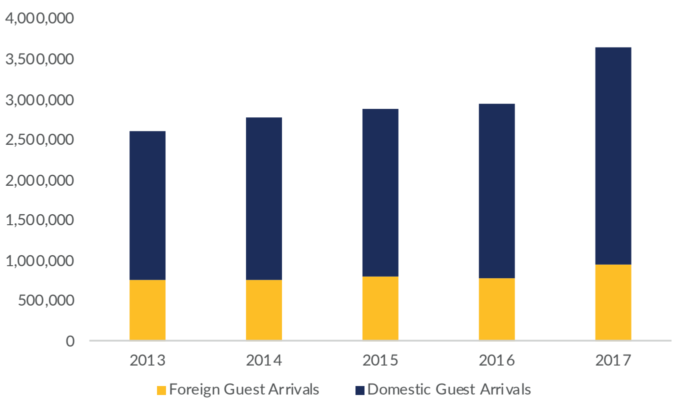
While demand is gradually building up, the Hua Hin top-tier hotel market has faced a challenge of low barriers of entry. A recent surge in hotel supply and new condominiums for short term rental has aggravated competition and caused market occupancy and rate to reach a standstill. While weekends are boosted by local tourism, weekday performance is dependent on international visitors and domestic MICE businesses, restricted by a shortage of direct air access and competition from other beach resorts in Thailand. Over the next 3 to 5 years, the market is expecting an interim break from upscale development activities and should benefit from a performance upturn. Should the optimism attract landlords to advance mooted and new projects, a further situation will need to be re-assessed whether demand can keep supply in check.

Hua Hin Guest Arrivals

As a beach holiday destination within a few hours' drive from Bangkok, Hua Hin relies heavily on the domestic market, which accounted for 71 percent and 73 percent of total guest arrivals in 2013 and 2017 respectively. A lack of an international airport weakens the destination's ability to attract the same level of international demand as in Phuket and Koh Samui. It is a further distance from the Bangkok Suvarnabhumi Airport, a main visitor entry point, in comparison to Pattaya.

Between 2013 and 2017, Hua Hin showed a healthy growth in guest arrivals, registering a 5-year compound annual average growth (CAAG) of 9 percent. Robust growth was largely driven by the opening of new attractions such as the Santorini Park and the Vana Nava Water Jungle in 2012 and 2015 respectively. Attractive opening offers by new hotels also expanded a customer base for this seaside town. Demand was restrained in 2016 due to 1) a pause on domestic leisure trips as well as social and MICE activities following the passing of the late King; and 2) the bomb explosion incident. Hua Hin's tourism then recorded the highest growth of 24 percent in 2017.

In 2018, the number of guest arrivals should be boosted by Hua Hin Airport's introduction of Air Asia four-times weekly flights from Kuala Lumpur. The leading low-cost airline has a plan to add new routes to link Hua Hin with key regional source markets. The town has been plagued by a logistics barrier despite a variety of attractions from beach, national park, world-class golf course, water park, theme park to winery, coupled with abundant support amenities such as stadium, shopping mall, local market and international hospital. Enhanced air connectivity will unlock the destination's potential.



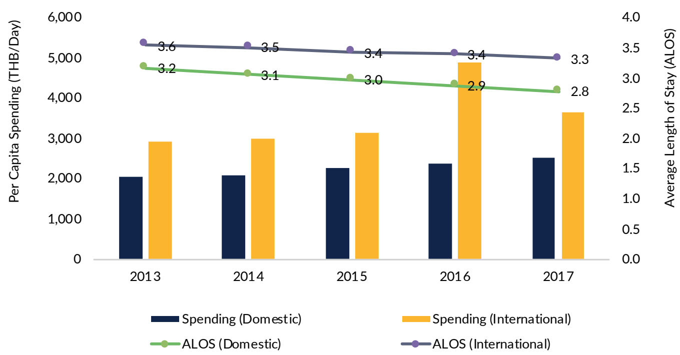
Source: Ministry of Tourism of Sports

Average Length of Stay and Spending

Overall, ALOS of both domestic and international visitors declined over the past five years. ALOS of international visitors was slightly longer than domestic visitors by half a day. In 2016, average spending difference between foreign and domestic visitors reached its peak at THB 2,424 per person per day.

Between 2013 and 2017, domestic spending per day saw a steady growth, a 4 percent CAAG, from THB 2,029 to THB 2,519. Domestic spending is not expected to grow significantly in the foreseeable future. Hua Hin has been perceived as an affordable destination, and if it becomes too expensive, domestic demand will be diluted to alternative accommodation in Hua Hin, particularly condominiums for short term rental, or other beach destinations in Thailand. The Greater Phuket area is increasingly well connected with low-cost airlines and adds more hotels in the midscale to upscale tiers. Upcoming beaches such as Pranburi, Rayong and Koh Chang offer good value for money to local vacationers.

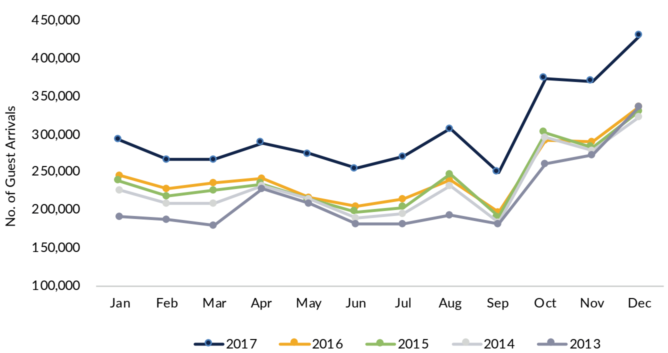
On the contrary, the international market experienced more fluctuations during the past five years. In 2016, international visitors' daily expenditure surged to THB 4,885, despite a drop in the number of arrivals. It was more than double of domestic visitors' daily spending. However, it fell by 25 percent to THB 3,658 in 2017. The movement in international spending corresponded with a halt in Chinese arrivals, particularly zero dollar or forced shopping tours, in 2016 after series of government crackdowns to clean up some illegal operations and improve a tourism image. When normal-priced Chinese tours returned in 2017, an average spending level moderated.



Source: Ministry of Tourism and Sports

Seasonality

Hua Hin has a fairly stable seasonality pattern from January to August. Guest arrivals drop in September due to higher rainfall and a lack of public/school holidays in Thailand and source markets. They rise strongly in October driven by family demand during China Golden Week and local school holidays. November to February is a busy travel period, and coincides with a winter in Europe, in which Europeans travel to tropical destinations in Asia to escape the cold. December receives the most guest arrivals as the weather is the most pleasant with minimal rainfall. The popularity of November to February months is also attributed to major public holidays such as Christmas, New Year and Chinese New Year, and year-end events organized by Bangkok-based firms. From February to May, there is another local school holiday. Given its long period and overlap with the Songkran Week, demand spreads out and many locals choose to travel overseas instead.

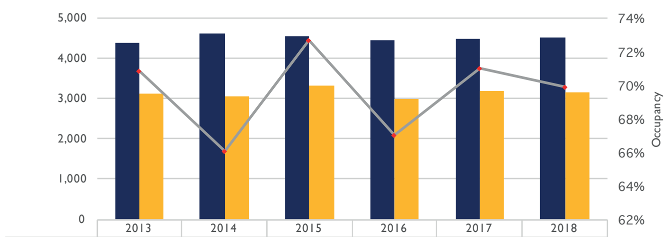


Source: Horwath HTL

Hotel ADR and Occupancy

Between 2013 and 2018, Hua Hin top-tier hotels' room night demand (RND) grew steadily at a CAAG of 7.2 percent; however, new hotel openings in the past few years fuelled supply growth and caused occupancy to marginally declined by 1 percentage point. Average daily rate (ADR) only saw a slight increase, at a CAAG of 0.5 percent. The top-tier market saw occupancy fall in 2014 and 2016. The 2014 tumble was in line with a decrease in international visitors to Thailand in the same year, mainly due to the political crisis. In 2016, bomb attacks in Hua Hin, worsened by the passing of the late King and a mourning period in the last quarter, deterred visitors and negatively affected hotels' performance.

Top Tier Hotels



	2013	2014	2015	2016	2017	2018
ADR	4,388	4,608	4,560	4,452	4,479	4,504
RevPAR	3,108	3,044	3,315	2,983	3,178	3,149
Occupancy	71%	66%	73%	67%	71%	70%

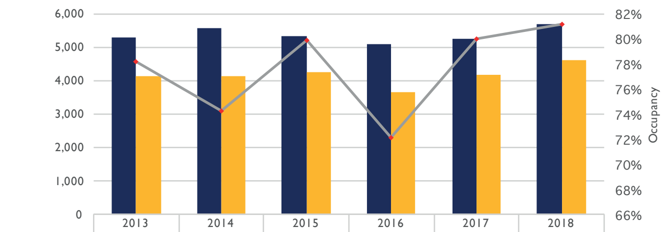
Source: Horwath HTL

Source: SO Sofitel Hua Hin

Top-Tier: Above THB 4,000

Hotels in the above THB 4,000 rate category are 5-star international branded beachfront properties in the busy part of Hua Hin and surrounded by tourism support amenities. They showed upward occupancy and ADR trends. RND recorded a slightly higher CAAG of 6.7 percent compared to a 5.9 percent growth in room night available (RNA), indicating that the upper end of top-tier hotel market was able to absorb new supply quickly and the recent openings, such as Marriott and InterContinental's new wing, induced new demand.

ADR registered a subdued CAAG of 1.5 percent, still higher than the overall top-tier market's mainly due to high rate position of new inventory. Marginal increases in occupancy and ADR contributed to Revenue Per Available Room (RevPAR) CAAG of 2.3 percent.



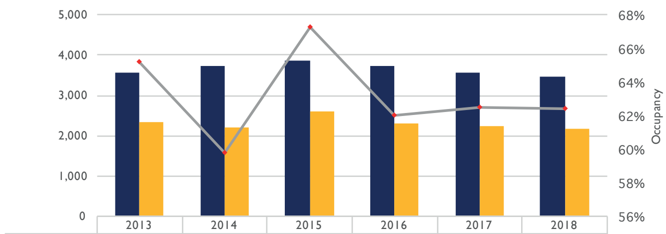
	2013	2014	2015	2016	2017	2018
ADR	5,280	5,550	5,315	5,091	5,237	5,699
RevPAR	4,125	4,125	4,245	3,672	4,190	4,624
Occupancy	78%	74%	80%	72%	80%	81%

Source: Horwath HTL

Top-Tier: THB 2,000 - 4,000

This rate bracket includes 4-star hotels in the town centre and 5-star properties in peripheral locations, almost all affiliated with international brands. The lower end of top-tier market experienced occupancy and ADR declines over the 2013-2018 period. The negative incidents in 2014 and 2016 had a significant impact on demand, causing year-on-year decreases of 8.4 percent and 7.8 percent respectively. Demand growth was outpaced by supply additions, with the introduction of Avani Plus, Holiday Inn Vana Nava and Ace Hotel (formerly Radisson Blu).

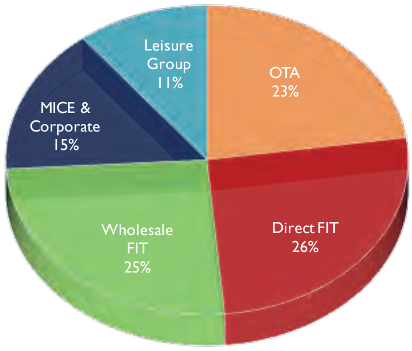
Most hotels suffered from weaker rates in 2016 and the poor performance continued in 2017 and 2018 due to volume emphasis at the expense of ADR as part of business recovery and new hotels' opening discounts. RevPAR decreased at a negative CAAG of 1.5 percent.



	2013	2014	2015	2016	2017	2018
ADR	3,574	3,716	3,876	3,718	3,567	3,462
RevPAR	2,331	2,221	2,607	2,304	2,229	2,160
Occupancy	65%	60%	67%	62%	62%	62%

Source: Horwath HTL

Demand Segmentation



Source: Horwath HTL

The three transient segments, Direct FIT, Wholesale FIT and OTA, are nearly equally important.

Direct FIT has the largest market share by a small margin. Competitive hotels are mostly managed by international hotel chains, and benefits from extensive global distribution systems and loyalty programs. Many of these properties are well established in the market. They attract a high volume of return guests who are inclined to book on direct channels, and ensure word-of-mouth reputation and comfort for first-timers. A sizeable portion of frequent vacationers are Thais and residents in Bangkok and the vicinities.

Wholesale FIT business from long-haul visitors is essential for Hua Hin as their relatively long ALOS allows hotels to fill up weekday occupancy. However, wholesale contribution to Hua Hin's top-tier market is less significant compared to internationally known beach destinations like Phuket and Koh Samui. The top-tier market has seen a decline in wholesale demand proportion, given increasing popularity of Online Travel Agents (OTA) and an influx of new supply.

OTA is the fastest-growing segment. Although OTA commissions are relatively high, hotels welcome bookings through this channel as they increasingly shift towards dynamic pricing, supported by OTA platforms, to better manage inventory and yield. OTA's real-time availability and wider reach to consumers allow hotels to drive seasonal and last-minute bookings.

Due to the apparent weekday-weekend demand disparity, Hua Hin is dependent on groups to build up a weekday occupancy base.

It is a popular destination for off-site meetings and incentive trips of companies in Bangkok due to its close proximity and affordable pricing of hotels and transportation. Properties with a low MICE contribution are generally restricted by small function facilities.

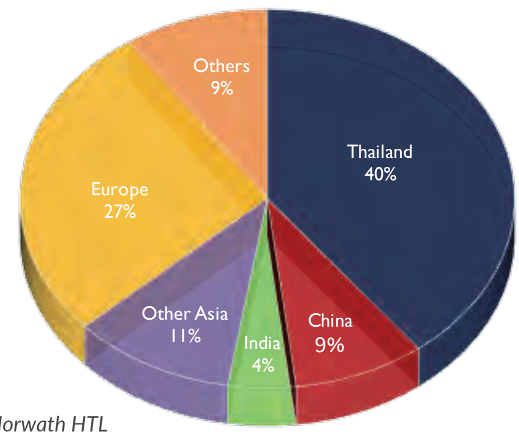
Besides business-related groups, most leisure groups in Hua Hin are tour series from Asian markets, namely Mainland China, Taiwan, Hong Kong and South Korea. Another emerging business is a destination wedding, especially Indian wedding. Indian wedding has become a good revenue generator for large hotels, as it usually has a relatively long duration of 3 to 5 days, large group size of 300 to 500 guests and high consumption of F&B and other services.

Nationality Mix

The top-tier hotel market is dominated by domestic travellers, largely residents from the Greater Bangkok area. They often choose a weekend escape in Hua Hin to take a break from a busy city life.

Mainland China is now the largest international single source market with the fastest growth. Following in a second spot is India due to a strong contribution from Indian weddings. UK and Germany are the top source markets among European countries.

Europe makes up the highest proportion of total demand in the over THB 4,000 rate category, whereas Thailand dominates demand in the THB 2,000 to THB 4,000 category. As for other important source markets, Mainland China's contribution is fairly consistent across the board. India has a larger share of demand in the THB 2,000 to THB 4,000 rate category while other long-haul markets, when combined, have a larger mix in the over THB 4,000 rate category.



Source: Horwath HTL

The nationality mix of the top-tier hotel market is in line with the overall Hua Hin trend reported by Ministry of Tourism and Sports. Thailand residents are dominating the market, followed by guests from UK, Germany, Mainland China and Sweden. Mainland China climbed up a ranking from 11th in 2013 to 4th in 2018. It is the fastest growing among the 2017 top 5 source markets.

The top 10 source markets by growth are mostly Asian countries, which recorded impressive growth of 16-58 percent annually over the past five years.

Top 5 Source Markets by Market Share

Country	% of total	Ranking Change 2013 - 2017
Thai	74%	1 > 1
UK	3%	2 > 2
Germany	2%	3 > 3
Mainland China	2%	11 > 4
Sweden	2%	6 > 5

Source: Ministry of Tourism and Sports

Top 10 Source Markets by Growth 2013 - 2017 (CAAG)

Brunei	58%
Malaysia	32%
Israel	31%
Taiwan	26%
Philippines	19%
Hong Kong	19%
China	18%
Japan	18%
Indonesia	17%
Singapore	16%

Source: Ministry of Tourism and Sports

New Hotel Supply

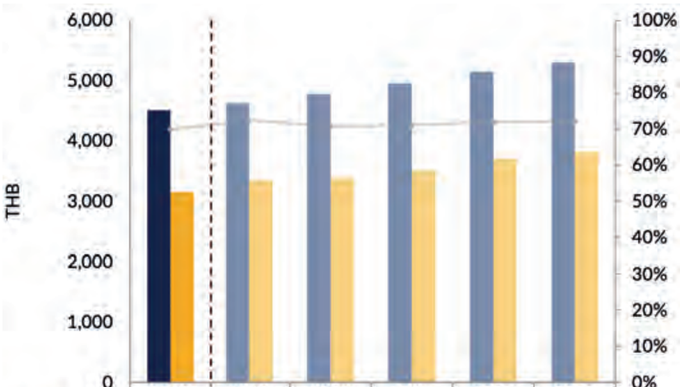
Currently, there is one hotel in the top-tier market's supply pipeline. U Hua Hin will be managed by Absolute Hotel Services Group and feature 132 rooms and villas on a 9-rai beachfront site. There are rumoured projects such as Standard Hotel and Khao Takiab Beach Resort by Veranda. It is also important to note that many land parcels in Hua Hin have been occupied by large Thai real estate developers and could be further developed into hotels and mixed-use developments should a market sentiment improves.

Performance Outlook

With limited supply entering the top-tier market in a near to medium term, demand growth is projected to moderate compared to the last five years when new openings strived to secure opening year's business. Occupancy is likely to gradually rise to the low 70 percent range in next five years, which is considered reasonable for a weekend destination like Hua Hin. The THB 2,000 to THB 4,000 rate category will see occupancy recover to mid-60 percent while the above THB 4,000 rate category's occupancy will grow further to nearly mid-80 percent. In a long run when the rumoured hotels or potential projects aforementioned materialize, the top-tier market's occupancy level will eventually soften to around 70 percent.

ADR is expected to grow at a faster pace, in line with inflation, compared to the past five years due to:

- slowdown of new hotel developments;
- recently opened hotels' performance ramp-up;
- higher pricing levels of renovated rooms at existing hotels, namely Dusit Thani and Hilton; and
- improved market sentiment



	2018	2019	2020	2021	2022	2023
ADR	4,504	4,627	4,780	4,947	5,148	5,301
RevPAR	3,149	3,348	3,382	3,512	3,702	3,820
Occupancy	70%	72%	71%	71%	72%	72%

	RNA	RND	ADR	RevPA
CAAG (2013 - 18)	7.5%	7.2%	0.5%	0,3%
CAAG (2018 - 23)	3.1%	3.7%	3.3%	3.0%

Positive Factors	Negative Factors
Well Positioned Destination	Uncertainties in Air Connectivity
Planned Infrastructure Improvement	Weekday - Weekend Disparity
Moderate Supply Growth	Domestic & Regional Destination Competition
Government's Tourism Support	Less Desirable Beach Quality

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Nick is a Director of Horwath HTL and has advised both local and international investors in the Thailand hospitality sector. He has brought with him comprehensive skills in feasibility analysis, investment underwriting, and asset management, as well as years of experience with hotel management companies, investment funds and consulting firms, namely Pan Pacific Hotels Group, Jumeirah Group, Host Hotels and Resorts, and PricewaterhouseCoopers Thailand respectively.

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