Strata Ownership Resorts and the Investment Decision as a Question of Capital Budgeting: A Proposed Method's Application in Phuket Luxury Tourism Accommodations

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A Thesis Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration in Hospitality and Tourism Management (International Program)

Prince of Songkla University

2010

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ชื่อวิทยานิพนธ์	การเป็นกรรมสิทธิร่วมและการตัดสินใจการจัดสรรเงินลงทุนในรีสอร์ท: การเสนอตัวแบบและการประยุกต์ใช้กับที่พักระดับหรูเพื่อการท่องเที่ยวในภูเก็ต
ผู้เขียน	นาย เจ เอมอส
สาขาวิชา	การจัดการการบริการและการท่องเที่ยว หลักสูตรนานาชาติ
ปีการศึกษา	2553

บทคัดย่อ

ความสวยงามของชายหาด บรรยากาศที่อบอุ่นและความมีไมตรีจิตของผู้คนในภูเก็ตได้กุมหัวใจของนักท่องเที่ยวกว่านับล้านในแต่ละปีที่เดินทางมาท่องเที่ยวบนเกาะนี้ การท่องเที่ยวสร้างเงินสะพัดมากกว่า 100,000 ล้านบาทต่อเศรษฐกิจของจังหวัดภูเก็ต อีกทั้งสร้างงานให้กับพลเมืองบนเกาะกว่า 300,000 ตำแหน่งงาน ความสำเร็จของจังหวัดภูเก็ตที่เป็นเสมือนจุดหมายปลายทางของนักท่องเที่ยวคือในด้านของความหรูหราของที่พักที่มีความสวยงามเป็นพิเศษ และการให้บริการที่มีมาตรฐานอย่างสูง จึงทำให้เกาะภูเก็ตได้ชื่อว่าเป็นเกาะแห่งสวรรค์ ซึ่งบทบาทของที่พักถือเป็นส่วนที่สำคัญของการให้บริการ เปอร์เซ็นต์ส่วนใหญ่ของที่พักระดับหรูเป็นประเภทที่เป็นกรรมสิทธิ์ร่วมการถือครองที่พัก ซึ่งเป็นประเภทห้องแบบแบ่งส่วนเป็นยูนิต ห้องชุด หรือ บ้านพักวิลล่า ซึ่งถูกเป็นเจ้าของโดยส่วนตัว และเจ้าของเหล่านั้น ปล่อยยูนิต ให้ เช่าโดยแขกผู้เช่าชั่วคราว

งานวิจัยจนถึงปัจจุบันในจังหวัดภูเก็ตส่วนใหญ่มุ่งเน้นถึงเรื่องทั่วไปของเรื่องที่พักสำหรับการท่องเที่ยว ที่รวมถึงเรื่องที่พักระดับหรู เป็นเพียงงานวิจัยเกี่ยวกับเรื่องภายนอก ซึ่งที่ผ่านมายังไม่มีงานวิจัยระดับลึกที่ เน้นถึงเรื่องที่พักระดับหรู และได้มีวิวัฒนาการณ์อย่างไร กุญแจพื้นฐานของส่วนนี้เช่นเรื่องเป็นกรรมสิทธิ์ร่วมการถือครองที่พัก ยังไม่มีการสำรวจทั้งจากภาคอุตสาหกรรมเอกชนหรือตลอดจนทฤษฎีการค้นคว้าเชิงวิชาการ ผลประโยชน์ต่อเศรฐกิจที่ซ่อนเร้นอยู่ในส่วนของกรรมสิทธิ์ที่พักที่ ยังไม่ได้ทำการสำรวจ และไม่ปารกฏถึงเครื่องมือในการประเมินค่าทางการเงินในรูปแบบของตัวแบบ

การศึกษาครั้งนี้ได้ระบุจำแนกถึงที่พักระดับหรูทั้งในอดีต ปัจจุบันและอนาคต และยังได้สำรวจถึงวิวัฒนาการของที่พักระดับหรู สำหรับการท่องเที่ยวในพื้นที่จังหวัดภูเก็ต การศึกษาครั้งนี้ยังเป็นการพิสูจน์ถึงแนวโน้มทิศทางของวิวัฒนาการในส่วนของที่พัก รวมทั้งแนวคิดของบ้านพักตากอากาศที่เป็นกรรมสิทธิ์ร่วมของการถือครองที่พัก ซึ่งการศึกษานี้เป็นการประเมินค่าความสามารถด้านการเงิน ซึ่งในส่วนนี้ บทความวิจัยนี้ได้แนะนำถึงระบบการจำแนกที่พักสำหรับการท่องเที่ยวแบบเอมอสซึ่งออกแบบเพื่อการใช้งานที่ง่ายขึ้นกว่าในอดีตของการวิเคราะห์กระแสเงินสด และอีกทั้งการพยากรณ์ความเป็นไปได้ในการคืนกำไรในอนาคตของที่พัก

ในการศึกษาครั้งนี้ได้ใช้วิธีการออกสนามสัมภาษณ์ และการติดต่อหาข้อมูลกับผู้เชี่ยวชาญในอุตสาหกรรมที่เกี่ยวข้อง รวมถึงการค้นคว้าเก็บข้อมูลจากผู้วิจัยอื่น ๆเป็นขั้นพื้นฐาน ในส่วนการเก็บข้อมูลระดับสองใช้วิธีการเก็บข้อมูลค้นคว้าจากการอ่านซึ่งเป็นการรวบรวมและแปลรายงานของอุตสาหกรรมและจากข้อมูลดิบ

ผลของการศึกษาแสดงออกมาว่า ในส่วนของที่พักระดับหรูได้มีการพัฒนาเปลี่ยนแปลงมากกว่าในช่วง 40 ปีที่ผ่านมาซึ่งไม่ได้จำกัดขอบเขตด้านภูมิศาสตร์ที่แสดงถึงว่ามีการพัฒนาเฉพาะในส่วนของโรงแรมหน้าชายหาดหรือทิวทัศน์ทะเล แต่ที่พักระดับหรูนี้ได้มีการพัฒนากระจายทั่วทุกมุมพื้นที่ของเกาะภูเก็ต อีกทั้งอิทธิพลของเครื่องหมายการค้านานาชาติดูเหมือนจะถือครองการบริหารเพียงเล็กน้อย แต่มากกว่าครึ่งหนึ่งของจำนวนที่พักระดับหรูเป็นการบริหารงานของคนในท้องถิ่น วิวัฒนาการการเติบโตล่าสุดในส่วนของที่พักระดับหรูได้แสดงให้เห็นถึงแนวโน้มของที่พักที่เป็นวิลล่าที่มีสระว่ายน้ำส่วนตัว ปัจจัยสำคัญอีกอย่างหนึ่งที่มีผลต่อการเปลี่ยนแปลงเล็กน้อยในส่วนของวิวัฒนาการด้านที่พักระดับหรูคือแนวคิดในเรื่องของการแบ่งกรรมสิทธิ์ของการถือครองที่พัก มากกว่า 50 เปอร์เซนต์ของที่พักระดับหรูในภูเก็ตเป็นที่พักที่เป็นกรรมสิทธิ์ร่วมการถือครอง ที่ทั้งนี้ตลอดถึงระบบการจำแนกที่พักสำหรับการท่องเที่ยวแบบเอมอส และกรณีศึกษาสองเรื่องนี้แสดงถึงความสามารถในการทำงานของตัวแบบทางด้านการเงิน ในความเป็นจริงแล้วในสองกรณีศึกษาที่ใช้แนวคิดนี้ได้พิ่มอัตราการคืนกำไรให้กับธุรกิจที่พักกว่า 18 เปอร์เซนต์

คำสำคัญ: โรงแรม คอนโดมิเนียม การเป็นกรรมสิทธิ์ร่วมการถือครองที่ จังหวัด ภูเก็ต อสังหาริมทรัพย์ ที่พักระดับหรู ระบบการจำแนกที่พักสำหรับการท่องเที่ยวแบบเอมอส

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Academic Year	2010

ABSTRACT

Phuket's beautiful beaches, mild climate, and naturally hospitable people have captured the hearts of millions of tourists who flock to the island every year. This tourism surge generates more than 100 billion Baht (2009) for the Phuket economy and generates jobs for the islands 300,000-plus registered inhabitants. The success of Phuket as a tourist destination is owed, in part, to the scores of luxury resorts whose exceptional beauty and high service standards have effectively branded Phuket as an island paradise. The role of these resorts in the island's hospitality sector is critical. A large percentage of these luxury accommodations appear to be strata ownership resorts, a type of tourism accommodation in which some portion of the units' rooms, suites or villas' are owned by individuals and then are rented out on a daily basis to transient guests.

Research conducted to date in Phuket predominantly concentrates on broad tourism accommodation subjects with the luxury resort sector covered as only a peripheral issue. There has been a severe lack of published research concerning this sector and how it has evolved. Key elements of this sector, such as the strata ownership resorts, have yet to be explored either by private sector industry reports or through academic research. The potential economic benefit of these strata ownership resorts has not been investigated and there does not appear to be any readily available tools to evaluate the financial viability of the model.

This study identifies past, current, and future luxury resorts and investigates the evolution of luxury tourism accommodations in the Phuket area. This study also identifies key trends in the evolution of this accommodation segment, including the strata ownership resort concept which this study further investigates as to its financial viability. In order to evaluate the financial viability of this sector, this thesis introduces the Amos Tourism Accommodation Profiling Method created to enable the recreation of historic cash flow representations of existing resorts, the modeling of investment recovery positions for existing resorts, and the forecasting of potential returns of future resorts.

The methods utilized in this study include field research consisting of interviews and personal communications with industry experts, as well as observations by the author as means of primary data collection. The secondary data collection method utilized in this study includes desk research, which involves the compilation and interpretation of industry reports and raw data.

The results of this study show that the luxury resort sector of Phuket has evolved over the last 40 years and has not been geographically confined to beachfront locations or even sea view sites. Instead, this sector has spread to all corners of Phuket Island and beyond. In addition, the power of the international brand seems to hold little sway over this sector as more than half of the luxury resorts are locally managed. The latest stages of evolution of this sector are seen in the trend of luxury resorts to be entirely comprised of private villas with private pools. One key element that has changed little over the evolution of this sector is the use of the strata ownership concept. More than 65% of the Phuket luxury resorts are strata ownership resorts. Furthermore, through the implementation of the Amos Tourism Accommodation Profiling Method and two case studies, this study shows, by way of two case studies, that the strata ownership resort model is financially viable. In fact, in case study two the use of this concept increased the resort's rate of return by 18%.

Keywords: condominium hotel, strata ownership, Phuket, real estate, luxury accommodation, Amos Tourism Accommodation Profiling Method

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CHAPTER 1
INTRODUCTION

1.1 Statement of the Problem

Phuket is considered the home of Thailand's best offerings of luxury resorts and accommodations. The exceptional beauty and high service standards of these luxury resorts have effectively branded Phuket as an island paradise. As early as the 1970s, luxury and five-star resorts began to appear on this island (Horwath Asia Pacific, 2005). Although the number of luxury rooms compared to the total island room inventory is minimal, the luxury segment is a driving force in further tourism development of the island (Assmann, 2009). The luxury resorts attract tourists who spend as much as 20 times more per day than a tourist staying at an average resort (TGR Asia, 2008).

There is an interesting phenomenon emerging regarding the luxury resorts on the island. By general observation, it appears that a large percentage of these luxury accommodation facilities are incorporating the strata ownership concept into their resort design, making these facilities strata ownership resorts. A Strata Ownership Resort is a type of tourism accommodation in which some portion of the units – rooms, suites or villas – are owned by individuals and then are rented out on a daily basis to transient guests. Interviews with industry experts revealed that of these luxury accommodations, a significant amount (including the most luxurious resort currently under development on a private island 500 meters off the coast of Phuket) will be strata ownership resorts (Assmann, 2009; Graham, 2009).

The concept of the strata ownership resort or hotel has long been familiar in the hospitality industry of the West where the concept is referred to as condo hotels or hotel residences. As early as the 1950s, hotel residences were available in New York (Bohan, 2009). Condo hotels and hotel residences have grown significantly in popularity as second home options (Warnken et al., 2008; Condo Hotel Center, 2009). Buyers can purchase a luxury vacation home at a world class resort and enjoy all the amenities offered by the resort. These buyers can experience this lifestyle as a resident and owner as opposed to a vacationing hotel guest experiencing this lifestyle for a limited amount of time.

Utilizing the strata ownership concept as a component of luxury resorts is a phenomenon that is gaining momentum in the hospitality industry of Thailand, especially the resort island of Phuket. To date, little research has been conducted on the evolution of the luxury tourism accommodations in Phuket and virtually no research has been conducted concerning emergence of strata ownership resorts in Thailand. This research project analyzes the evolution of the luxury tourism accommodation sector in the Phuket area and determines the trends and key issues in the development of the strata ownership concept in this segment.

Primary data has been gathered by multiple academic, government, and industry organizations concerning the variety of tourism accommodations in Phuket. These organizations often mention the luxury tourism accommodation sector; however, they have limited their inspections of this sector to snapshots of the industry at specific points in time. Existing research predominantly concentrates on other areas, with the luxury tourism accommodation sector covered as only a peripheral issue. None of these organizations has published reports that evaluate the evolution of the luxury tourism accommodation segment. Because this segment is an increasingly important part of the Phuket tourism economy, there is a critical need to understand how this segment has developed. Such an understanding helps us envision its future development, which is essential to the livelihoods of the hundreds of thousands of Phuket residents.

Throughout the past few decades, the evolution of the luxury tourism accommodation sector of Phuket includes a constant, impressive presence of strata ownership resorts. This part of the Phuket luxury tourism accommodation market is gaining impressive momentum and has yet to be explored either by private sector industry reports or through academic research. Data that explains how this segment has developed or how many luxury resorts are using the model does not exist. The factors that have motivated Phuket developers to implement this concept in their resorts are also unknown.

In addition, research that evaluates the long-term viability of this concept has not been conducted, and in general, the evaluation of the viability of existing resorts or future resorts by those not privy to proprietary financial information is extremely difficult. Industry reports containing detailed information about many aspects of tourism accommodation's configuration and operational cash flows are available. However, the operational cash flow data given in these publications is restricted mainly to ratios, room rate, and occupancy information.

These reports do not give currency figures for individual resorts. Thus, it is impossible to recreate historic cash flow representations of existing resorts, to model investment recovery positions for existing resorts, or to forecast potential returns of future resorts.

In general, there is a lack of a model or financial profiling method that can generate financial information for existing or proposed tourism accommodations that can be used by parties not privy to proprietary financial data. This lack of an existing model creates difficulty for researchers and professionals in the hospitality industry when attempting to evaluate the financial viability of new concepts (such as the strata ownership resort concept). These researchers or industry professionals will most likely have few sources from which to secure propriety financial data. Significant gains in hospitality research could be made if there was a model or financial profiling method whereby researchers could generate a financial profile of multiple resorts in order to evaluate the financial effects of new operational or design concepts.

1.2 Related Literature

1.2.1 Tourism as a Worldwide Phenomenon

Tourism has developed into an impressive force in the world economy. A report from the World Tourism Organization's European Meeting held in Belgrade on June 20 - 21, 2005, reports that tourism generates over 10% of the gross global product (World Tourism Organization (WTO), 2005). The World Travel & Tourism Council (WTTC) says that the world tourism industry is worth US$ 5,474,000,000,000 (2009). Their estimates, published in the 2009 WTTC Travel & Tourism Economic Impact report, forecast that the world tourism industry will continue to increase in value to US$10,478,000,000,000 (a 91% increase) in only 10 years (2019) (World Travel & Tourism Council, 2009).

In recent years the amount of international tourists world-wide has surged. According to the World Tourism Barometer report published by the World Tourism Organization of the United Nations (2009), international tourist arrivals reached 924 million in 2008. The World Tourism Barometer report states that between 2007 and 2008 total international tourists arrivals increased by 2%.

The number of world traveling tourists is massive and increasing, as is the number of people employed by the industry. The World Travel & Tourism Council (2009) says 7.6% of worldwide employment is contributed by the travel and tourism industry. This is 219,810,000 jobs in 2009, the equivalent of 1 in every 13.1 jobs. According to Hiroko Mirafiori (2009) the world travel and tourism industry will employ 275,000,000 people or 8.4 percent of global jobs by 2019.

1.2.2 Thailand Tourism and Tourism Accommodations

1.2.2.1 Thailand General Information

Thailand is a constitution monarchy located in the center of Southeast Asia. Thailand borders the Lao People's Democratic Republic, the Union of Myanmar, and Malaysia. The country has surface area of 513,115 square kilometers (making it the 50th largest country in terms of land area) divided into 76 provinces and two special districts (Bangkok and Pattaya). The highest point is Doi Inthanon, which is 2,565 meters above sea level and is located in the mountainous North. The largest part of the country is the Khorate Plateau which consists of most of the Northeast side of Thailand. The other regions of the country include the Chao Phraya river valley and the Kra Isthmus in the south.

The population of Thailand is estimated to be approximately 67 million people, which makes it the 20th largest country in terms of population. The population consists of 80 percent Thais, 10 percent Chinese, 3 percent Malays, and 7 percent minority groups. The predominant religion in Thailand is Buddhism, which accounts for 95% of the population; the second largest religion is Islam, which comprises 4.6 percent of the population and is centered in the Southern provinces.

The kingdom of Thailand, known as Siam until 1939, was established in 1238. Thailand's original capital was located in the city of Ayutthaya but was ransacked by the Burmese in the 18th century. King Rama the 1st, founder of the Chakri Dynasty, moved the capital to Bangkok in 1782.

Thailand became a constitutional monarchy in 1932 when Phibul Songgram and Pridi Phanomyang led a coup (the first of 18 to follow in the subsequent 75 years). Thailand was controlled by its military until 1992 when public protests, led mainly by students, reached a tipping point. Powerful institutions, including the monarchy, helped establish a new stable civilian government complete with a reformist constitution.

Table 1.1 Thailand Demographics

Land Area	510,120 Square Kilometers
Water Area	2,230 Square Kilometers
Coastline	3,219 Square Kilometers
Population	67,000,000
Population Growth	0.80%
Gross Domestic Product	USD 284.53 Billion
GDP per Capita	USD 8,100

Source: Central Intelligence Agency, 2009

1.2.2.2 Tourism: A Critical Part of the Thailand Economy

Many countries throughout the world depend heavily on tourism, but according to a report by the UNWTO to the UN Secretary-General (2009), tourism is especially critical to the economic development of developing countries. Thailand is a developing, which relies heavily on tourism. In fact, more than 13% of the Thai GDP comes from tourism (although some Thai government agencies dispute this number, the research of is convincing) (Ratanakomut, 1991). More than 3.1 million jobs in Thailand are tourism related. This is an impressive jump from 1991, when the number of tourism-generated jobs did not even reach 125,000 (Tax Articles International Article Directory, 2009). However, by 1991 tourism was already the country's main source of foreign exchange (Tourism Council of Thailand, 2008). Not only does tourism generate direct revenue for the country, but also it stimulates investment. According to Anan Wattanakuljarus (2005), 12% of the country's investment is tourist related. The WTO lists these additional reasons why tourism is important to economic development of LDCs such as Thailand:

1. Tourism is consumed at the point of production; the tourist has to go to the destination and spend his/her money there, opening an opportunity for local businesses of all sorts, and allowing local communities to benefit through the informal economy by selling goods and services directly to visitors;

2. Most LDCs have a comparative advantage in tourism over developed countries. They have assets of enormous value to the tourism industry - culture, art, music, natural landscapes, wildlife and climate, including World Heritage Sites. Visits by tourists to such sites can generate employment and income for communities as well as helping in the conservation of cultural and natural assets;

3. Tourism is a more diverse industry than many others. It has the potential to support other economic activities, both through providing flexible, part time jobs that can complement other livelihood options, and through creating income throughout a complex supply chain of goods and services;

4. Tourism is labor intensive, which is particularly important in tackling poverty. It also provides a wide range of different employment opportunities especially for women and young people - from the highly skilled to the unskilled and generally it requires relatively little training;

5. It creates opportunities for many small and micro entrepreneurs, either in the formal or informal economy; it is an industry in which start-up costs and barriers to entry are generally low or can easily be lowered;

6. Tourism provides not only material benefits for the poor but also cultural pride. It creates greater awareness of the natural environment and its economic value, a sense of ownership and reduced vulnerability through diversification of income sources;

7. The infrastructure required by tourism, such as transport and communications, water supply and sanitation, public security, and health services, can also benefit poor communities. (World Tourism Organization, 2009)

Thailand has earned a reputation for high levels of service in the hospitality industry. In 2008, over 14,000,000 foreigners visited Thailand. Thailand has proven adept at projecting an image of being safe and secure. Even with the coup d'etat in 2006, there was no measurable adverse impact on tourist arrivals (Horwath HTL, 2007). This image has enabled Thailand to gain a competitive advantage over the neighboring countries of Malaysia, Philippines and nearby Indonesia which are often associated with travel restrictions and terrorist activity such as the Bali bombings. In addition to Thailand's safe image, traditionally, the foreign exchange rate has been a favorable factor in compelling foreigners to visit the country. These factors have helped drive the increase in tourism in Thailand, as seen in table 1.2.

As tourist arrivals continue to increase, it is no surprise that tourism is one of the fastest growing sectors in the Thailand economy. Research shows that more than half of Thai industries are directly or indirectly related to tourism (Ratanakomut, 1991; Wattanakuljarus, 2005). The hotel, restaurant, transportation and retail industry of Thailand are especially impacted by tourism in Thailand (Chaipinit, 2008).

Table 1.2 Thailand and Foreign Tourist Arrival

Year	Foreign Tourist Arrival
1997	7,221,345
1998	7,764,930
1999	8,580,332
2000	9,508,623
2001	10,061,950
2002	10,799,067
2003	10,004,453
2004	11,650,703
2005	11,567,341
2006	13,821,801
2007	14,464,228
2008	14,200,000
2009	12,530,000*

* Forecast by Kasikorn Research Center

Source: TAT, 2007; Kasikorn Research Center, 2009

1.2.2.3 The Continued Importance of Tourism in Thailand

The World Travel and Tourism Council estimates the tourism industry contribution to the Thailand GDP will rise to more than 63 billion baht by 2014, increasing by 7.7 percent (World Travel and Tourism , 2005). These numbers reveal that Thailand relies on tourism more than most other South-East Asian countries and developing countries whose GDP contribution is usually in the range of 7.5 to 10.6 percent (as compared to Thailand's 13%+).

This growth in percentage of GDP contribution shows that the impact of tourism on the Thai economy is continuing to grow in importance. Other industries in the Thai economy are becoming less relevant as the tourism sector continues to gain momentum.

Historically, Thailand has been a relatively stable country, offering acceptable production capabilities and low labor costs. Currently, Thailand's manufacturing contributes 46% of the GDP (Central Intelligence Agency, 2009; Tax Articles International Article Directory, 2009). However, the constant political instability and continuing development of industry in neighboring and regional countries such as China and Vietnam are increasingly eroding the attractiveness of Thailand to foreign investment as a place to base manufacturing operations. These neighboring countries continue to develop in terms of technology, industry development, trade agreement advancements, and other areas. These competing countries, many of which have suffered politically related setbacks, are now developing stabilizing institutions that advance their competitiveness. This phenomenon is expected to continue and will inevitably mean the Thai economy will begin to rely more heavily on tourism than ever before.

The rising middle class of Southeast Asia is driving regional tourism. Although Thailand is a well known in the West as a premier tourist destination, a large portion of visitors to Thailand come from its regional neighbors. Malaysian and Japanese tourists outnumber all other foreign visitors in the Kingdom (Horwath HTL, 2007). The table below shows the top visitor-generating markets.

Table 1.3 Top Five Visitor-Generating Markets in 2006

Country	Visitors	Percent of Total
Malaysia	1,591,328	12%
Japan	1,311,987	9%
Korea	1,092,783	8%
China	949,117	7%
United Kingdom	850,685	6%

Source: Horwath HTL, 2007

Regional countries are not only the largest contributing source markets for Thai tourism, but also they are among the fastest growing in terms of visitor arrivals. Regional countries account for 3 of the 5 fastest growing contributing source markets. The number of Hong Kong visitors to Thailand grew 37% from 2005 to 2006. The number of Laotian visitors increased by 36%, while the number of Korean visitors increased by 34% over the same period.

These strong numbers from regional countries in both overall tourist arrivals and growth can be attributed to multiple factors. One of these factors is the rapid increase in the level of middle-class income, which is spurring outbound tourism from Thailand's neighboring countries (Sawarbrooke & Horner, 1999). On June 14, 2006, the Ministerial Roundtable on Asia-Pacific Tourism Policies of the United Nation World Trade Organization (UNWTO) (which includes Australia, China, Hong Kong, India, Japan, Republic of Korea and Thailand) reported, "Asia has traditionally been known for its tourism destinations, but [now] the number of Asians traveling abroad has soared." This analysis shows that Asia's outbound tourism growth rates and travel potential far exceed that of other economic blocks, such as Europe or the Americas (World Tourism Organization, 2006).

1.2.2.4 A Brief History of Hospitality and Tourism in Thailand

As result of the Vietnam War, the tourism industry in Thailand did not start to gain traction until the 1960s. By 1959, 750 U.S. troops had been sent to Vietnam, but there were more than 31,000 U.S. in South Vietnam by 1961. A sizable force was also stationed in Thailand to counter communist attacks in Laos. For 13 years the conflict in Southeast Asia brought soldiers to Thailand. These solders would spend their allotted "rest and recreation" time in Thailand. This influx of foreigners spurred the fledgling Thai tourism economy and brought economic benefits to the country by introducing new technology to Thailand and opening the U.S. market to Thai exporters (Da Silva, 2002).

In the late 1950s and early 1960s, fewer than 100,000 tourists visited Thailand annually. The Tourism Authority of Thailand (TAT) was established on March 18, 1960, to help promote Thailand as a tourist destination. The TAT encourages local and international travel in Thailand. It also conducts studies and creates plans to develop tourist destinations. The first local TAT office was established in Chiang Mai in 1968. Now there are 22 local offices throughout Thailand. The TAT opened its first international office in New York in 1965; since then, 15 more offices have been established in countries around the world (Tourism Authority of Thailand, 2009).

Over the next decade and a half, tourism in Thailand grew steadily. In 1974 the James Bond movie, "The Man with the Golden Gun," was filmed in Phang-nga National Park. The success of this movie brought Thailand back in minds of westerners who saw the beautiful landscape of Southern Thailand and flocked to the country. From 1980 to 1987 tourist arrivals increased by more than 10% a year. In 1997 the bestselling novel *The Beach*,by Alex Garland, was published. Soon after, in 2000, the book was made into a movie starring Leonardo DiCaprio. Once again the publicity brought a surge in tourism arrivals to Thailand (Lowe, 2006). The movies and book helped Thailand gain notoriety, but the fundamentals of beautiful landscape, exciting nightlife, endearing people, and intriguing culture have been the backbone on which the Thai tourism industry prospers.

1.2.2.5 Tourism Accommodations in Thailand

Visitor accommodations have existed in Thailand for more than a hundred years, but the launching point of the modern Thai tourism accommodation market can be traced back to the beginnings of the Dusit International hotel group. In 1948, Thanpuying Chanut Piyaoui (Honorary Chairperson) opened her first hotel (called "Princess") on Bangkok's new Road (Dusit International, 2009). The opening and successful operation of this hotel marked the transition of the Thai hotel and hospitality industry into a new age. It wasn't until the mid 1960s and the Vietnam War, however, that the hotel industry really began to gain momentum. Kamol Ratanavirakul (2008), of the Thai Hotel and Hospitality Management Association, writes that "the first big boom for hotels in Bangkok occurred when U.S. government sent their GIs for holidays in Bangkok under their Relax and Recreation Program. The second wave of new small hotels came in early1980, when small hotels, apartments, and resorts were built in several major tourist destinations such as Pattaya, Phuket, and Chiangmai" (Ratanavirakul, 2009).

Multiple institutions publish statistics on tourist accommodations in Thailand. These institutions include the National Statistics Office, individual Provincial Administration Authorities, the Tourism Authority of Thailand, and various tourism associations. Although many of these institutions are officially recognized by the Thai government, which claims they are disseminating accurate data, the statistics on the same metrics given by these institutions vary widely. The number given for the amount of tourism accommodations in Thailand ranges from hundreds to thousands.

These variations can be attributed to multiple factors. First, collection methods vary from intuition to institution. Second, the definitions of tourist accommodation are open to interpretation as they are not well identified throughout the industry. (Some laws exist that define some types of accommodations such as the Hotel Act B.E 2547, but there are many types of accommodation that are not officially defined.) Third, the various institutions have different motives in collecting this information that affects their respondent's willingness to give accurate data.

It is unclear how the National Statistics Office gathers its data, but assumedly they collect and compile data from the States Revenue department. The States Revenue Department intern collects its data at a provincial level. This provincial level data is taken from the Provincial Administration Authorities. The accuracy of this data is questionable as respondents are likely to give misrepresentative data in order to avoid tax costs.

1.2.3 Luxury Tourism Accommodations

The classification of tourist accommodations in terms of levels of quality is a complex and an inexact science. According to Callan (1995), classification in tourism accommodations, "is a term used to sub-divide the stock of accommodation into categories Each category consists of specified facilities and services such as the proportion of private bathrooms, minimum size of rooms, presence of full-length mirror, or provision of food and beverage room service."

Classification systems began as tourism began to modernize in the second half of the 19th century, and tourists and tourism accommodation facilities began to search for some standardization of services and facilities. The first rating and classification systems came from automobile and cycling clubs in Europe. These clubs sought to create tour books that could help their membership find accommodations with constant levels of quality (Research Department of the Caribbean Tourism Organization, 2002).

This association and club organized classification system continued to develop as many organizations modified existing systems or began their own systems of tourism accommodation rating. Some of the more prominent organizations now include the Automobile Association, the American Automobile Association, the Michelin Tire Company, England's Royal Automobile Club and Egon Ronay. Individual countries also began taking their National Tourism Boards or Departments with creating national classification systems. According to the Research Department of the Caribbean Tourism Organization (2002), this process started off slowly; only five European countries had developed classifications systems by 1970, but by 1980 the number increased drastically to 22 in Europe and another 38 in other areas of the world.

This large number of independent reviewing organizations means that systems and processes are not uniform. Sometimes the government reviewing organizations are controlled at the national level and other times at a much more local level. Spanish researcher Fernandez explains that in autonomous communities of Spain, for instance, "national standards are overseen by the different autonomous communities as dictated by the Spanish Constitution and the Statutes of Autonomy which grant exclusive authority to the autonomous communities in the areas of regulation and promotion of tourism" (Fernandez & Bedia, 2004).

Because ideas of classification (and related concepts of registration and grading) are far from uniform, not standardized, and complex, some institutions are turning to new systems that can be applied in a more straight-forward fashion. One such system was created by Smith Travel Research in August of 1993. This new general classification system is called the "market price levels" system. Basically, tourism accommodations are categorized based on room rate. Dr. Kaye Chon, of the Hongkong Polytechnic University, highlights this system in his book, (coauthored with Raymond Sparrowe) *Welcome to Hospitality* (2000). Chon and Sparrowe explain, "Classifications in this system are not industry-wide; definitions depend upon each market area, such s a city or particular geographic region. Some levels will not be found in some market areas" (2000). The Smith Travel Research company website further explains classifications as "the five categories of a metro STR market which are defined by actual or estimated average room rate" (see table 1.4; 2009).

Table 1.4 Market Price Level Segmentation

Segment	Based on Geographic Market and Average Room Rate
Luxury	85th Percentile
Upscale	70th Percentile
Midprice	40th Percentile
Economy	20th Percentile
Budget	Below the 20th Percentile

Source: Smith Travel Research, 2009

1.2.4 Phuket Tourism and Tourism Accommodations

1.2.4.1 Phuket General Information

Phuket is an island province located 885 kilometers south of Bangkok. It is the largest island in Thailand with a total area of 550 square kilometers (roughly the size of Singapore). The island is very mountainous; one mountain range runs north to south on the island's west side (Horwath HTL, 2007).

The first records of Phuket are found in the records of Ptolemy, a Greek geographer from the third century A.D. (One Stop Phuket, 2009). Phuket first became famous as a rich source of tin and rubber. The convenient geographical position and abundance of natural resources made Phuket a popular stop on some of the major trading routes between India and China and was frequently mentioned in merchant ship logs.

Phuket became a province in 1933 and currently is divided into three districts: Muang District, Thalang District and Katu District. The majority of development in Phuket has centered on the beaches of the West Coast, including Nai Yang Beach, Nai Ton Beach, Bang Tao Beach, Surin Beach, Kamala Beach, Patong Beach, Karon Beach, Kata Beach, Kata Noi Beach, and Nai Harn Beach.

The majority of the Phuket's 321,802 residents is Buddhist but more than 30% of the population is Muslim. Most Muslims are descendants of sea-dwelling people or Malaysians. The vast majority of the Buddhist population is of Chinese ancestry who came to Phuket in the early 19th century to work in the tin industry (Wikipedia, 2009).

1.2.4.2 Tourism: A critical Part of the Phuket Economy

Tourism has been the life-blood of the Phuket economy for the last 20 years. Although the rubber and other industries (pearl farms; coconut, cashews, tapioca, cacao, rice, and pineapple farms; prawn farming; marine product processing) can still be found on the island, the island's 300,000 plus inhabitants rely on tourism to drive the island economy.

Table 1.5 Tourism Arrivals in Phuket

Year	Number	Year	Number
1989	971,683	1999	3,083,573
1990	1,254,215	2000	3,459,573
1991	1,208,594	2001	3,789,660
1992	1,633,496	2002	3,990,702
1993	2,094,661	2003	4,050,077
1994	2,119,063	2004	4,793,252
1995	2,272,257	2005	2,510,276
1996	2,290,735	2006	4,600,000
1997	2,401,631	2007	5,200,000
1998	2,660,420	2008	4,000,000

Source: TAT, 2007; Horwarth 2007, Author

Adjusted data from the Kasikorn Research Center (2008) suggests that, in 2008, tourism generated 101.2 Billion baht in income in Phuket. This income can be broken down into four categories: accommodation, food and beverage, shopping, and entertainment and recreation (Kasikorn Research Center, 2008).

Table 1.6 Incomes Generated in Phuket by Tourism

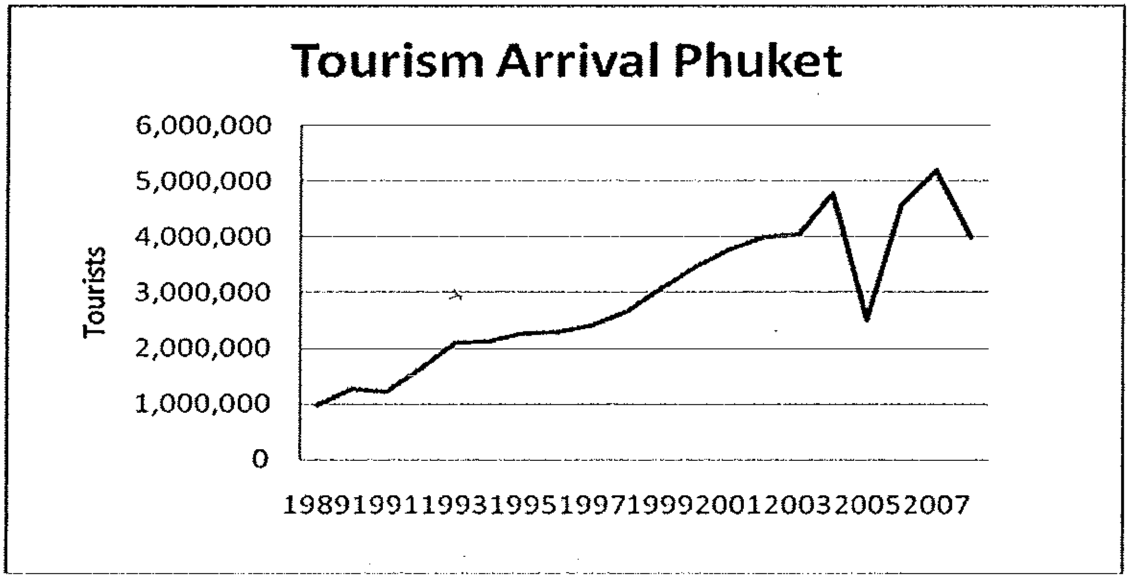
Segment	% of Total Tourism Rev	Rev in Billion Baht
Accommodation	28%	28.34
Food and Beverage	17%	17.2
Shopping	16%	16.19
Entertainment & Recreation	13%	13.16
Other	26%	26.31
Total (2008)		101.2

Source: Kasikorn Research Center, 2009

1.2.4.3 Phuket Tourism

Tourism in Phuket grew an average of 11.8% over the period of 1990 to 2004 (until the time of the tsunami). Over the same period the total growth was 393%.

Figure 1.1 Tourism Arrivals in Phuket



Source: Author

1.2.4.4 Tourism Accommodations in Phuket

As mentioned earlier, statistics on the tourism industry in Thailand are generated from multiple sources, and many times those sources publish conflicting information. This discord is not unique to Thailand; in fact the tourism industry worldwide is a very complex and fragmented industry, which makes it difficult to define and measure. Experts such as the Economic Co-operation and Development's Center for Entrepreneurship, SMEs and Local Development recognize that gathering statistical data in LDCs is especially challenging and prone to error (Centre for Entrepreneurship, SMEs and Local Development, 2008).

This difficulty and error-prone statistical data generation is prolific in Thailand. The National Statistics Office itself publishes conflicting reports. According to the "Preliminary

Report of the 2006 Hotels and Guest Houses Survey" (National Statistics Office, 2006), there were 644 hotels/guest houses in the Southern region of Thailand, but a 2008 report from National Statistics Office shows there were still only 644 hotel/guest houses. It is unreasonable to assume the number did not change in two years. In addition, the 2008 National Statistics Office report lists 137 hotels/guest houses, while Phuket Provincial Authority reports 264 hotels/guest houses, and Tourism Authority of Thailand reports 628 hotels/guest houses a year earlier in 2007 (National Statistical Office, 2008; Horwath HTL, 2007). The Phuket Tourism Association claims 579 establishments in 2005 while the Tourism Authority of Thailand reports 528 (Phuket Tourism Association, 2005; Horwath HTL, 2007). Even the Tourism Authority of Thailand itself publishes conflicting data. An investigation of the Tourism Authority of Thailand's website yields Phuket hotel counts that are incongruent with their annual published reports.

The Tourism Association of Thailand's data are suspect, but with supplemental data from other tourism-related associations the level of reliability increases substantially. These other tourism related organizations are, for the most part, not regulatory or tax related; therefore it is more likely that hotel and other tourism accommodation faculties are more willing to make data available. Also, the major hotel tourism consulting companies usually rely on data from these sources in order to make their projections and analyses (Horwath HTL, 2007; C9 Hotelworks, 2009; HVS International, 2002). This study will also use the Tourism Association of Thailand's primary data when other tourism-related associations corroborate it.

As of 2007 there were 628 hotels in Phuket. The number has grown by more than 14% in the previous five years, an average rate of 3% a year. The growth of hotels in Phuket was stifled by the 2005 tsunami, which reduced the number of hotels from 579 in 2003 to 528 in 2005 (9%). The number of hotels rebounded in 2006 to 570 but was still short of the 579 mark of the pre-tsunami year, 2004. The largest addition in hotels on the island came in 2007 when 58 new hotels were built, increasing the island's total hotel count by a full 10% (Tourism Authority of Thailand, 2007).

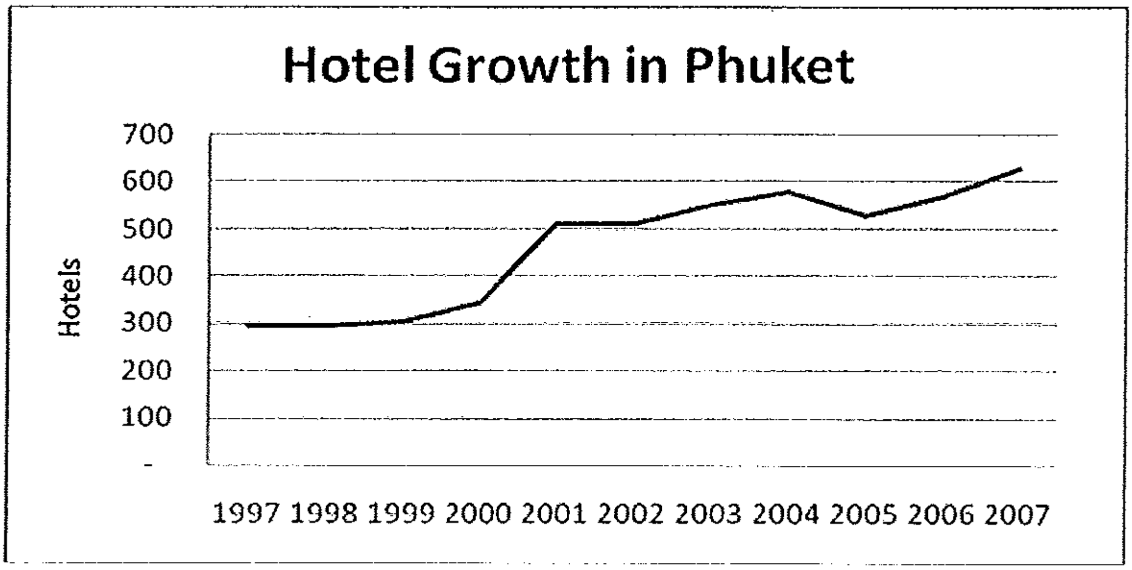
The data from the tables and graphs below are the compilation information taken reports by the Tourism Authority of Thailand, Horwath International and local tourism and hotel associations.

Table 1.7 Rooms and Hotel Growth

Year	Hotels	Year	Rooms
1997	293	1997	18,959
1998	293	1998	17,952
1999	303	1999	20,150
2000	344	2000	10,574
2001	510	2001	26,759
2002	510	2002	26,637
2003	549	2003	31,302
2004	579	2004	32,076
2005	528	2005	31,488
2006	570	2006	34,297
2007	628	2007	37,542

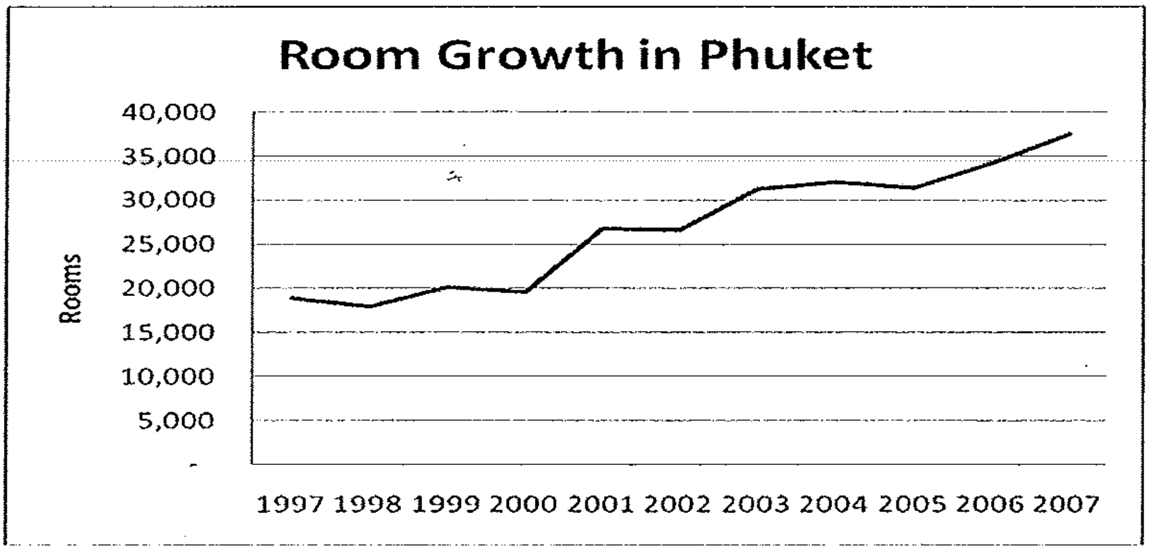
Source: Phuket Tourism Association, 2005; Horwath HTL, 2007

Figure 1.2 Hotel Growth in Phuket



Source: Author

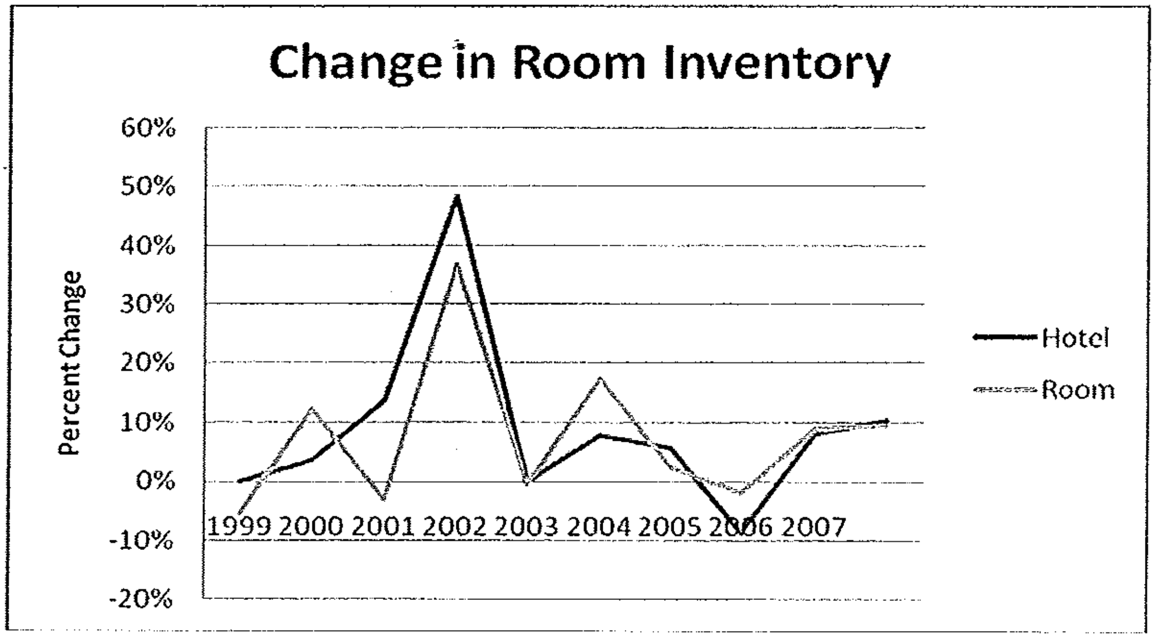
Figure 1.3 Total Room Growths in Phuket



Source: Author

The tables and graphs above show a strong increase in hotels and rooms since 1997. Below is a graph of the year-on-year percent increase of these metrics.

Figure 1.4 Percent Change in Hotel and Room Inventory



Source: Author

1.2.4.5 Luxury Resorts of Phuket

This study identifies three research papers that were conducted in Phuket and that involved the identification of "luxury" hotels. These three research projects include work by Praneet Buathong called, "Quality Training Programs in Phuket Upscale and Luxury Hotels (2008). The second work is "Competitive Strategy for Luxury Hotel Resorts in Phuket: Gaining Competitive Advantage through Environmentally Friendly Development," written by Arnfinn Oines (2006). The third work is "Impact of Room Occupancy and Room Revenue to Recent World Events: The Case of Luxury Hotels in Phuket, Thailand," written by Paritchawan Kraiponrak in 2007. This study will identify the strengths and weakness of three papers mentioned above, which ultimately leads to the conclusion that an adequate evaluation and identification of Phuket's luxury tourism accommodations has yet be completed. In addition to these studies, other classification systems that identify the Phuket luxury tourism accommodation market can be found in industry reports. Once such system used by the industry service company, CB Richard Eillis, will also be addressed.

Quality Training Programs in Phuket Upscale and Luxury Hotels (Buathong, 2008)

Buathong (2008) classifies luxury hotels in terms of hotels whose "actual room rates" are above the 85^{th} percentile in the geographic market. She classifies "upscale hotels" in a similar manner as "hotels that have actual room rates above the 70^{th} percentile and below the 85^{th} percentile in their geographic market" (Buathong, 2008). Buathong's research is based on a room list published by the Tourism Authority of Thailand in 2007. Buathong writes that the TAT indentified a total of 52 hotels in their report. She writes, "There are 32 upscale hotels and 20 luxury hotels around Phuket that involve multination hotel chain and independent hotels." Apparently, she means that some of the 32 upscale hotels and 20 luxury hotels are managed or owned by international chains and some are managed or owned by independent groups. Buathong's list of luxury hotels is presented in table 1.8.

Table 1.8 Buathong's Luxury Hotel List

No.	Hotel Name
1	Amanpuri Resort
2	Bann Yin Dee Boutique Resort
3	Banyan Tree Phuket
4	Bundarika Resort Spa and Villa
5	Chandara Resort and Spa
6	Conrade Phuket Resort and Spa
7	Dusit Laguan Resort and Hotel
8	Impiana Phuket Cabana
9	Le Merridien Phuket Beach Resort
10	Le Royal Merridien Phuket Yacht Club
11	Maiton Estate and Resort
12	Naka Wanna Villas
13	Phuket Golf View
14	Phuket Pavillions
15	Sheraton Grande Laguna Beach Resort
16	Sri Panwa
17	The Racha
18	The Sands Boutique Resort
19	Treetops Arasia
20	Trisara

Source: Buathong, 2008

Buathong's application and definition of luxury hotels is problematic for the following reasons:

1. The method that she identifies is not a Chon & Sparrowe method. This method is indeed presented in their text but (as clearly stated in their text), the method comes from Smith Travel Research.

2. In order for this method to be effective, it must be applied correctly. This method could be applied to the Phuket market place but not without considerable adaptation. The accuracy of this method is based on a critical mass of hotels and an accurate and complete data set identifying them. Buathong's application did not fulfill these requirements in the following three critical areas.

This method is designed to model a U.S. market

The Smith Travel Research company clearly states on their website that this model was created and intended to be used in U.S. markets. Perhaps this ensures an accurate data set. In a regulated tourism accommodation market, such as the U.S., there are accurate records as to the number of hotels in a specific "geographical area" and room rates collected by those establishments. In such a regulated area, all established tourism accommodations must register with appropriate authorities and secure licenses as well as pay taxes, etc.

This method must be used in a metro market

Not only is this model to be used in U.S. markets, but also it must be used specifically in a metro market. A metro market ensures critical mass. A metro city such as New York, L.A., Chicago, etc., will have millions of residents and visitors and thousands of hotels. This large amount of tourist accommodations allows for appropriate segment separation. In Chon and Sparrowe's introduction of this Smith Travel Research model they say specifically that "classifications in this system are not industry-wide; definitions depend upon each market area, such as a city or particular geographic region. Some levels will not be found in some market areas" (Chon & Sparrowe, 2000).

Identifying the top 15% of any list necessitates identifying the bottom 85%

The Phuket accommodation market is far from standardized: it is very loosely regulated. Many hotels are "off the radar" and operate illegally without permits or operate without proper coordination with local authorities. This means a complete list of tourism accommodations is not readily available (and lists that are published from time to time by authorities are suspect). In order to find the top "15%" of hotels in terms of room rate, the bottom 85% must also be identified; without a complete list of the hotels, this is not possible.

3. Buathong's data source is suspect. Although the assumption may be made that the Tourism Authority of Thailand gives accurate data on the tourism industry in Thailand (as it is charted by the Thai Government), the numbers distributed by this organization stand to be reviewed for accuracy (as mentioned in the previous section this organization is known to publish conflicting data). It is not known if any authority verifies claims or reports made by the TAT; various government agencies are very much at odds with each other on the number of hotel in Phuket.

4. The reference to this TAT report is inadequate. Buathong's reference of the report is only "Tourism Authority of Thailand" therefore it is not possible to actually "refer" to this work; it cannot be located or reviewed.

5. A clear definition of "room rate" is not presented in Buathong's research. She uses the term "actual room rate" but fails to define it. Chon and Sparrowe (2000) also use this term in *Welcome to Hospitality*. Smith Travel Research uses the terms "actual or estimated average room rate." All of these terms are ambiguous. A better-defined term such as ADR, or average daily rate, should be used. This term is more appropriate to academic research. ADR is widely known throughout the hospitality industry as "room revenue divided by rooms sold" (STR/TBL, 2008).

6. The most difficult issue to reconcile in Buathong's methods of defining and identifying of luxury resorts is the fact that although she defines luxury hotels as "hotels whose actual room rates are above the 85th percentile in the geographic market" she fails to identify what this "actual room rate" is. There is no indication as to how many Baht the room rate must be in order to place the hotel's room rate in the top 15%.

In general, Buathong's work is very useful in many ways and does indeed evaluate the Quality of Training Programs in Phuket's nicer hotels. For the purposes of this research, however, Buathong's definition and list of Phuket's luxury resorts is dismissed. The author of this study uses a different approach to identify which of the Phuket tourist accommodations are luxury resorts.

Competitive Strategy for Luxury Hotel Resorts in Phuket: Gaining Competitive Advantage through Environmentally Friendly Development (Oines, 2006)

In this study Oines cites Chon and Sparrowe (2000) for a definition of luxury. He quotes Chon and Sparrowe in saying luxury hotel resorts are "the 15% highest charging hotel resorts in the region." He mentions that there are "26 luxury hotels" in Phuket. He focuses on the Evason Phuket Resort, Mangosteen Resort and Spa, and the Holiday Inn Phuket. At another point in his study he briefly mentions the following hotels as being chain-affiliated or independent: JW Marriott Phuket Resort, Sheraton Grande Laguna Phuket, Le Meridien Phuket Beach Resort,Le Royal Meridien Phuket Yacht Club, Trisara, Twin Palms Phuket, and Bundarika Resort Spa and Villa.

Oines' application and definition of luxury hotels is problematic for the following reasons:

1. Like Buathong's, the method Oines identifies is not a Chon & Sparrowe method. Oines's method comes from Smith Travel Research.

2. Also, Oines made the same three critical application errors as Buathong.
    a. This method is designed to model a U.S. market, not an inadequately controlled Thailand market.
    b. This method must be used in a metro market, not on a small island.
    c. Identifying the top 15% of any lists necessitates identifying the bottom 85%.

3. Oines states that there are "26 luxury" hotels in Phuket (2006). He also says, "All luxury hotel resorts in Phuket were approached either by phone or e-mail," but he fails to name the hotels, explain where the list came from, or give hotel rates.

4. Oines's data conflicts with other published data. According to Kraiponrak's (2007) list of hotels in Phuket, Oines' study hotels (the Evason Phuket Resort, Mangosteen Resort and Spa and the Holiday Inn Phuket) are listed as the 16th, 22nd, and 81st in terms of

highest ADR (Kraiponrak, 2007). It is not clear how a resort listed as the 81st highest ADR in Kraiponrak's study was included in Oines's list of top 26.

Oines's study is a good source of information about a single resort's efforts to be environmentally friendly but it does not shed any light on which hotels in Phuket are luxury establishments.

Impact of Room Occupancy and Room Revenue to Recent World Events: The Case of Luxury Hotels in Phuket, Thailand (Kraiponrak, 2007)

Kraiponrak defines luxury hotels in Phuket as "[tourism accommodations that offer] services to the business and leisure traveler, [including] a very high standard of cleanliness, luxurious fitting and furnishing, first rate restaurant, banquet and conference rooms and facilities, valet service, room service, internet connection, sport activities, cable TV and complimentary newspapers. Based on classification by prices in market area, the luxury hotel will be the top 15% hotel in market area" (2007). Kraiponrak cites Chon and Sparrow but then clarifies using information from Smith Travel Research. She also explores the classifications systems of Paul R. Dittmer as outlined in his work, "Dimensions of the Hospitality Industry: an Introduction" (2000). Kraiponrak also utilizes the classification system of the Official Hotel and Resort Guide (OHRG). After a thorough evaluation, Kraiponrak chooses to use Smith Travels Research's "hotel classification by market price." She uses the Tourism Authority of Thailand study called "Phuket Sector 2003" as a basis to identify the luxury resorts on the island. This TAT study contains 406 hotels and their associated room numbers and room rates. Kraiponrak takes the top 15% of these hotels (which she says is 91 hotels) as her population. She uses a population sample of 25.

Table 1.9 Kraiponrak's Luxury Hotel List

No.	Hotel Name	No.	Hotel Name
1	Amanpuri	46	VCI at Land and House Park
2	Banyan Tree Phuket	47	Karona Resort and Spa
3	Le Royal Meridien Phuket Yacht Club	48	Patong Tower
4	Maiton Resort	49	Patong Merlin Hotel
5	Plub Pla Resort & Restaurant	50	Amari Coral Beach Resort
6	Naka Wanna Villas	51	Boganvillia Terrace House
7	Laguan Beach Resort	52	Baan Mai Cottage
8	Rom Sai Bungalow	53	Tropical Garden Resort
9	Panwaburi Resort	54	Baan Sukhothai Hotel
10	Thavorn Palm Beach Resort	55	Avantika Boutiougue Hotel
11	Kata Buri Hotel & Beach Resort	56	Royal Phuket City Hotel
12	Allamanda Laguan Phuket	57	Phuket Orchid Resort
13	Andaman White Beach Resort	58	Crown Nai Yang Sweet
14	Hyton Leelavadee Phuket	59	Central karon Village
15	Patong Beach Resort	60	Residence Kalim Bay
16	The Evason Phuket Resort and Spa	61	Naiharn Resort
17	Mom Tri's Boathouse Inn	62	Green View Resort
18	Patong Grand Condotel	63	South Sea Resort
19	Merlin Beach Resort	64	Cape Panwa Hotel
20	Phuket Arcadia Beach Resort	65	Bann Thai Beach Resort
21	The Chedi Phuket	66	The Bay Hotel
22	The Mangosteen Resort and Spa	67	Islanddia Park Resort
23	JW Marriott Phuket Resort and Spa	68	Felix Karon Swissotel Phuket
24	Dusit Laguan Resort	69	Montana Grand Phuket
25	Diamond Cliff Resort & Spa	70	The Front Village
26	Phuket Golf View	71	Club Andaman Beach Resort
27	Blue Canyon Country Club	72	Thara Patong Beach Resort
28	Andaman Seaview Hotel	73	Kata Thani Hotel & Beach Resort

Table 1.9 (Continued)

No.	Hotel Name	No.	Hotel Name
29	The Karon Villa Phuket Beach Resort and Spa	74	Old Phuket Hotel
30	Diamond Beach Village	75	Karon Beach Resort
31	Layan Beach Resort & Spa Village	76	Happy Inn Guesthouse
32	Kata Beach Resort	77	Patong Beach Bungalow
33	Pearl Village	78	Andaman Beach Suites
34	Diamond Cottage & Spa	79	Cruiser Island Resort
35	Impiana Phuket Cabana	80	Kata Deligh Villas
36	Boat Lagoon Resort	81	Holiday Inn Resort Phuket
37	Novotel Phuket Resort	82	Duangjit Resort
38	Le Meridien Phuket	83	The Royal Paradise
39	Baan Yin Dee Boutique Resort	84	Thavorn Grand Plaza Hotel
40	Thavorn Beach Village	85	Bann Lai Mai Beach Resort
41	Metropole Phuket	86	Baan Nernsai Resort
42	Central Waterfront Sweet	87	Kamala Bay Terrace Resort
43	Sea Pearl Beach	88	The Islandia Park Resort
44	Phuket Grand Tropicana	89	Club Bamboo
45	Sheraton Grande Laguna Phuket	90	Rydges Royal Park Resort
		91	Panwa Beach Resort

Source: Kraiponrak, 2007

Kraiponrak's identification of luxury hotels in Phuket is by far the most sophisticated and reliable of the three studies examined here. Her reasoning is mostly sound and her methods are adequate. Kraiponrak has succeeded in three areas where one or both of the previous two studies have failed.

1. Kraiponrak has correctly identified the Smith Travel Research company as the provenance of the definition described in the Chon and Sparrowe book.
2. She presents an actual list of luxury resorts.

3. She establishes actual rates to aid in the definition (2,500 Baht per night).

There are a few issues, however, that cause her identification of luxury hotels to be suspect.

1. The first is a mathematical error. There are 406 hotels and she uses the top 15%, which she says equates to 91 hotels. The number should be 61.
2. In addition, the same issue of misapplication of the STR market price classification system that existed in the other two studies is found here. Again, the STR Market Price classification system is meant for a U.S. metro area only.
3. The problems with this misapplication issue are manifest when the model is applied to the Phuket market and when the list of luxury hotels generated contains hotels such as "The Happy Inn Guesthouse" (Kraiponrak, 2007). The ideal of "luxury" may be difficult to define, but common knowledge would press that an 80USD per night guest house would not be defined as "luxury".

Other classification systems that identify the Phuket luxury tourism accommodation market can be found in industry reports. Smith Travel Research, Horwath Asia Pacific, HVS Hospitality Services, C9 Hotel Works, CB Richard Eillis, and Jones Lang LaSalle are some of the industry organizations that consult in tourism accommodation operations and development. These organizations may be more credible in identifying luxury tourism accommodations as their results are more prone to public scrutiny and are therefore more accurate. Government organizations are rarely audited for accuracy in data reporting. In contrast, these private industry organizations are evaluated by clients, competitors and other third parties. If their results are inaccurate they will lose credibility and thus clients (many of these organizations do use government sources in sourcing data, but this data is screened for accuracy and adjusted as necessary). For the most part, however, these private industry organizations do not publish their exact criteria for determining which resorts fit which classification. An exemption to this is CB Richard Eillis.

In CB Richard Eillis's Hotel Market Sector report by Kttisorn Pruitipat (2009), Pruitipat uses the STR system (as mentioned above) as a base. He then moves forward and uses CB Richard Eillis Research department information to formulate a specific ADR Baht value that is used to determine what tourism accommodations fall into the luxury segment. In this report he uses 5,500 Baht for the Bangkok luxury segment ADR cutoff point. Also, he uses 4,500 to 5,500 Baht for "first class" hotels, 2,500 to 4,500 Baht for mid-range hotels, and 1,000 to 2,500 Baht for Economy hotels. The CBR Research department uses the ADR rate of 10,000 Baht to determine the Phuket luxury segment (Pruitipat, 2009). This study will also use the ADR rate of 10,000 Baht to determine the Phuket luxury segment.

1.2.5 Definition of Resort Strata Ownership (MTTA, Condo Hotel, etc.)

Strata ownership is a growing concept in the tourism accommodation industry. This concept is not new but recently has reached new levels of popularity. In the United States this concept is known as the "condominium hotel," but around the world, this type of tourism accommodation has many different names. In fact, as tourism and hospitality researchers Warnken, Guilding and Cassidy (2008) observe, there is a severe "lack of international standardization" in the terminology defining this sub-set of accommodation. In Canada, this type of tourism accommodation is sometimes called Hotel Strata Ownership (HSO); in some areas it is called Hotel Residence. As Wanken, Guilding, & Cassidy point out, this is referred to as "strata or community titled" complexes in Australia, "eigentumswohnungen" in Germany, "sectional titled" complexes in South Africa, and "leasehold flats" in the United Kingdom. Wanken, Guilding, & Cassidy call them "multi-titled tourism accommodations" or MTTA. For the purpose of this research, this paper will refer to them as strata ownership resorts or hotels, although the term "condo hotel" or "MTTA" will be used in conjunction with definitions and quotes as appropriate.

In the September 5, 2005, issue of *Hotel & Motel Management*, multiple industry experts gives responses to the question, "What is a condo-hotel:

David Neff, Partner at DLA Piper Rudnick Gray Cary US LLP and co-chair of the firm's Lodging and Timeshare Practice Group said: A hotel with what we call a condo regime overlaid on the hotel. So basically it's a hotel that has residential condominium components to it. I don't think of a hotel above which maybe a condo, which people may think of as a condo-hotel. But rather, I think of a hotel where the individual units are owned by individuals and then are rented out on a daily basis to transient guests. We don't use the world 'pool' because pooling is something that's not allowed unless you have registered the condominium offering as a security. So we talk about 'condominium program.'

Linda Bruno, managing director of Horseneck Mews said: Overall, it's the ownership situation that makes it different. And my experience, in the few projects I've done, is that the rental program is not mandatory. They have the option, and therein lie some of the problems: people come in and out of the program.

Scott Berman of Pricewaterhouse Coopers said: The regime of individual units being owned by individuals, and operating as a hotel, is the classic definition of condo hotel. There are traditional hotel products with condominium units that are treated purely as whole ownership, meaning those are owned by the individual users, and to Linda's point, those would be certainly part of a voluntary program.

Tom Morone, principal of Warnick & Co. said: We have people using condo hotel or condominium hotel interchangeably for a variety of uses. And it's really a problem, because as we speak clearly, this was a financing tool. This is all you need to think about when you think condo hotels: it's a way to take capital off the table and to sometimes make things feasible that wouldn't have been feasible at other times, just to allow a project to go forward.

The Condo Hotel Center of Miami Florida defines these tourism accommodations as the following: "Condo Hotels have condos that are sold to individual investors who may use their unit as a vacation home whenever they like. When they're not using their unit, owners have the option of placing it into an organized rental program. Rental revenue, which is shared with the operator, helps defray the owner's expenses" (Condo Hotel

Center, 2009). Although this explanation is not written in an academic style it captures the meaning of the condo hotel quite well. In addition, the Condo Hotel Center also differentiates between condo hotels and hotel residences. According to the Condo Hotel Center,

Although both usually exist in four or five-star hotels or resorts in highly desirable locations, the key difference is how they are used. A hotel residence owner may use his hotel residence 365 days a year and enjoy all of the hotels services and amenities. There is no rental component to this type of ownership. Condo hotel owners, on the other hand, may use their unit whenever they want. However, when they're not using it, they have the option of placing it into the hotel's rental program and will receive a percentage of the rental revenue it generates. One other thing to consider... Condo hotels are never intended to be used year-round, and they often come with living restrictions.

There are a number of academic papers published concerning this type of tourism accommodation. Two scholars stand out in their focus on strata ownership resorts. These two scholars are Chris Guilding of the Service Industry Research Centre at Griffith University in Australia and Abraham Pizam of the Rosen College of Hospitality Management at the University of Central Florida. Pizam is also the Editor-in-Chief of *the International Journal of Hospitality Management*.

Pizam (2006) says, "A condo hotel is one in which the units rooms or suites are owned by individuals and then are rented out on a daily basis to transient guests". (This research adopts a variation of Pizam's definition.) He cites Editor-In-Chief of *Hotel & Motel Management Magazine*, Jeff Higley as using this definition, in his article, "Condo-hotel popularity raises viability questions" (2005). However, the quote is actually from David Neff (as can be seen above) in a separate part of the same issue. Pizam goes on to further clarify his accepted concept of the condo hotel by quoting David Waite (2005) of *Hotel Online*: "From a legal standpoint, the two key attributes of a condo hotel are: (1) the ownership by an individual of a separate interest in a discernable space (a condominium unit), and (2) the ownership of a proportional but undivided interest in the common area" (Waite, 2005).

Warnken, Guilding, and Cassidy (2008) use the term "muliti-titled tourists accommodation" or MTTA (as stated above). According to Warnken, Guilding, and Cassidy this is "any tourist accommodation premises that have a multi-titled, multi-ownership structure tied to a common property." Additionally, they write, "This definition distinguishes MTTA complexes from the many different forms assumed by traditional holiday homes and also hotels or motels which are generally built on a single land title that is either leased or owned by a single party." Warnken, Guilding, and Cassidy's definition of MTTA separates the concept from timeshare tourism accommodation units:

> The definition also distinguishes MTTA from timeshare, because timeshare investors rarely acquire a property title. An MTTA owner has continuing right of access, or right to grant access, to their MTTA property for the entire period of their ownership of the Asset. An owner of a timeshare property has a right to access, or right to grant access, for only a limited time period in every year for the duration of the ownership of the asset. (2008)

MTTA are not timeshares (or fractional ownership). Warnken, Guilding, and Cassidy (2008) give five distinct differences between MTTA and timeshare (or fractional ownership). These differences are paraphrased as follows:

1. Owners of MTTA can reside full time in their units, whereas timeshare owners are restricted in their usage rights.
2. Many MTTA can have interior design and refurbishing according to the owner's wishes. Timeshare owners have little or no say in the style and level of refurbishment.
3. Some MTTA allow for the owners to manage the sub-letting of their property, so owners use independent letting agents and some owners place their property in a letting pool operated by a resident letting manger. In a timeshare complex, usually all sub-letting arrangements are handled through an exchange brokerage.

4. In some countries there are specific laws that distinguish timeshare from MTTA as timeshares; they are seen as security investments and not property investments.
5. Loans for purchasing MTTA can be secured at tradition lending financial institutions, using the property title as collateral for loan. Loans for purchasing timeshare units are usually provided by small specialized lenders.

In the last few years, multiple articles and studies have been published in magazines and academic journals concerning strata ownership resorts and hotels and related concepts. The majority of these pieces are specific, almost feasibility-type studies. Only two papers have clear relevance to this study. These papers are written by Abraham Pizam and Chris Guilding (in the specific paper discussed here Guilding is a co-author with Warnken and Cassidy).

Pizam's article is titled "Condominium hotels: A scorching hot lodging product" (2006). He begins by outlining some of the growth patterns seen in the industry. He then offers some definitions of the term "condominium hotel" or "condo hotel" by using industry experts' views. He goes on to point out two benefits to developers and four appeals for buyers. He then lists six points that he feels pose "significant challenges and pitfalls to owners, developers and operators" (Pizam, 2006).

Pizam writes that this lodging product is rapidly growing. He states, "In the USA the condo hotel sector has grown from US$160 million in 1999 to more the US$1 billion in 2004" (2006). Pizam's listed benefits for developers are the following:

1. The return on investment is much higher for condo hotels. He says condo hotel project returns can double convention hotel returns. Pizam says newly built condo hotels sell units at a higher than average price. He points out that in South Florida some properties sold for twice the amount (per square foot) as comparable high-end condominiums.
2. Finding external financing is much easier due to high pre-construction sales. Pizam says in many cases pre-construction sales exceed 50%, which is easily enough to reach most financial institutions' minimum requirement of 40%.

Pizam points out four appeals for buyers of condos in condo hotels.

1. Modest financial returns through the rental program
2. Expectation for quick appreciation
3. Psychological satisfaction of being owners of a luxury hotel
4. Ability to take advantage of the hotel's common facilities, something which does not normally exist in even high-end condominiums

Pizam also outlines the potential pitfalls that pose challenges to condo hotel stake holders.

1. It is difficult to find a consensus between stake holders on many issues because there are so many owners with widely different views and tastes. This makes it very difficult for operators to work effectively and efficiently.

2. In some cases the developers maintain ownership of areas such as food outlets and shopping centers so the allocation of expenses for the common areas (areas that the unit owners use including food outlets and shopping centers) becomes an issue because both sides have difficulty agreeing on the portions for which they are responsible.
3. Most investors expect a quick appreciation of their unit. If units don't appreciate substantially in the short term, massive loss of confidence in the project can lead to significant depreciation.
4. The legal systems in many countries are not developed enough to protect buyers from dubious developers. This means many clients may be lured into bad deals, which in turn could tarnish the reputation of the entire sector.
5. Many condo hotel developers use poor planning practices. They use normal real estate planning and construction ideas when, in fact, the condo hotel model will not work unless the facilities are planned and constructed like a hotel with sufficient hotel space and functions.
6. Many condo hotel developers build projects in areas that are not suitable for this model. This model needs to be executed in an area that is a highly desirable tourist destination that has many recreation and cultural activities.

Pizam concludes his paper by saying, "At this stage it is too early to determine whether hotel condos are a stable and secure product that will continue to expand and flourish for years to come or just an experiment that failed to fulfill its promises to investors, developers and hotel operators alike" (2006).

In 2008, Chris Guilding (along with Jan Warnken {lead} and Kelly Cassidy) published the article, "A review of the nature and growth of multi-titled tourism accommodation complexes" in the *International Journal of Hospitality Management*. This paper is an excellent source of information related to the topic of MTTA or strata ownership resorts or hotels. The paper begins with Warnken et al.citing various scholars who have written about the great amount of change in tourism and the second home or holiday home construct. Then the authors cite the great deal of complexity and diversity in this type of tourism accommodation but show three common attributes. The authors continue with their definition of this strata-ownership style accommodation which they call the MTTA and the differences between MTTA and timeshare or fractional ownership accommodations (as already mentioned above). Warnken et al. create a typology of MTTA complexes, dividing them into five types: small, medium size unbranded, large unbranded, large operated by MTTA specialist, and large operated by branded hotel chains (condo hotel) (see Figure 2.5). The next section of the paper deals with growth of MTTA complexes. The final part of the paper outlines factors accounting for MTTA development.

Warnken et al. (2008) write that there is a "rapid increase in tourism accommodation complexes that are sub-divided into separate ownership titles." They write that this rapid increase is not isolated to a specific type of accommodation but can be found across the board, including high rise apartment buildings, branded hotels, villa complexes, golf courses, and even cruise ships. The authors go on to write that there are many different models of accommodation but they usually share three commonalities.

1. They have more than one property title linked to some type of common property.
2. They are usually owned by multiple independent owners.
3. They are governed by some type of elected committee that represents the owners (according to a constitution for the complex).

Figure 1.5 Common types of MTTA complexes and associated operational arrangements

	Type 1	Type 2	Type 3	Type 4	Type 5
	Small	Medium size, unbranded	Large, unbranded	Large size, operated by MTTA specialist	Large size operated by branded hotel chain (condotel)
Building characteristics	Low rise apartment, duplex, or detached villa, etc., complex comprising 24 units or less. Usually single storey, but can be up to 3 storeys.	Medium low rise to small high rise complex: $\geqslant$24 to ~50 units; $\geqslant$3 to ~10 storey high rise.	Usually high rise $\geqslant$8 storeys, $\geqslant$50 units.	Typically high rise, generally $\geqslant$60 units, typically has about a 3-star rating.	>60 rooms (often a mix of serviced rooms, dual and single key apartments), frequently with other facilities, e.g., conferencing.
Typical location	Small regional (boutique) destinations, e.g., ski resorts.	Regional (upcoming beach) destinations.	Larger regional or major beach destinations.	Mostly major beach destinations, some CBDs.	Mostly in CBDs or major tourist destinations.
Building maintenance	Volunteer owners or a real estate agent with holiday letting specialization.	Resident owner or resident manager contracted by owners' committee.	Resident manager (often a husband and wife team) and maintenance sub-contractors.	MTTA specialist management company and maintenance sub-contractors.	Branded hotel operator.
Letting management	Real estate agent or other specialist letting agencies.	Real estate agent or resident manager.	Resident manager.	MTTA specialist, branded, management company.	Branded hotel operator.
Financial management of owners' association	Real estate agent or volunteer resident owner.	Real estate agent, accountant or specialist community association manager.	Accountant or specialist community association manager.	Accountant in conjunction with MTTA specialist management company.	Accountant in conjunction with branded hotel group.
Typical investor owner:resident owner ratio	Variable, although not high.	Low.	Mid-range.	High.	Highest (approaching 100%).
Short-term guest reception facility	No formal on-site reception facility.	Partial on-site reception facility if letting is managed by resident manager.	9–5 reception facility operated by resident manager.	24 hours.	24 hours.

Source: Warnken, Guilding, & Cassidy, 2008

Warnken et al. point out a few issues regarding the growth of MTTA. First, they note that the amount of academic attention paid to this sector is minimal if not non-existent. As this model is growing rapidly and is representing an ever larger part of total tourism accommodations, the authors see the need to increase academic focus and training on MTTA. The authors also identify an issue that may arise if a protracted downturn in tourism-demand occurs in the MTTA market. Warnken, Guilding, and Cassidy feel that such a downturn could lead to unit owners letting out to tong-term tenants or selling to resident owners. If this were to occur, the profile of the complex would change significantly. In addition, the authors point out that if the downturn is significant and occurs in an area dominated by MTTA the entire profile of the destination may be altered significantly.

Warnken et al. write that the task of analyzing MTTA is difficult because the organizations that keep records of tourism accommodations do not have adequate classification systems. The authors say that Australia has one of the better databases for information concerning MTTA. They write, "In the period 1998-2004, guest nights sold in Australian hotels with 15 or more rooms increased by 25%, while in MTTA, guest nights sold increased by 97%" (Warnken et al., 2008). The authors further their claim on the increase in MTTA in tourism by writing, "MTTA now represent a significant element in tourism accommodation infrastructures internationally. In fact, in several destinations it appeared MTTA complexes dominate the tourism accommodation landscape."

Warnken, Guilding, and Cassidy, also identify factors accounting for MTTA development. They look at these factors from the perspective of the related stake holders. First, they report that MTTA development has multiple benefits to the developers. They identify five basic benefits:

With the use of "off-plan" marketing, developers can develop a project with less cost exposure.

1. As MTTA users are not only tourists, but also long-term residents, the possible client market is broadened.
2. This system is essentially a "vehicle facilitating the equity stake holding of small investors" (Warnken et al, 2008). This means that the MTTA

concept can be an investment tool used to mobilize small investors, essentially making them equity partners in the project.

3. The developer can hold some of the units and after appreciation sell them as an effort to capitalize on real estate speculation.
4. In some areas, management rights to the complex are actually sold, thus creating another revenue source for developers.

Warnken et al. explain some of the reasons why buyers are attracted to purchasing MTTA units.

1. "They are seeking a leisure-oriented lifestyle or holiday home"
2. "The ostentatious motivation of owning a status symbol"
3. "The desire to secure a future retirement residence"
4. "The desire to diversify a pension investment portfolio"
5. Personal tax planning

The next stakeholder group identified by the authors is real estate agents. This group also benefits greatly from the MTTA because, as opposed to normal hotels, the agents have the opportunity to make a commission on initial sales of the units as well as secondary sales and in some case commission from long term rental clients.

Tourists are another group of identified stakeholders that benefit from the MTTA model. The authors note that young families benefit especially from the smaller type 1, 2, and 3 MTTA because the cost per person is usually lower than similar-sized hotel accommodations. Also, MTTA are well suited to meet the demands of retirees.

Warnken et al. write, "In some ways, host communities may also derive greater benefits from MTTA complexes relative to tradition hotel or motel premises" (2008). The host community is another benefited stakeholder in the MTTA model; the model tends to generate more business opportunities because it usually outsources a large number of tasks such as landscaping, pool and linen cleaning, window cleaning, etc. These types of activities would be done in-house if the accommodations were a normal hotel. The authors point out that this is an important benefit because when tasks are outsourced through local companies, there is greater retention of cash in the local community.

The authors also identify the impact of information technology advancements on the growth of MTTA. They say that the growth of the internet has had significant effects in helping MTTA as a means for room-booking management and advertising. In general the internet is providing access to information for potential guests who previously had to rely on wholesaler advertising or word-of-mouth information. Also, IT development in computer-based booking and financial management systems is allowing smaller MTTA to operate sophisticated room management systems.

This report, "A review of the nature and growth of multi-titled tourism accommodation complexes," concludes with two thoughts. The first regards the future of MTTA: "The question of whether MTTA's growth is likely to continue is best considered by investigating the likelihood of planning permit authorities giving developers a relatively free reign with respect to MTTA development" (Warnken et al., 2008). And the closing thought (significant to the current research) is that "the need for more MTTA research is profound. It is hoped that the critique provided here can generate a level of research interest that is more commensurate with the MTTA's standing as a distinct element in the suite of tourism accommodations options available" (Warnkenet al., 2008).

1.2.6 Capital Budgeting

Collier and Gregory (1995) identify three factors behind the capital budgeting research in the hotel industry. Those factors are presented here, as recapped by Guilding (2003):

1. Hotel groups can be seen to be relatively unusual due to the dual nature of their activities involving property and management.
2. The hotel industry is characterized by high capital intensity, assets with a long life and negligible obsoleteness if adequately maintained.
3. The hotel industry is a significant player in the large and expanding tourist industry.

Most of the academic work by Collier and Gregory and others concerned with capital budgeting focuses on capital budgeting within an operational hotel. Some authors, such as Guilding, use agency theory (Baiman, 1982, 1990; Baiman, 1982; Baiman, 1990) to evaluate the contrasts between the property owners and management. Most of the research also includes the survey method to collect data (e.g., Kester et al., 1999; Lamminmaki et al., 1996; Pike, 1996; Trahan and Gitman, 1995; Kester, 1999; Lamminmaki, 1996; Pike, 1996; Trahan, 1996). Field methods have, however, become more popular in recent times (e.g., Carr and Tomkins, 1996; Harris, 1999; Van Cauwenbergh et al., 1996; Guilding, 2003; Collier and Gregory,1995; Carr, 1996; Harris, 1999; Van Cauwenbergh, 1996). Much of the literature on capital budgeting that looks at the process as a means of hotel investment decision-making is found in books such as *Accounting and Financial Analysis in the Hospitality Industry*, by Jonathan A. Hales, and *Hospitality Management Accounting*, by Jagels and Coltman.

Hales writes, "Capitalization determines the amount of investment necessary to launch the business and identify where the expenditures on property, plant and equipment (PP&E) will be made. These expenditures are long term in nature and the PP&E will last from 1 to 30 years" (2005).

Jagels and Coltman cover feasibility studies, pointing out that a major part of feasibility studies is financial analysis. In their view, the first step of that financial analysis is the "calculation of the capital investment required." They write that this calculation must include the investment land, building, furniture, and equipment. They write, that "The methods of evaluating which long-term asset to select are referred to as capital budgeting." They point out that "we are not so much concerned with the budgeting process as we are with the decision about whether to make a specific investment, or which of two or more investments would be the best." Capital budgeting often focuses on future costs and benefits and uses analysis techniques to help in the process of decision making. Jagels and Coltman point out four of the calculations often used in capital budgeting:

1. Accounting rate of return
2. Payback period
3. Net present value

4. Internal rate of return

Jagels and Coltman also point out a difficulty in capital budgeting: "It is only possible to approximate the investment rate to be achieved. Investment proposals are based on estimated cash flows, and the decision based on those cash flows can only be judged as good or otherwise after actual cash flows are known" (Jagels & Coltman, 2004). Hence, Jagels and Coltman suggest that projects must be analyzed after their life time (or during) to ascertain whether the decision-making process was accurate and if or what changes should be made in order to get more accurate information in the future.

1.2.7 Hotel Valuation

The ultimate goal in hotel ownership is "creating" and "enhancing owner's value" (Rushmore, 1992). There are many different factors that lead to an increase or decrease in owner's value but ultimately the effect of these factors will be manifest in the owner's return on investment. Jang and Yu (2002) claim that the two most important aspects of return on investment are cash flow from operations and resale value of the property. The value of a property will thus depend largely on its ability to generate positive cash flow and the appreciation of the property itself. As operational cash flows of most hotels are proprietary, there has been little research published concerning hotel financial performance (Jang & Yu, 2002). However, multiple studies have been published regarding hotel valuation. Rushmore & Goldhoff (1997) wrote about the connection of hotel valuation trends to economic factors (Rushmore & Goldhoff, 1997). Sheridan (1996) evaluates value predictions. Wheaton and Rossoff (1998) evaluate cyclical behavior in lodging properties in the United States. deRoos and Cogel (1996) explore hotel performance methods. In addition, there are a number of industry consultants who deal in tourism accommodation valuation; some of these consultants are Hospitality Valuation Services, PKF Consulting, Smith Travel Research and the National Council of Real Estate Investment Fiduciaries. These organizations gather industry information that is published in reports that track trends and changes in the values of hotels (among other things) of individual markets and class of accommodation. In addition, as cited by Jang and Yu (2002), there are two institutions that product indexes that link hotel operations cash flows and property appreciation: the Industry Real Estate Financing Advisory Council of the American Hotel and Motel Association and the School of Hotel Administration at Cornell University.

In general, the return on investment for hotel or other ventures can be measured through a variety of methods. Common accounting measures of return on investment include Accounting Rate of Return (ARR), Payback Period, Net Present Value and Internal Rate of Return (IRR). IRR is perhaps the most popular method. This method uses the discounted cash flow concept by determining the interest rate that will equate total discounted cash inflows with the initial investment.

In calculating returns on investment, hotel valuation must also be estimated. There are a number of specific techniques in the hotel industry used to estimate hotel value. Rushmore (1992) outlines the following techniques:

Band of Investment One Stabilized Year

This technique produces a subjective estimate of a resort's operating results over its economic life. The technique uses one stabilized year and takes the weighted average of the hotel investment costs. The average weighted costs are then used as the capitalization rate that is in turn used to capitalize the stabilized net income into a value estimate. This technique is simple and best suited for hotels with stable net income and occupancies.

Band of Investment 3-Year Build Up

This technique takes the third year's net income and capitalizes it based on the weighted average of the hotel investment costs. The three years' net income is discounted back to present value using the capitalization rate as the discount rate. The sum of the present values of these three years' net revenues is the estimated value of the resort. This technique is relatively simple and especially useful for a resort that is expected to improve financial operating performance.

10-year Discounted Cash Flow Technique

This technique was created by Suzanne Mellen of Hospitality Valuation Services. The method uses a 10-year projection of income and expenses that is discounted

1.3 Aims and Objectives

The aim of this research project is to shed light on the Phuket area's luxury tourism accommodation resorts and implement the new Amos Tourism Accommodation Profiling Method in the investigation of the strata ownership concepts that are being applied to these resorts.

1. This study utilizes a viable classification system in the compilation of an accurate updated list of current and future luxury tourism accommodations in the Phuket area. The study also investigates the evolution of luxury tourism accommodations in the Phuket area and identifies past and emerging trends in this accommodation segment including the prevalence of the strata ownership resort concept. This study not only evaluates the current luxury tourism accommodation resorts identifying the strata ownership resorts but also explores why this trend is gaining popularity.

2. This study introduces a new method, created by the author, whereby individual resort's operational cash flows in currency amounts are ascertainable. This method is called "the Amos Tourism Accommodation Profiling Method." It enables the recreation of historic cash flow representations of existing resorts, the modeling of investment recovery positions for existing resorts, and the forecasting of potential returns of future resorts.

3. Lastly, this study includes test applications of the Amos Tourism Accommodation Profiling Method. This method is applied to two case studies that evaluate the financial viability of the strata ownership concept as it pertains to capital budgeting decisions for tourism accommodation developers.

1.4 Significance of the Study

This study is beneficial on multiple levels. First, it is useful to understand the increasingly important strata ownership concept because the tourism industry in Phuket and Thailand in general is an essential revenue generator and job provider.

Second, as developers continue to implement the strata ownership concept in the planning and construction of new resorts they benefit from research that helps them make accurate forecasts as to the viability of their projects.

Third, with the introduction of the Amos Tourism Accommodation Profiling Method, parties not privy to propriety resort cash flow information will have the ability to recreate representations of critical financial data, which aids in academic research and resort development planning.

1.5 Definition of Key Terms

1.5.1 Phuket

The Phuket province is the island, the greater Phuket area including the islands of Phang Nga Bay and the south western side of Phang Nga Province. (The tourist areas service by the Phuket International Airport.)

1.5.2 Tourism Accommodation

Accommodations intended for use by transient guests, including resorts, hotels, motels, hostels, villas, bungalows, etc.

1.5.3 Luxury Tourism Accommodation

Commonly, tourism accommodation classification is based on "market price levels" where the top 15% of tourism accommodations in terms of Average Daily Rate (ADR) are considered "luxury tourism accommodations." For the purpose of this study, luxury tourism accommodations are those accommodations with an annual ADR of over 10,000 Baht.

1.5.4 Strata Ownership Resort (SOR)

A Strata Ownership Resort is a type of tourism accommodation in which some portion of the units rooms, suites or villas are owned by individuals and is rented out on a daily basis to transient guests.

1.5.5 Strata Ownership Unit (SOU)

IRR is a method for valuating tourism accommodation investment. This method uses the discounted cash flow concept by determining the interest rate that will equate total discounted cash inflows with the initial investment.

1.5.7 Average Daily Rate (ADR)

Average Daily Rate is total guest room revenue for a given period divided by the total number of paid occupied rooms during the same period.

1.5.8 Food and Beverage Revenue

Revenue from the sale of food, alcoholic and non-alcoholic beverages in restaurants, lounges, room service, mini-bar, and banquet rooms. Also includes revenue from public room rentals, service charges, and the rental of audio/visual and other meeting room equipment.

1.5.9 Other Operated Departments Revenue

Revenues from departments operated by the hotel such as telecommunications, internet connections, guest laundry, retail shops, recreational facilities, and parking operations.

1.5.10 Rentals and Other Income

Revenues from the rental of stores or other space in the hotel for activities not operated by the hotel. Also includes income from interest, cash discounts, cancellation and attrition penalties, and other services provided to guests by outside firms for which the hotel receives a commission or concession.

1.5.11 Rooms Expenses

Includes salaries, wages, and benefits for the front desk personnel, reservations staff, housekeeping and laundry workers, bell staff, and concierge personnel. In addition, rooms department expenses include linen, guest supplies, commissions to travel agents, complimentary breakfast and social hour costs, and reservation system charges assessed by franchise companies.

1.5.12 Food and Beverage Cost

Includes the costs of food and alcoholic and non-alcoholic beverages sold, together with the salaries, wages, and employee benefits for managers, kitchen personnel, servers, bartenders, cashiers, and hosts. Other applicable expenses include laundry, linen, china, glassware, silverware, operating supplies, audio/visual equipment, music, and entertainment.

1.5.13 Other Operated Departments Costs

Includes the salaries, wages, benefits, cost of goods sold, and other expenses associated with the operation of other revenue-producing departments operated by the hotel.

1.5.14 Administrative and General Costs

Expenditures for the operations of the general manager's office, the accounting department, human resources, security, information systems, and other similar activities. Examples of expenditures include salaries, wages, benefits, professional fees, credit card commissions, bad debts, telecommunications and computer maintenance, office supplies, and postage.

1.5.15 Sales and Marketing Costs

Expenditures to sell and promote the hotel's services and enhance its image to the general public. These include salaries, wages, benefits, media advertising, agency fees, e-commerce, outside sales representation, outdoor advertising, trade shows, and public relations. Also included in this expense category are payments made to franchisors and referral agencies for franchise royalties, marketing assessments, and guest loyalty programs. Does not include payments made for reservation services and/or systems.

1.5.16 Property Operations and Maintenance Costs

Payments for salaries, wages, benefits, maintenance contracts, tools, and supplies to maintain the buildings, grounds, furniture, and equipment of the hotel. Not included are costs associated with the maintenance of computer, point-of-sale, and telecommunications systems, as well as major capital purchases.

1.5.17 Utilities Expenses

Costs for electricity, gas and other fuels, steam, water, and sewer.

1.5.18 Management Fees

Fees paid for management services and supervision of the property. Includes both base and incentive fees.

1.5.19 Property and Other Taxes

Includes real estate taxes, personal property taxes, business and occupation taxes, and all other taxes except payroll and income taxes.

1.5.20 Insurance

Includes premiums paid for insuring buildings and contents, liability, fidelity, and theft coverage. Premiums for workers' compensation insurance are not included in this category.

1.5.21 Other Fixed Charges

Includes deductions for capital replacement reserves, rent, interest, depreciation, amortization, and income taxes. Comparisons beyond income after property taxes and insurance are virtually meaningless due to wide variances in ownership, depreciation methods, financing bases, and applicable taxes.

1.5.22 EBITDA

EBITDA is earnings before interest, taxes, depreciation, and amortization. This is an indicator of a company's operations financial viability.

1.5.23 Rai

A rai is a standard measurement of land in Thailand equal to 1,600 square meters.

CHAPTER 2
METHODOLOGY

2.1 Research Design

This research adopts a mixed method approach using both qualitative and quantitative research methods. The qualitative methods consist of interviews and portions of the desk research conducted. These qualitative methods are employed to gather both primary and secondary data. In addition, portions of the desk research are conducted in a quantitative manner yielding quantitative data. A predominate quantitative based aspect of the research design of this thesis is the creation an execution of the new Amos Tourism Accommodation Profiling Method, which relies heavily on the Amos Control Theorem.

2.2 Data Collection

2.2.1 Primary Data Collection

The methods of primary data collection for this study include field study research and observations by the author. The field study research consists of interviews and personal communications with experts within three main stake holder segments. First, the study involves interviews with management from luxury resorts in Phuket. Second, the research consists of interviews with developers of current and future luxury resorts, and last, the research involves interviews with local industry experts. The information from interviews with industry experts is analyzed and, using qualitative methods, the key themes are extracted, reported on and then used as a base to formulate the results section of this study. The primary data from interviews and personal communications as reported on in the results sections of this study come from employees, managers and affiliates of C9 Hotel Works, Jones Lang LaSalle, East West Properties, CB Richard Eillis, Tourism Authority of Thailand and multiple private developers as chosen through purposive sampling. As this study's author has worked in the resort development industry of Phuket for the last five years, his personal observations also contribute substantially to the primary data used in the results sections (especially the section, "Factors and Key Market Issues in Strata Ownership Development in the Phuket Luxury Tourism Accommodation Market").

Much of the specific historic information concerning the growth and development of the luxury tourism accommodations of Phuket as found in the results section titled, The Evolution of Luxury Tourism Accommodations in Phuket comes from primary data gathered through interviews and personal communications. Employees, consultants, or affiliates of C9 Hotel Works, Bovis Lend Lease, and TGR Asia assisted in identifying significant trends, patterns and changes in the evolution of the luxury tourism accommodations in Phuket.

The development and associated cost data used in case studies 1 and 2 in the results sections also come from interviews and personal communication with experts related to the development industry of Phuket. General costing data for case study 1 came from interviews with employees, consultants, or affiliates of C9 Hotel Works, Bovis Lend Lease, and TGR Asia. Costing data from case study 2 came from with employees, consultants or affiliates of Italian Thai, Swain & Sons, and Jones Lang LaSalle.

2.2.2 Secondary Data Collection

The method of secondary data collection for this study includes desk research, which involves the compilation and interpretation of industry reports and raw data that is then used to establish trends and provide supplemental information. The industry reports include real estate agency reports, hotel management company reports, hospitality consultants' reports, developer reports, non-government organization reports, government reports, general industry reports and corporate websites. These reports are authored by Horwarth Publications, Smith Travel Research publications, HVS Hospitality Services, C9 Hotel Works, Jones Lang LaSalle, CB Richard Eills, Tourism Authority of Thailand, Kasikorn Research Center, the Thai National Statistics Office, Phuket Tourism Association, and the Tourism Council of Thailand. These reports and information from resort websites are used in every section of the results chapter of this study. The information on resort construction dates (as used in the results section, "The Evolution of Luxury Tourism Accommodations in Phuket") is found in Horwarth Publications, Smith Travel Research publications, HVS Hospitality Services, C9 Hotel Works, Jones Lang LaSalle, and CB Richard Eillis reports. Room types and resort configuration is found on individual resort websites. ADRs (as used in the results sections "Current Luxury Tourisms Accommodation" and "Future Luxury Tourisms Accommodations") are found utilizing all of the before-mentioned organizations' reports. Operational data case study 1 is found mainly using Horwath Publication Reports while ADR information is found in Horwarth Publication reports, Smith Travel Research publications and C9 Hotel Works. Case study 2 utilizes ADRs as published in Horwarth Publication reports and Smith Travel Research publications.

2.3 Basic Model

2.3.1 The Amos Tourism Accommodation Profiling Method

The industry publications contain detailed information concerning many aspects of tourism accommodation's configuration and operational cash flows. However, the operational cash flow data given in these publications is restricted mainly to ratios, room rate and occupancy information. These reports do not give currency figures for individual resorts. If an individual resort's operational cash flows in currency amounts were ascertainable, the benefits would be far-reaching. Some of these benefits include the ability to recreate historic cash flow representations of existing resorts, modeling investment recovery positions for existing resorts, and forecasting potential returns of future resorts. Thus, for the purposes of this study, the author has created a new method whereby an individual resort's operational cash flows in currency amounts are ascertainable. This method is called "the Amos Tourism Accommodation Profiling Method."

The Amos Tourism Accommodation Profiling Method (Amos TAP Method) is a hotel operation and investment profiling tool that enables users to generate operational financial data for a theoretic or existing hospitality accommodation facility.

This Method was created to give a third party user (person without access to privy financial information) the ability to recreate a hotel's operational financial profile.

The use of this Model yields data that are helpful in understanding tourism

Important Terms:

Amos Tourism Accommodation Profiling Method
-8 stepped process that enables users to generate operational data for a theoretic or existing hospitality accommodation facility

Amos Control Theorem
-3 phased equation that outputs essential data including the Amos Control Ratio.

Amos Control Ratio
-Ratio that allows the user to create dynamic financial projection systems

accommodation markets. The data also aid in operation management and capital budgeting decisions. The Amos TAP Method is especially useful for the creation of feasibility studies and competitive intelligence reports.

The information generated using this model is not intended to be a 100% accurate recreation of actual financial statements, but rather the model generates data representative of the facility's operations.

The Amos TAP Method consists of the following process.

Table 2.1 Amos TAP Method Steps

Step 1	Identify Subject Facility
Step 2	Gather Market Segment Industry Data
Step 3	Gather Facility-Specific Data
Step 4	Apply Amos Control Theorem to generate departmental revenues and Amos Control Ratios
Step 5	Apply Ratios to Estimate Total Revenues
Step 6	Apply Market Segment Operations Costs Ratios to Individual Departments
Step 7	Apply Market Segment Operations Costs Ratios to Undistributed Expenses and Fixed Costs
Step 8	Generate EBITDA Estimations for Required Time Period

Step 1: Identify Subject Facility

The first step in the Amos TAP Method is to identify the resort or "tourism accommodation facility" for which operational financial data will be generated. This resort could be an existing resort in the market, a planned future resort, or a hypothetical resort designed to generate benchmark data.

Step 2: Gather Market Segment Industry Data

After the resort has been identified, industry information must be compiled. The specific data to be located includes market segment historic ADR, occupancies, and resort sizes, as well as operation cost ratios and departmental revenue ratios. These types of information are readily available in industry reports such as Horwarth, Smith Travel Research, and HVS Hospitality Services publications, as well as others. This information can also be found in reports by development companies and brokerage agencies such as Jones Lang LaSalle and CB Richard Eillis. Some government agencies also publish data related to individual resorts and the hospitality accommodation market in general.

Step 3: Gather Facility-Specific Data

When sufficient industry data have been compiled, critical facility-specific information must be gathered. This information includes the number of rooms in the facility and historic ADRs and occupancies of the facility. Facility specific ADRs and occupancies can often be found in industry publications. Room counts can be found on company websites. Any additional information is also helpful as a greater amount of input information will lead to greater accuracy in generated data. Additional information may include any historic increases or decreases in rooms, and major upgrades to the facility or management changes, etc.

Step 4: Apply Amos Control Theorem to generate departmental revenues and Amos Control Ratios

The next step is the application of the Amos Control Theorem. This Theorem works in three phases. Each phase outputs a critical data point that is used in order to complete the Amos Tourism Accommodation Profiling Method.

- The first phase of the Theorem outputs the facility's Total Room Revenue.
- The second phase of the Theorem outputs Departmental Revenue.
- The third phase of the Amos Control Theorem outputs the Amos Control Ratio (Department to Total Room Revenue Ratio).

The Amos Control Ratio is critical because when used in conjunction with the first phase output (the Total Room Revenue), it enables the creation of a dynamic financial projection system (using a spread sheet program) where a single input variable controls the automatic calculation of an entire set of financial data. The Amos Control Theorem is based on the Cross Product Method for finding missing terms in equivalent proportions. The linear (not simplified) notation of the Amos Control Theorem is as follows:

$$f(z) = (x/l\,(r/a \times a/(t \times \beta) \times t \times \beta))/(r/l) \times 1/((r/a \times a/(t \times \beta) \times t \times \beta))$$

Table 3.2 Amos Control Theorem

Phase 1

$$f(y) = \frac{r}{a} \times \frac{a}{t \times \beta} \times t \times \beta$$

Phase 2

$$f(\omega) = \frac{\frac{x}{l}\left(\frac{r}{a} \times \frac{a}{t \times \beta} \times t \times \beta\right)}{\frac{r}{l}}$$

Phase 3

$$f(z) = \frac{\frac{x}{l}\left(\frac{r}{a} \times \frac{a}{t \times \beta} \times t \times \beta\right)}{\frac{r}{l}} \times \frac{1}{\left(\frac{r}{a} \times \frac{a}{t \times \beta} \times t \times \beta\right)}$$

Or simplified as

$$f(z) = \frac{\frac{x}{l}}{\frac{r}{l}}$$

Phase 1 *y=Room Revenue* *Phase 2* *ω= Department Revenue* *Phase 3* *z=Amos Control Ratio (Departmental Revenue to Room Revenue Ratio)*	*x=Departmental Revenue* *l=Total Revenue* *a=Total Rooms Sold* *t=Total Room Count* *є=Occupancy* *β=Period* *r=Room Revenue*

Source: Author

At first glance, the Amos Control Theorem can be algebraically simplified quite easily. Oversimplification, however, destroys its functionality. Many of the aspects that can be simplified in the equation are based on industry data where individual components cannot be isolated. For instance r/a in the equation above is *room revenue/total rooms sold*. This is also known as ADR or Average Daily Rate. The ADR for a specific facility or for an entire market segment is often easily found in industry reports. However, the total room revenue of a particular hotel (or the total average room revenue of all hotels in a segment) will, most likely, never be publicly available. Therefore, if either variable r or variable a are simplified out of the Amos Control Theorem, the Theorem is no longer viable as the remaining figure will not be ascertainable as a lone variable.

Amos Control Theorem First Phase

Once the required data have been collected, they must be inserted into the Amos Control Theorem. The *room revenue* to *total revenue* percentage (r/l) as a segment average can usually be found in industry reports. If the subject facility is a competitor in the luxury segment, then the average *room revenue to total revenue* percentage for that segment is used and then adjusted as needed to match the particulars of the hotel as identified in Step 3 of the Amos TAP Method.

The next step in completing the Amos Control Theorem is to input the *ADR* (r/a) information. As mentioned above, the ADR is equal to *room revenue* divided by *total rooms sold*. If the subject facility is an existing resort, than the ADR for the given year for that resort is inserted. Individual resort ADRs for multiple years can often be found in industry reports or government reports. If the subject facility is a benchmark hypothetical resort, then the segment average should be inserted. If the subject facility is a resort in planning, then the target *ADR* is used. The *occupancy* ($a/(t \times \beta)$) is the next aspect to be evaluated and to be assigned value. *Occupancy* equals *total rooms sold* divided by *total room* times the *period*. The *occupancy* input follows the same method as the *ADR* input with variations made according to the subject facility.

The *room count* (t) of an existing subject facility can usually be found on the resort's website. If the subject is a benchmark hypothetical resort, then the average room count for the segment must be calculated from industry reports. If the subject facility is a resort in planning, then the target room count is inserted.

The *period* (β) variable is the number of days in the comparison period. This comparison period is most often a year so 365 is used. However, it may be necessary to use quarters or months depending on the type of analyses to be performed.

The final area of the equation to input is the *departmental revenue to total revenue* (x/l) ratio. The *departmental revenue to total revenue* as a segment average can usually be found in industry reports. If the subject facility is a competitor in the luxury segment, then the average *departmental revenue* to *total revenue* percentage for that segment is used and then adjusted as needed to match the particulars of the hotel as identified in Step 3 of the Amos TAP Method.

When the Amos Control Theorem is written in concept form it appears as the following.

$$f(z) = \frac{Departmental\ Revnue\ to\ Total\ Revenue(ADR \times Occupancy \times Room\ Count \times Period\ (year, 365))}{Room\ Revenue\ to\ Total\ Revenue} \times \frac{1}{(ADR \times Occupancy \times Room\ Count \times Period\ (year, 365)}$$

With the above information in place the user can complete the necessary phases of the theorem. The first phase of the theorem involves solving for variable γ or *room revenue*. The multiplication of *ADR*, *occupancy*, *room count* and *period* $(r/a \times a/(t \times \beta) \times t \times \beta)$ will yield the *Room Revenue* for the *Period*.

Amos Control Theorem Second Phase

The second phase of the theorem will output ω or *department revenue*. These revenues must be summed in order to find the facility's *total operating revenue*. However, using only Phase 1 and 3 to easily find individual *department revenues* is also possible. The use of Phase 2 will depend on the nature of analysis of the facility.

Amos Control Theorem Third Phase

The calculation of the third phase of the Amos Control Theorem will output a figure that will be an individual department's Amos Control Ratio. The Amos Control Ratio is not a difficult number to calculate. In its simplest terms, it is the proportion of *departmental revenue* to *room revenue*. The importance of this control ratio is found in its application, however, not in its calculation. It allows the user to create a dynamic financial projection system where the only static input variable is the total room revenue.

The Amos Control Theorem must be applied to each revenue-generating department. The product of this exercise will yield multiple department revenues and Amos Control Ratios that will be used in the 5th step of the Amos TAP Method.

Step 5: Apply Ratios to Estimate Total Revenues

The 5th step of this Method requires the user to perform a number of multiplication calculations where the user multiplies each Amos Control Ratio with the *total room revenue* ($r/a \times a/(t \times \beta) \times t \times \beta$) and then sum the products (or sum the individual department revenues from Phase 2 of the theorem). The result of these calculations yields the estimated total revenue for the subject facility.

Step 6: Apply Market Segment Operations Costs Ratios to Individual Departments

The 6th step of the Amos TAP Method includes the application and adjustment of data collected from industry reports gathered in Step 2 and the gathering of facility specific data as in Step 3. Departmental costs as segment averages can be readily found in industry reports. These figures are given as percentages of department profits. The percentages must be adjusted to fit the subject facility. For instance, if a proposed facility has, or will have, a specialty spa that is heavily marketed, then this aspect will warrant special attention and adjustment to the control ratio. If the average resort has, for example, five spa treatment rooms and the proposed facility will have 15 treatment rooms, then the an appropriate multiple of control ratio will need to be applied. Similarly, if the subject resort is in an isolated area (such as on an island or on a beach in a remote area) then a reasonable assumption may be that the capture rate for the *food and beverage department* will be much higher than the average hotel, as the isolated hotel guests are a captive market. In this instance, again, an appropriate multiplier would be applied to the Amos Control Ratio for the *F&B department*.

Step 7: Apply Market Segment Operations Costs Ratios to Undistributed Expenses and Fixed Costs

The 7th step of the Amos TAP Method includes another application and adjustment of data collected from industry reports gathered in Step 2 and the gathering of facility specific data as in Step 3. This time, however, the subject of review will not be operating departments but expenses dealing with *undistributed* and *fixed costs,* which can be found quite easily in industry reports. These figures are given as percentages of total revenue (unlike department-specific expense figures, which are usually given as a percentage of the departmental revenue). These percentages must be adjusted to fit the subject facility. For example, the subject facility may be in a location with unreliable power supply, and the facility must therefore utilize electrical generators to power the hotel on a regular basis. This would signify that the energy cost ratio would need to be increased. Similarly, if the subject resort is managed in-house, some fee ratios (a type of fixed cost) would need to be reduced.

Step 8: Generate EBITDA Estimations for Required Time Period

The 8th step of the Amos TAP Method is the generation of EBITDA (earnings before interest, taxes, depreciation, and amortization) estimations for the required time period. With all of this information (as calculated above), running a complete cash flow for the subject facility to the EBITDA line is possible.

The resulting EBITDA figure is an estimate of how the subject facility could perform operationally. The Amos TAP Method is not intended to give a perfect figure. The numbers generated from this process, however, should be very similar to the subject facilities actually running costs and operational revenues. The Amos TAP Method makes it possible to attach a currency figure to that EBITDA percentage; then it is also possible to analyze the aggregate of multiple years. The process, as outlined above, is followed for each operational year. With the use of Amos Control Ratios, the process of running the Amos TAP Method through a spreadsheet is not difficult. With simple variations in the figures, the user can simulate the opening, ramp-up and standard operation of a resort over multiple years. Manipulation of the figures as necessary can reflect downturns in the economy as well as cost savings through economies of scales as the subject facility expands operations.

The main purpose of the Amos TAP Method is outlined above; however, with additional resources and information, this method can easily be expanded to include return on investment analysis. Although more difficult, it is often possible to estimate land and construction costs of competitor facilities. This information can easily be incorporated into this method which would then give internal rate of return estimates. As seen from the examples and process mentioned above, the Amos TAP Method has many applications throughout the hospitality accommodation industry. This hotel operation and investment profiling tool enables users to generate operational data for a theoretic or existing hospitality accommodation facility, which in turn is useful for creating feasibility studies and competitive intelligence reports. This method gives a third party user (person without access to financial information) the ability to recreate a hotel's historic, present, or future operations profile that can be analyzed and used by resort developers or resort management as a base for making better investment and operational decisions.

2.3.2 Internal Rate of Return

In order to calculate tourism accommodation valuations in case studies 1 and 2, this study uses a method similar to the Suzanne Mellen 10-Year Discounted Cash Flow Technique. Unlike the Mellon Technique this study will not use discount rates based on mortgage equity procedure that employ market rates of returns and loan to value ratios. Instead, this study uses a basic accounting Internal Rate of Return with some specifications on the final input cash flow value from the sale of the property. This method uses the discounted cash flow concept by determining the interest rate that will equate total discounted cash inflows with the initial investment. The formula is as follows:

$$IC = \frac{A_1}{1+i} + \frac{A_2}{(1+i)^2} + \cdots + \frac{A_n}{(1+i)^n}$$

A_1 through A_n = individual annual cash flows for the life of the investment

i = is the interest or discount rate being used

IC = Investment costs

2.3.3 Direct Capitalization

In order to calculate the IRR, cash flows from the investment must be ascertained. The Amos TAP Method generates the operational cash flows, but the property sales price as the final cash flow must also be calculated. This calculation is can be performed using the Direct Capitalization formula.

$$P = \frac{CF_{n+1}}{k}$$

P = Sales Price

CR = Cash Flow

k = Capitalization Rate

The capitalization rate is found by using the following formula:

$$k = \frac{OI}{C}$$

OI = Annual Net Operating Income

C = Cost (or Value)

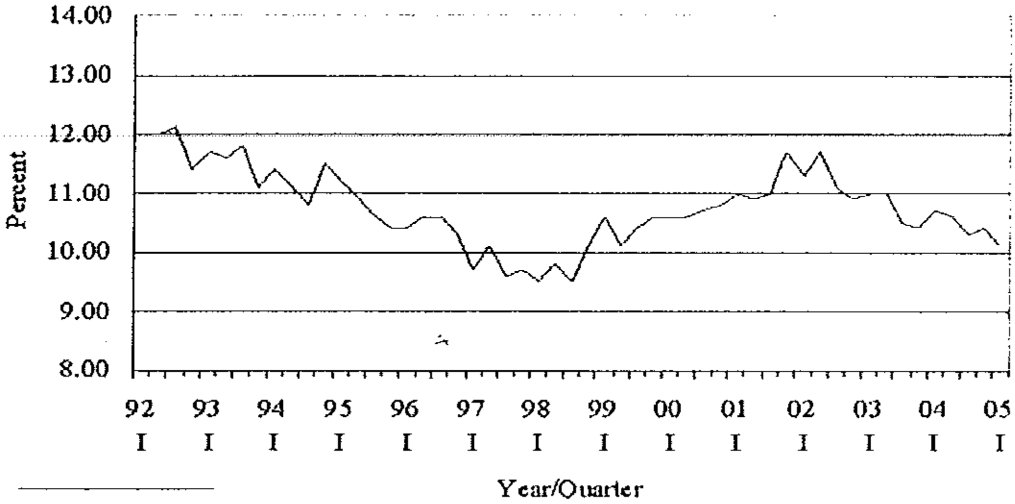
$$Capitalization\ Rate = \frac{Annual\ Net\ Operating\ Income}{Cost\ (or\ Value)}$$

The capitalization rate formula calls for the use of cost or value as the denominator. The costs cannot be used because the value of the project will be drastically affected by the appreciation of the land. The value of the project can also be very difficult to calculate. In order to bypass this problem this study will follow the three assumptions of hotel capitalization rate identification as outlined by the PKF Consulting Corporation (2005).

1. Transaction costs usually prohibit earning short-term profits from trading hotel assets so holding periods will be long term (at least five years).
2. Hotel incomes and values are mean reverting.
3. Few if any sponsors will guarantee that they can correctly time the markets.

Based on these assumptions, this study uses a 10% capitalization rate historic data show that equilibrium principles seem to keep real asset markets at a steady state of approximately 10%, (as illustrated in the graph on current-period capitalization rate for hotels by Real Estate Research Corporation, as seen in Figure 3.1).

Figure 2.1 Historic Cape Rates



Source: RERC, 2006

2.3.4 Phuket Luxury Hotel Segment

As stated earlier, previous studies involving the identification of Phuket's luxury tourism accommodation sector have failed to properly establish the standards by which luxury tourism accommodations could be classified. These studies have used a Smith Travel Research-based model that uses room rates to classify resorts. This method works when correctly applied. However, it not possible to use this method (without adjustment) in the evaluation of the Phuket market because it is intended to be used in a metro market and it requires a complete list of all hotels and ADRs in the geographic area to be evaluated. This is not possible because adequate records are nonexistent. This study uses the basic assumption of the Smith Travel Research that a luxury segment can be identified by its ADR. However, rather than attempt to definitively identify the "top 15%" of ADRs in Phuket, this study uses the ADR mark established by CB Richard Ellis Research (2009) of 10,000 Baht in order to classify the luxury tourism accommodations. For the purposes of this study, any tourism accommodation with an ADR above 10,000 Baht is considered a "luxury tourism accommodation."

Furthermore, the section titled, "Evolution of Luxury Tourism Accommodations in Phuket," focuses on the development of the luxury tourism accommodation sector. Using a standard of 10,000 Baht ADR as a luxury classification qualification in this section is not practical considering the historic nature of the data. ADRs will be given as available but only as a reference, not as qualification for inclusion in the section. In addition, keys to the evolution of this accommodation sector are more readily identifiable as advancements in service quality, accommodation standards, accommodation type, facility standard, brand name participation, and geographic location. As such, the resorts highlighted in the "Evolution of Luxury Tourism Accommodations in Phuket" section are listed because of their contributions to industry advancement in, to use the words of Kraiponarak (2007), "services to the business and leisure traveler, [including] very high standard of cleanliness, luxurious fitting and furnishing, first rate restaurant, banquet and conference rooms and facilities, valet service, room service, internet connection, sport activities, cable TV and complimentary newspapers."

CHAPTER 3
RESULTS

3.1 The Evolution of Luxury Tourism Accommodations in Phuket

Primary data have been gathered by multiple organizations, both governmental and nongovernmental, concerning the variety of tourism accommodations in Phuket. These organizations often mention the luxury tourism accommodation sector, but their inspection of this sector is brief and limited to specific points in time. None of these organizations have evaluated the evolution of the luxury tourism accommodation segment. As this segment is an increasingly important part of the Phuket tourism economy there is a critical need to understand how this segment has developed. Understanding the evolution of this segment opens the door to understanding its future development, which is essential to the livelihoods of the hundreds of thousands of Phuket residences.

This section contains the assimilation of primary data gathered through interviews and personal communications. Employees, consultants, or affiliates of C9 Hotel Works, Bovis Lend Lease, and TGR Asia assisted in identifying significant trends, patterns and changes in the evolution of the luxury tourism accommodations in Phuket. These sources supplied specific historic information on the growth and development of the luxury tourism accommodations of Phuket.

A significant portion of the information presented in this section is the result of the compilation and interpretation of secondary data gathered through desk research. These data come from industry reports, including real estate agency reports, hotel management company reports, hospitality consultants' reports, developer reports, non-government organization reports, government reports, general industry reports and corporate websites. These reports are authored by Horwarth Publications, Smith Travel Research publications, HVS Hospitality Services, C9 Hotel Works, Jones Lang LaSalle, CB Richard Ellis, Tourism Authority of Thailand, Kasikorn Research Center, the Thai National Statistical Office, Phuket Tourism Association, and the Tourism Council of Thailand (C9 Hotelworks Market Research, 2009) (C9 Hotelworks, 2009) (Dusit International, 2009) (HVS International, 2002) (Horwath Asia Pacific, 2005) (Horwath Asia Pacific, 2006) (Kasikorn Research Center, 2008)

(Kasikorn Research Center, 2009) (Phuket Tourism Association, 2005) (STR/TBL, 2008) (Tourism Authority of Thailand, 2007) (Tourism Council of Thailand, 2008) (Erik van Keulen, 2002).

In 1967, the Sarasin Bridge was built, connecting mainland Thailand with the island of Phuket. This vital piece of national infrastructure opened the island to a new level of development. Less than 10 years later the history of luxury tourism accommodations in Phuket began with development of the "Phuket Island Resort" by the Orchid Assets Company on 64 rai of land in Rawai Phuket. This resort was constructed in 1975 and consists of 285 rooms.

Not only was this resort Phuket's first foray into luxury tourism accommodations, it was also the island's first experiment in resort strata ownership. A central part of this resort was sectioned off and a condominium complex was built. The condos in this complex were eventually completed and sold as strata ownership units. This complex later became known as Andaman Cove. Since its construction, Andaman Cove's operations have morphed through various levels of autonomy. Andaman Cove currently has limited operational connection to the resort; however, Andaman Cove guests and owners are able to use the resorts facilities. Although Andaman Cove's operational relationship with the resort has been convoluted, it never the less represents the beginnings of strata ownership resorts in Phuket.

Phuket Island Resort is located high is located high on a headland overlooking the Andaman Sea from the Southeast side of Phuket. The location of the resort on a seemingly private headland adds a feeling exclusivity. The southeast side of Phuket is popular for boating and the conveniences that Phuket City offers, such as shopping, dining and hospitals. The multiple bays on this side of the island are protected from the monsoon winds and swells that batter the West Coast of Phuket from April until October of each year. This part of the island offers tranquil seas that hotel guests can swim in year round without dangers of under tows and strong rip currents. The construction of the Phuket Island Resort in the Southeast side of the island capitalized on these geographic benefits. At the end of 2001, Six Senses Hotels, Resorts and Spas, a Bangkok-based operator of high-end boutique resorts, led a consortium (including Deutsche Bank, and local bank Finansa Thai) in purchasing the resort. Now known as Evason Phuket & Six Senses Spa, the resort is managed by Evason and contains guest rooms, suites, and pool villas. As of 2006, the Evason Phuket & Six Senses Spa had an average ADR of 3,550.

It was nearly ten years before the next luxury resort was established in Phuket with the opening in 1982 of the Pansea Resort. In contrast to the Phuket Island Resort (Evason) this resort was built on the West Coast in the central part of Phuket Island. The south side of the island has multiple advantages over the West Coast, but the West Coast is home to the island's most beautiful beaches. These beaches soon became regarded as the island most precious resource and the calm waters of the Southeast Coast were momentarily forgotten as developers of luxury resorts such as the Pansea Resort began focusing on West Coast development.

The Pansea Resort was acquired in 1995 by a Malaysian company and renamed the Chedi. The property was then managed by General Hotels Management and was totally renovated in 2000. There are now 108 small cottage-type villas. All cottages have private verandahs. The Chedi also retains a special uniqueness on Phuket as one of very few hotels on the island with beach accessible only through the hotel property, making the beach a virtually private beach. In 2005, 18 beach villas were upgraded after the East Asian Tsunami. This West Coast resort (as of 2006) has an ADR of 5,760 Baht.

Four years after the opening of the Pansea Resort (Chedi) on the west central part of the island, another luxury resort was opened on the southwest Coast at Nai Harn Beach (1986). This resort is the Meridian Yacht Club (now the Phuket Yacht Club). The 1986 opening of the Meridian Yacht Club marked the entrance of internationally branded resorts in Phuket. This resort overlooks the scenic Nai Harn Bay and Maan Island. This bay has been a favorite mooring spot for yachtsmen for the past 20 years (however the April° November monsoons bring large swells that make mooring dangerous during this season). As of 2006, the Phuket Yacht Club's ADR was 5,759. This resort recently became self-managed and changed its name to the Phuket Yacht Club. Since losing the Meridian brand, the resort's ADR has dropped significantly.

A year after the opening of the Meridian Yacht Club, another Meridian resort was opened just South of Patong. The Le Meridian was constructed in 1987 in a secluded valley between the large beaches of Patong (to the north) and Karon (to the south). As of 1987, this was the largest resort on the island, with 470 rooms. In 2006, the resort was still commanding an impressive ADR of 4,651 Baht.

In 1987, thirty years from the time Thanpuying Chanut Piyaoui opened the first "Dusit" hotel, (Princess) in Bangkok, the Dusit Laguna Resort was opened in Phuket in the area, soon to be known as Laguna. The Dusit Laguna Resort was the first of multiple luxury branded properties to be established in the Laguna area. Although upon construction there were no strata ownership units, after the concept became more popular the Dusit eventually incorporated the concept into their room inventory. Not counting the strata units, the resort now has 258 rooms, and as of 2006 had an ADR of 4,266 Baht.

In October of 1988 the Airports Authority of Thailand (AAT) took over the management of the Phuket Airport. This change in management signaled a change in aviation in general. The airport was opened to international flights that lead to an increase in air travel to the island of Phuket.

The premier luxury resort of Phuket was built in 1988 by the Singapore-based Amanresorts. The Amanpuri of Surin Beach would be the icon of luxury in Phuket for the next 20 years. The construction of this resort also saw the advent of the "private villa" as a power component in luxury tourism accommodations of Phuket. This resort features 40 pavilions and 30 privately owned villa estates. None of the 40 pavilions have swimming pools but all of the 30 private villas are equipped with swimming or splash pools. This resort has become known worldwide for its impressively high level of service. The villa estates feature live-in maids and chefs. The 30 private villas came online in 1990 after the original opening of the resort. This was the first resort on the island to incorporate a strata-owned resort concept. Although the Phuket Island Resort (Evason Phuket & Six Senses Spa) experimented with the strata ownership resort concept, the Amanpuri was the first resort on the island to truly incorporate the concept. The 30 private villas are owned by third party residents/investors. Originally the estates were sold with the assumption being that the residents would be the only occupants of the villas. Overtime, however, every villa was placed into the Amanpuri rental pool. As of 2009, the Amanpuri ADR was 28,271Baht.

In the same year (1988), Amanpuri opened another luxury resort on the central west side of the island. This was the Boathouse Phuket, later known as the Montrii's Boathouse. This small, 36-room resort is on the popular Kata Beach.

Four years later, in 1992, a new 362-room resort was added to the Laguna group of resorts with the construction of the Sheraton Grande Laguna Phuket. At a later point this hotel would also contain strata ownership units. This is currently the largest of the Laguna Hotels with 252 hotel rooms, 83 Grande Villas and 27 Golf Villas. In 2005, the Sheraton Grande Laguna Phuket began extensive renovations which have been ongoing for four years. Approximately 95% of the rooms have been completely renovated. In the same year (2005) Golf Villas were added to the resort. In 2006, 45 additional rooms were added to the resort and another 30 Golf Villas are under construction as of 2009. Unlike the Dusit Laguna and Laguan Beach Club, the Sheraton Grande Laguan Phuket is not directly on the beach. The resort instead takes advantage of golf course frontage and views of a tranquil lagoon. As of 2006, the Sheraton Grande Laguna had an ADR of 5,850 Baht.

The Sheraton Grande Laguna was not the only Laguna resort opened in 1992. In the same year, the Laguna Beach Club was also opened. This 252-room resort shares the Bangtoa beach front with the Dusit Laguna.

By the mid-1990s, with the establishment of the Laguna and Surin Beach resorts, west central Phuket had become the center for luxury resorts on the island. In 1994, another impressive resort was opened in the Laguna area. The Banyan Tree Phuket consists of 158 units. The resort features 132 villas with 26 additional two-bedroom villas. The original resort opened with 115 villas, and the remaining villas were completed in 2005 when the Banyan Tree adopted the strata ownership concept. This luxury resort still commands impressive ADRs even though it is not a beach-front resort and does not even offer sea views. The success of this resort is the result of its unique blend of concepts. Until 2003, the Banyan Tree Phuket was the only resort on the island with pool villas. Also, this resort was one of the first in Asia to incorporate tropical garden spas. As of 2006, this resort had an ADR of 18,271 Baht.

In the year 2000, the Panwaburi was built on Panwa Cape. The Panwaburi consists of 12 beach villas, 27 sea view villas and 40 sea view deluxe rooms. In 2004, it was to be rebranded as the luxurious Conrad Phuket Resort & Spa, but at some point, after significant media attention, the plan fell through and it remains the Panwaburi today. Since 1986, with few exceptions, the island's luxury resorts were concentrated on the west central cost. The construction of the Panwaburi on the south east side of the island marks an important shift in luxury development. This resort was one of the first to utilize the sea views off eastern Phuket. Panwaburi would be virtually alone on the east cost for another five years but the trend away from the central West Coast had begun and would soon be emphasized by the JW Marriott's construction on Mai Khaw Beach.

It was not until 2001 that another luxury resort was developed on the island, and this time the location was the remote northwest coast of the island. Until this time all the luxury establishments were constructed on the central-west coast or southern tip of the island, but in 2001 the JW Marriott Phuket Resort & Spa was opened on the Mai Khao Beach on the northwest shores of Phuket. This hotel was developed by the Minor Group and consists of 265 rooms. Although a beach-front resort, few of the rooms offer unobstructed ocean views. The rooms are quite large, however, with a minimum of 47 square meters of space. This resort also has poolside dinning for up to 300 guests and banquet seating in the ballroom for 450. The JW Marriott offers the third largest meeting venue (in the luxury segment) after the Sheraton Grande and Le Meridien. The property and beach of the JW Marriott is shared by the Marriott's Phuket Beach Club, although integrated with JW, the Marriott Beach Club is managed as a completely separate facility. As of 2006 the JW Marriott had an ADR of 5,875 Baht.

The JW Marriott was a sign of things to come for the luxury tourism accommodation market of Phuket. The West Coast of Phuket was becoming increasingly crowded in terms of tourism accommodations, local residents, and tourists. The possibility of finding viable land for building a hotel on the West Coast was disappearing. Land on the West Coast shot up in price to 3 million USD per acre. Water and utilities became increasingly expensive and the island's infrastructure in general was not meeting the demands of the residents and tourists on the island. Traffic jams and local corruption became problems. These are among the reasons why companies such as the Minor Group (developer of the JW Marriott) began finding new areas to develop.

The Ayara Hilltops was opened in 2002 on the hills above Surin Beach. This luxury resort consists of 48 luxury suits with spectacular views of Surin Beach, but no beach front (however, a complimentary shuttle service is offered to guests). This smaller resort has five meeting rooms, a pool bar and one restaurant called "Spice."

Another Surin Beach area resort was opened in December of 2004. Twin Palms is a contemporary resort consisting of 76 rooms and 21 duplex residences. The duplexes came on line a few years after the original 76 units. Twin Palms is another resort, like the

Banyan Tree, without ocean views or beach front property. As such, this resort is centered on the common pool area. In addition, the Twin Palms opened a small beach club called, "Catch," located on Surin Beach. Twin Palm guests can walk three minutes to Catch and use the lounge chairs or have a beverage at the bar. As of 2006 the Twin Palms ADR was 5,600 Baht.

The year 2004 brought the opening of another luxury resort just north of Suring Beach at Bang Tao Beach. The 42-unit Trisara was opened in 2004 and (apart from the Banyan Tree Phuket) for the first time in 20 years the status of the Amanpuri as the premier luxury resort was challenged. Trisara, like the Banyan Tree and Amanpuri, is an all-villa resort. All of these villas have exquisite sea views and all of them have private pools. The standard villas are 117 square meters, ifty meters of which are enclosed space. The standard units are built in pairs to allow the units to be connected for family use, making them two-bedroom villas. In addition to the standard villas, there are 16 privately owned villas that are included in the rental pool, making Trisara another luxury strata ownership resort. These private villas range in size from 750 to 1,500 square meters. An additional 24 private villas are under construction. As of 2008, the Trisara ADR was 25,118 Baht.

The year 2005 brought a major shift in development trends of luxury tourism accommodations in Phuket. The Sarojin was constructed in 2005 in Khao Lak. Khao Lak is located in Phang Nga Province directly over the bridge to the north of Phuket. The Sarojin resort is a one-hour drive from the Phuket International Airport. As traffic on the island had become increasingly congested, a one-hour drive to resorts in the south of Phuket was increasingly common. It takes roughly this amount of time to drive from the airport to the Evason, Meridian Yacht Club, The Boathouse or Le Meridien Phuket. Travel time was not the only factor in the shift in resort development. As was mentioned earlier the prices of land on the West Coast of Phuket had become excessive, whereas beach front property could be purchased in Phang Nga for as little as 20% of the price paid in Phuket. The local people to north were also much more accommodating to developers. By this point, costs of placating corrupt local authorities had become very expensive.

The Sarojin consists of 56 units on a 10-acre plot of land. There are 14 suites on the upper floors of seven separate two-story complexes. There are also 14 pool residences on the ground floor of each building. The other units are garden residences which include garden terraces. This resort also has private access to the beach but no private villas.

The shift in Phuket luxury tourism accommodation development was not only to the north, but also to the east. In 2005, the Chandara resort was opened on the East Coast at Po Bay. Throughout the 1980s and 1990s, when the luxury tourism accommodation was centered predominantly on the West-central Coast with some establishments on the South Coast, the East Coast was regarded as less desirable. This was due to a number of factors. First, the East Coast has virtually no sand beaches. It is is predominantly mangrove forests and mud flats. The tidal water level on the East Coast is also extreme. The tide on the West Coast has little effect on the utility and aesthetics of the beaches. The East Coast, however, is much different. At low tide, the water recedes hundreds of meters (in many areas) exposing not a sandy ocean floor, but a muddy swamp-like plain. The water on the East Coast tends to be cloudier and less clear as opposed to the clear torques water of the West Coast water (due the inflow of rivers and streams into the Phang Nga Bay). In addition, the East Coast seems far away from the convenience of shopping malls and restaurants located on the West Coast and in the city. As seen in 2005 by the developers of the Chandara resort, however, the East Coast is not without her charms. The West Coast offers limited sailing opportunity for yachts during much of the year as the monsoons swells are dangerous and make for uncomfortable sailing. The protected Phang Nga Bay on the East Coast of Phuket is sheltered year round, thus providing safe sailing and stunning views and seascapes. The East Coast offers views that are unsurpassed in the world. While the West Coast's beaches are beautiful, there is little scenery for hotel guests to view other than the vast expanse of the open ocean. The East Coast, in contrast, has views of the amazing Phang Nga bay. Hundreds of islands line the horizon with limestone cliffs jutting out of the water as high as 300 meters into the air.

Chandara has a small beach. It can't compete with the beaches of the West Coast resorts, but Chandara guests can swim year round and enjoy sailing and sea kayaking while taking in the beautiful scenery. Chandara has 49 units including villas and pool villas.

In 2006, another luxury resort called Aleenta was constructed near the Sarojin Resort in Phang Nga on Na Toey Beach. This resort has 40 units including 5 three-bedroom villas, 10 two-bedroom villas and 15 standard hotel rooms. This resort offers an amazing "absolute" beach front with four pool suites situated almost directly on the sea. The development is significant as it is the first strata ownership luxury resort on the north of Phuket Island.

An especially impressive addition was added to the Phuket luxury tourism accommodation market in 2006 with the construction of the Sri Panwa on Panwa Cape. Cape Panwa is located on the south east side of the island. The opening of this resort adds to the trend of luxury resorts shifting away from the central West Coast of Phuket. Sri Panwa is a product of the Charn Issara Group. When the resort first opened in 2006, it consisted of a mere 11 pool villas. Over the last three years, however, the resort has expanded and now has 34 pool villas and an additional strata ownership group of 40 villas. The 40 villas have 36 bedrooms and are finished to the highest standard. Additional villas are under construction and will increase the overall size of the resort by another 10%.

The shift in luxury resorts was not limited to the northern and eastern expansion. The year of 2007 saw two luxury resorts built on nearby islands. Phuket Province also includes a host of neighboring islands. The expansion of luxury resorts to the nearby islands offers a new chance to find great locations with beaches equal in quality to those of the West Coast of Phuket at the expense of added travel time. Island resort development comes with a host of difficulties including high infrastructure development costs, a lack of medical facilities and reliability issues with the transportation of supplies and guests. However, developers seem to think these costs are offset by the advantages of less expensive land, beautiful locations, exclusivity and a captive market to support restaurants and other resort outlets.

The Racha is a 70 villa and suite resort constructed on Racha island located to the south east of Phuket island. Racha Island is 12 miles from Phuket. The journey takes approximately 30 minutes by boat. This resort has 44 deluxe villas, 11 grand deluxe villas and six grand deluxe pool villas. The resort also includes four junior pool suites and four grand pool suits. There is also a "lighthouse unit." This is a two-bedroom pool villa. The resort offers three restaurants, a beach club, two bars, swimming pools, and a spa.

The Six Senses Hideaway is another island luxury resort opened in 2007. This resort is located on the island of Yao Noi, which lies to east of Phuket in Phang Nga Bay, approximately 30 minutes by speed boat from Phuket. This resort is built in a contemporary nature-centered style. All of the 54 units are villas. The villas take full advantage of the jungle surrounding the resort and the beautiful views of Phang Nga Bay. The resort includes 29 pools villas, 14 deluxe pool villas, 11 pool suite and two large multi-bedroom villas called the "retreat" and the "hilltop reserve." Both of these large villas have multiple bedrooms, private pools, and dining rooms. The hilltop reserve also has a kitchen and full-time butler to attend to guests' needs. This resort is also a strata ownership resort with 9 private villas, currently under construction.

2008 brought the spread of developments again to the north. Anatara is an 83-villa resort built adjacent to the JW Marriott. This is another Minor Group development, but unlike the JW Marriott this resort contains only villas and only one actual beachfront unit. These villas are, for the most part, all similar with private pools, private Jacuzzis and salas. The villas are built around an artificial lagoon. The resort has a swimming pool as well as two full restaurants and one bar.

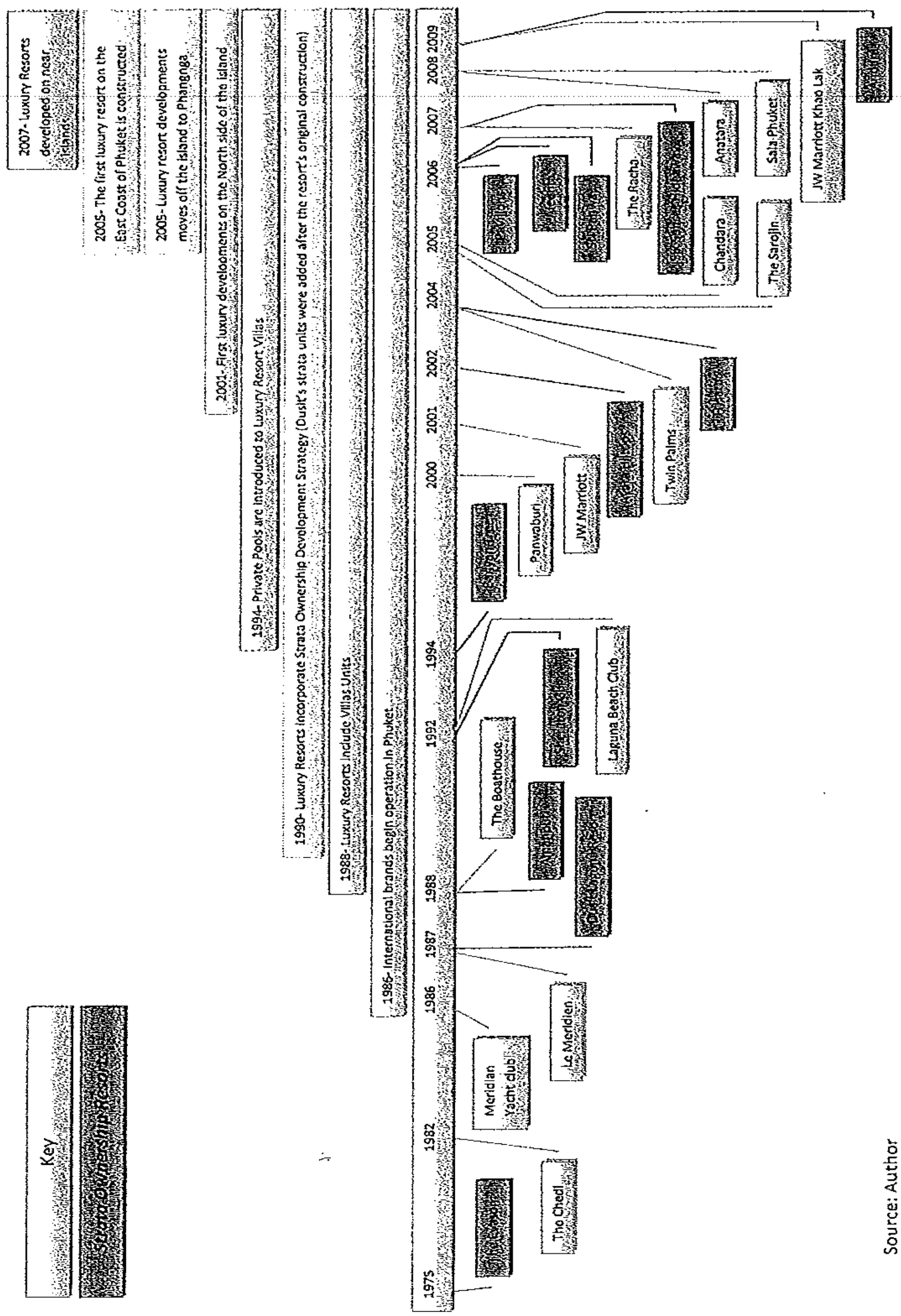
The second of the 2008 resorts is the Cher Fah Khao Lak, again built to the north of Phuket. The resort quickly changed management and is now the JW Marriott Khao Lak Resort and Spa. This resort is located on the beach near Laem Pakarang Beach and Bang Niang Beach. The units are built adjacent to a large swimming pool that acts as a center point for the resort. As the resort is not near the amenities offered on Phuket, it takes full advantage of the some of the natural beauties of the local environment including the Chong Fah waterfall in nearby Lumru National Park and the Similian National Park (one of the most famous dive sites in Thailand).

Also opened in 2008 is Sala Phuket Resort and Spa. This is the second Sala resort in Thailand, the first being the Samui Sala. This resort has 79 rooms with the majority having private swimming pools. The resort is directly on the Mai Khao beach and built in a Sino-Portuguese style architecture. The style is also very modern with creative use of large open spaces. One of the prominent features is the open air bathrooms that are 29 square meters, which contains private gardens and outdoor tubs or showers.

The latest addition to Phuket's luxury tourism accommodation market is Andara Resort and Villas, which is a collection of luxury villas and apartment suites. This resort is built in Kamala on a hillside overlooking the beach. This strata ownership resort offers apartments and villas with 16 bedrooms with private pools. Like the other luxury resorts on the island, Andara has a full spa and gym, but the resort also offers guests the use of the resort's two 28m and 35m private motor yachts.

Figure 3.1 Evolutions of Luxury Tourism Accommodations of Phuket

Figure 4.1 Evolution of the Luxury Tourism Accommodations of Phuket



Source: Author

3.2 Current Luxury Tourisms Accommodations

According to the criteria established earlier in this study, 12 resorts can be classified as luxury tourism accommodation in the Phuket area. This list includes the following resorts in order of rank: Trisara, Amanpuri, Sri Panwa, Six Senses Hideaway, Banyan Tree, Andara, Phuket Pavilions, The Sarojin, Aleenta, The Racha, Anantara, and Sala Phuket. Multiple points of interest appear upon evaluation of this list.

The list contains both internationally branded and non-branded resorts. In fact, the number 1 resort, Trisara, and number 3 resort, Sri Panwa are not branded. The only internationally branded resorts in this list are Amanpuri (number 2), Six Senses Hideaway (number 4), and Banyan Tree (number 5) and Anantara (number 11). Sala Phuket has one sister resort in Samui and Aleenta has a sister resort in Huahin.

These resorts range in ADRs from barely 10,000 Baht to nearly 30,000 Baht. The newer resorts don't appear to have a substantial advantage as the Amanpuri built in 1988 is still number 2 in this list, and it's possible with fluctuating ADRs that it could hold the number 1 position again.

Table 3.1 List and Ranking of Luxury Tourism Accommodations

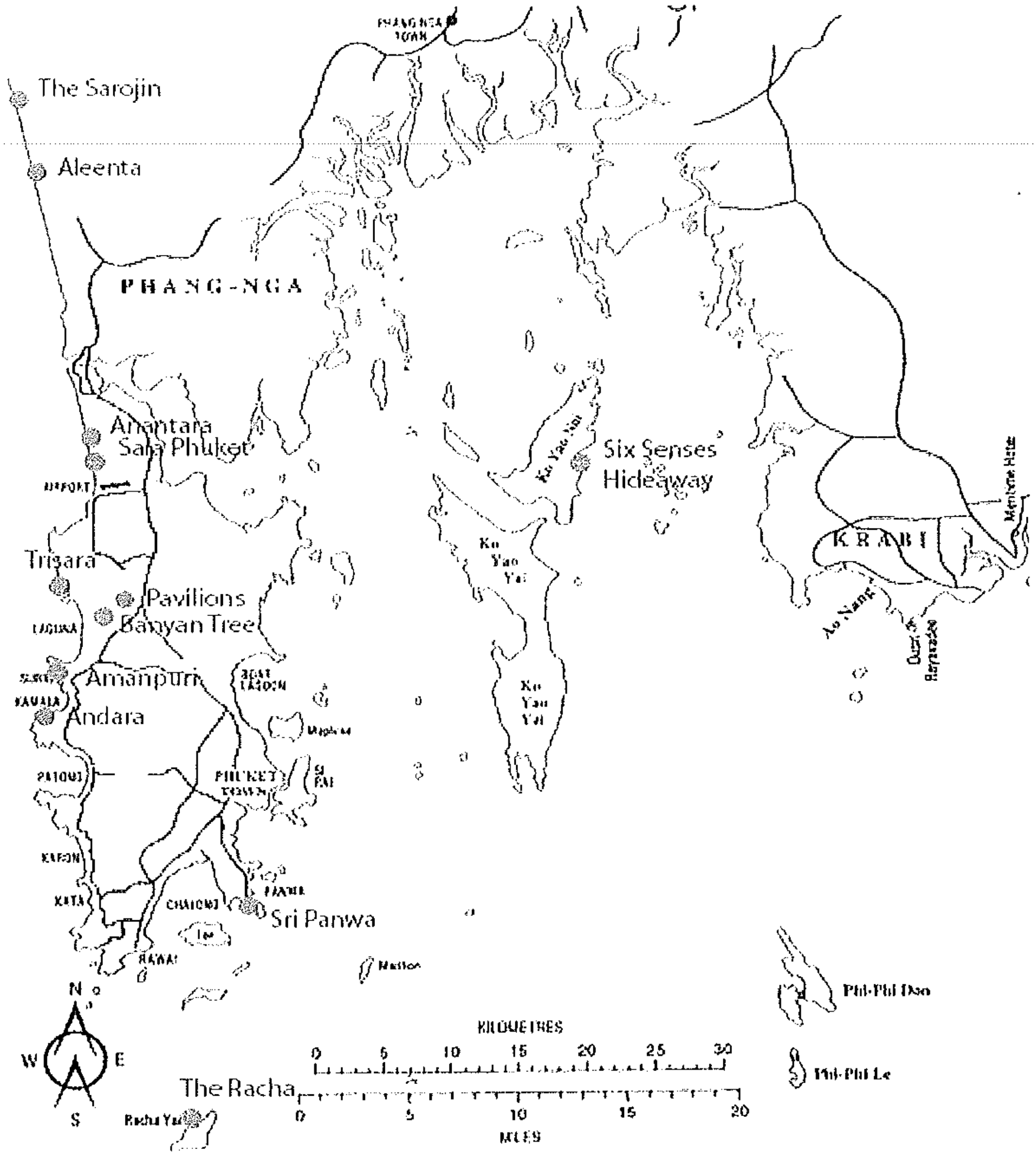
Resort Rank	Resort	Opening Year	Location	Strata Ownership	Villa Resort	Inter Brand	Beach
1	Trisara	2004	Bang Tao	Yes	Yes	No	Yes
2	Amanpuri	1988	Surin	Yes	Yes	Yes	Yes
3	Sri Panwa	2006	Panwa Cape	Yes	Yes	No	No
4	Six Senses Hideaway	2007	Yao Noi	Yes	Yes	Yes	Yes
5	Banyan Tree	1994	Laguna	Yes	Yes	Yes	No
6	Andara	2009	Kamala	Yes	Yes Partial	No	No
7	Phuket Pavilions	2006	Bang Tao	Yes	Yes	No	No
8	The Sarojin	2005	Khao Lak	No	No	No	Yes
9	Aleenta	2006	Na Toey	Yes	Yes Partial	No	Yes
10	The Racha	2007	Racha Yai	No	Yes	No	Yes
11	Anantara	2008	Mai Khao	No	Yes	Yes	No
12	Sala Phuket	2007	Mai Khao	No	Yes	No	Yes

Source: Author

The list shows that although there is a concentration of luxury tourism accommodations in the central western part of the Phuket, luxury resorts can be found throughout the island, on the north, south, east, and west coast, as well as north of the island and on neighboring islands. Indeed, only two of the top six resorts are on the central West Coast. (The Banyan tree is in the West Coast area, but not on the beach.)

Although there are a wide variety of locations, years in operation, ADRs and branding strategies, two factors are quite consistent. The first is the use of the strata ownership concept. Strata ownership resorts make up almost 66% of the list, and seven of the eight top resorts use this model. The second constant is the use of villa units. Only one resort on the list does not contain villa units. It is clear that the top luxury tourism accommodations rely on the strata ownership and villa concept.

Figure 3.2 Luxury Tourism Accommodations of the Phuket Area



Source: Author

3.3 Future Luxury Tourism Accommodations

The luxury tourism accommodation industry of the Phuket area will continue to grow for the foreseeable future. As the tourist arrivals continue to increase, infrastructure continues to develop, and competitor destinations grow increasingly expensive, developers will follow the current trend and look to Phuket as an attractive opportunity.

The recent economic crisis has had a widespread effect on the world's tourism industry and has made development companies rethink expansion strategies. Although Phuket-bound resort development companies still seem sure of their plans to develop in the area, the exact dates and details of their progression are subject to constant change. As such, it is difficult to forecast accurately luxury resorts that are in the pipeline and the development companies' strategies. With that in mind, this research has identified the following upcoming luxury resorts: The Yamu, Jumeirah Private Island, Taj Exotica Resort and Spa, Angsana Hotel, Royal Phuket Marina Hotel, Dusit Devarna, Shangra-la, Kempinski, Capella Phuket and the Four Seasons Resort.

Table 3.2 List Future of Luxury Tourism Accommodations

Resort	Location
The Yamu	Yamu
Jumeirah Private Island	AoPo
Taj Exotica Resort and Spa	Koh Lone
Angsana Hotel	Laguna
Royal Phuket Marina Hotel	Sapam Bay
Dusit Devarna	Phang Nga
Shangri-La	Bang Tao
Kempinski	Ao Po
Capella Phuket	Emerald Bay
Four Seasons Resort	Rawai
Resort	Location
Other Resorts	
The Ritz Carlton at Phulay Bay	Krabi
Rayaradee	Krabi

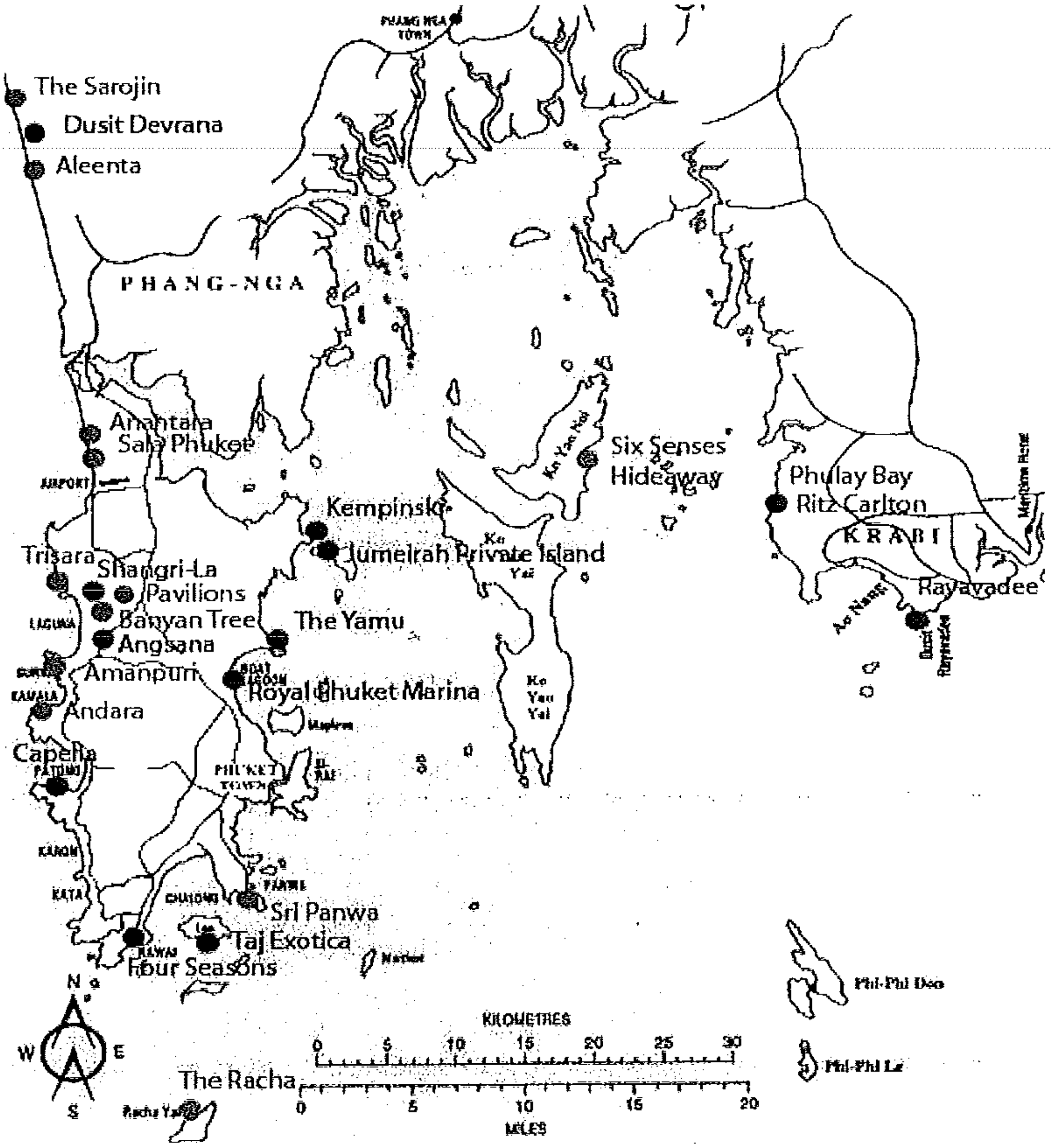
Source: Author

As can be seen from this list the number of international branded luxury resorts will increase substantially. The geographic disbursement of these hotels, once again, shows that west central Phuket has lost its monopoly on the luxury tourism accommodation segment. These upcoming resorts are found predominantly on the East Coast, south East Coast and neighboring islands. Although not a certainty, many of these resorts are planning to utilize the strata ownership concept. The Yamu, Jumeirah Private Island and Shangri-la have already advertised strata ownership villas sales while others on this list are said to be in the planning stages of incorporating the strata ownership concept as well.

An additional point that warrants mention in this report is the growth of the nearby province of Krabi as a luxury tourism accommodation market. The list of future luxury resorts contains the Ritz Carlton at Phulay Bay and the Rayavadee. These resorts are near Phuket (2.5 hour drive) but serviced by the Krabi international airport. The Ritz Carlton at Phulay Bay will be open on December the 22nd and the Rayavadee has been open for 16 years. Both of these resorts have been included in this list to highlight the expansion of this tourism accommodation sector and also to note that as the development of luxury resorts expand geographically the Phuket market will meld into the Krabi market (as the Phuket and Phangnga market has done already). This melding will be the product of the developed infrastructure connecting the two destinations, more travel options, flights, ferries, busses, etc., and coordinated area marketing campaigns.

The Rayavadee was officially opened in 1993. Ten years before that, the Rayavadee originated as a backpacker's bungalow resort. The resort opened as a luxury resort under Dusit management and five years later changed management to Sheraton. This lasted 1.5 years at which point the resort became self-managed and has been since then. The resort is set on 57 rai and is comprised of 102 villas. The Rayavadee is a strata-ownership resort, although only five beach front villas have been sold and only one of those remains in the rental pool. The resort is planning to expand its strata ownership component. In 2009, the Rayavadee has an ADR of 22,000 Baht.

Figure 3.3 Future Luxury Tourism Accommodations of the Phuket Area



Source: Author

3.4 Factors and key market issues in strata ownership development in the Phuket luxury tourism accommodation market

Factors leading to increasing popularity of strata ownership resort development among developers across the globe can be classified into two categories: factors leading to increased return on investment and factors leading to reduced risk. The multiple benefits listed in relative literature by Pizam, Guilding, Warneken, and Cassidy are all factors that can be broken down into these two categories.

The factors leading to the popularity of this tourism accommodation model in Thailand can be broken down into these same categories. However, many of these factors have different levels of importance and focus in the Thai market. Indeed, some of the factors found in the West do not exist in Thailand, and others exist exclusively in Thailand.

Recent changes in Thailand have driven developers to look for new ways (such as the use of the strata ownership concept) to improve returns and reduce risk. Traditionally, business ventures in Thailand have always been high risk. This high risk was due to poorly developed legal systems, poorly developed financial systems, corruption at every level of government, political instability, and general cultural-based ethical issues.

These risks have previously been offset, however, by impressive benefits such as inexpensive land, accommodating authorities, inexpensive labor, low construction material costs, low energy costs, few building restrictions, friendly and trainable employees, an exotic location, and an endearing culture. These benefits created an environment in which, despite the risks, entrepreneurs could realize very high returns on investment.

As Thailand has changed over the past decade or so, some of these benefits have slowly disappeared. Land prices have skyrocketed. (ADR's in the last 10 years increased by 53% while land prices increased by (300%). Labor costs have increased significantly. Construction costs have tripled in recent years; energy costs continue to climb and increased competition has driven down margins.

The legal system has improved only slightly while corruption, in many ways, has become worse. As more laws and regulations are passed and new authority departments are established, the corruption only increases in complexity. Instead of placating one or two politicians from one or two departments, now an entrepreneur must appease tens if not hundreds of officials. Corruption has thus become harder to deal with and more expensive.

Political instability is as bad as or worse than ever before, and cultural ethical issues have only slightly improved. In addition, misdirected local environmental protection efforts have become a tool of the corrupt.

While these negative trends have been emerging, there have also been some positive changes and some of the traditional benefits still exist. The current benefits include (among others) friendly and trainable employees, exotic location, endearing culture, improved financial systems and increased education level of local work force.

Overall, however, developers are left with consistently high risk and ever-diminishing benefits. As mentioned earlier, this has spawned the recent surge in strata ownership resort popularity. Strata ownership resorts effectively decrease project risk and increase project return for the resort developer.

The factors that increase return on investment for strata ownership resorts in Thailand are virtually the same as the factors that increase return for strata ownership resorts around the world. First, with the sale of inventory in the beginning years of operation, the resort front-loads the return, and with consideration of the time value of money, this means a substantially increased IRR.

Second, strata ownership resorts are able to sale real estate at a premium price. Resort units sell for as much as 200% or even 300% more per square meter as comparable accommodations not linked to resorts. This is due to higher expectations by buyers of quality, services, and lower risk. In Thailand, real estate buyers are especially concerned with the stability of their investments and are, therefore, more inclined to pay a premium for a property that they feel is tied to a premier resort. They feel this offers more security, as issues with government and shady developers are less likely to occur. There is also a considerable psychological (pride of ownership) motivation for buyers to own a piece of a luxury resort (especially if it is a brand name luxury resort).

Third, strata ownership resorts sell units and are therefore able to raise capital levels, which in turn make leveraging easier. Increased up-front capital means financing is more readily available. This leveraging gives the resort a higher return on investment.

The factors that mitigate risk for strata ownership resorts in Thailand are similar to the factors that mitigate risk for strata ownership resorts around the world. However, the concept of risk mitigation is more heavily focused on in the Thai market. In the Western world, the establishment of secure financial systems and dependable legal institutions creates an added layer of security that developers in Thailand do not have (Graham, 2009).

In general, the longer that capital is tied up in an investment the more risk there is associated with the investment. Local industry experts report that time sensitivity in the Thai development market has increased importance. The constant unrest in the political environment of Thailand and rampant corruption are just some of the factors that lead to added levels of urgency for developers to cash out of projects as quickly as possible (Mehta, Amish, 2009; Ragsangob, Robert, 2009). The selling of strata ownership units off-plan and in the first few years of operation enables developers in Thailand to achieve a faster return on their investment than if the developers were to wait only for profits generated from resort operations.

Another risk-mitigating factor of strata ownership resorts is the ability of this model to transfer risk. As buyers purchase units in the resort, they are in effect becoming small shareholders in the resort. The money paid for the units offsets developer's costs, and associated risks are thus transferred to the buyer.

A developer may sell many units off-plan before even starting construction. After a sufficient amount of capital has been raised in this manner the developer can approach a third party financer and use the equity (of the buyers) in order to secure a loan covering the remaining development costs. It is, therefore, possible for the development company itself to invest a proportionally small amount of capital, further reducing risk.

The target market of traditional resorts is limited to short-stay visitors. The strata ownership resort essentially offers more products; thus the target market is expanded. The strata ownership resort offers not only short stay accommodations but also long-term second-home-style accommodations and investment opportunities for investors. The target market then includes hotel guest, retirees, second home buyers and investors. This expansion in target market means reduced risk in finding clients.

In addition to the beneficial factors of the risk mitigation and increased return on investment, there are multiple key market issues that are impacting and will continue to impact the growth of this tourism accommodation model. To date, there are no specific regulations restricting the development or marketing of strata ownership resorts in Thailand. In many countries in Europe and in the United States developers are not allowed to market using claims of returns from rental revenue. If units are marketed based on the possibility of generating returns from revenue instead of merely marketed as accommodations, the developer is said to be engaging in type of exchange of securities. If the capital raising process of the strata ownership resort is classified in this manner, a plethora of complications come into play. In Thailand, this classification is not made enabling developers to make claims on returns and even guarantee returns without government regulatory intervention.

An additional key market issue in the proliferation of strata ownership resort in luxury tourism accommodations unique to Thailand is the ability of the unit buyer to use the unit as a vehicle for foreign ownership. Thai laws prohibit foreigners from directly owning land in the kingdom. These laws are regularly circumvented, exposing buyers to various levels of risk. Interviews with industry experts reveal that ownership of these units offers the buyer a more stable way to control the property as the buyer is not a lone agent but part of a larger, more influential system (Graham, 2009).

Another key market issue in Phuket (and Thailand in general) is promotions granted by the Thailand Board of Investment (BOI) to resort developers. The BOI promotions complicate the development of strata ownership resorts. BOI promotion grants foreign ownership, as well as tax and work permit benefits, to qualifying development companies. The conditions of this promotion, however, prohibit the development company from leasing or selling property, and it is also not possible to subdivide units within the resort for sale to buyers. There are possible methods of bypassing these restrictions, but doing so creates an added level of complexity and requires substantial amounts of additional capital. Many developers are not willing or able to accept these complexities and additional capital requirements.

3.5 Case One: An application of the Amos TAP Method and investigation of the Strata Ownership Resort, Resort Alpha

Case One: A look at profitability, ROI and Capital Budgeting Decisions based on Strata Ownership unit mix options and application of the Amos TAP Method in an average upper-tier resort in Phuket

In this study, the researcher has implemented the Amos TAP Method in order to recreate the historic performance of an average (benchmark) upper tier resort on the resort island of Phuket, Thailand. Data were collected from a variety of studies and industry reports and various analysis were conducted in order create the financial profile of an "average" upper tier resort.

Step 1: Identify Subject Facility

The first step of the Amos TAP Method is to "identify the subject facility." Therefore, for the purposes of this study, this average upper tier resort is called "Resort Alpha." Resort Alpha is to be a hypothetical benchmark facility based on the Phuket upper tier tourism accommodation segment.

Table 3.3 Industry Operational Information (2006)

Descriptions	Phuket (Sample)	All Hotels (Popluation)
Number of Hotels	8	32
Number of Available Rooms per Day	2,054	6,848
Number of Rooms Occupied per Day	444,338	1,548,058
Occupancy	59%	62%
Average Number of Guests per Room	1.9	2
Average Daily Room Rate (THB)	4,487	3,478
RevPAR (THB)	2,659	2,154
Average Rate per Guest Night (THB)	2,314	1,776
Revenue per Guest Night (THB)	3,813	3,207

Source: Horwath HTL, 2007

Step 2: Gather Market Segment Industry Data

A survey was conducted by Horwath HTL in 2007 that collected financial data from 2006. In Horwath's study, 49 surveys (representing 13,894 rooms per day) were collected, representing four- and five- star establishments. The study encompassed comprehensive financial operating data market mix data as well as labor-related statistics for hotels in Thailand. Another study completed a year earlier by Horwath Asia Pacific is entitled, "Thailand Hotel Survey 2006." It gathered operational data for 2005 (Horwath Asia Pacific, 2006). This survey encompassed 35 hotels. Using the Amos TAP Method (Step 2: "Gather market segment industry data"), the researcher has taken the data from these reports and separated out the Phuket portion, which is averaged for use as base operating data for Resort Alpha. Table 3.3 shows this financial data.

In order to evaluate profitability, ROI, and capital budgeting decisions based on Strata Ownership Unit configuration options for Resort Alpha, it is necessary to use average upper tier resort departmental revenues and expenses as a base to calculate cash flows. The researcher has used the studies mentioned above and has followed Step 2 of the Amos TAP Method extracted information as seen in Table 3.4.

Table 3.4 Upper Tier Operational Data

Departmental Revenues	Phuket	All Hotels
Rooms	53.3%	58.2%
Food	21.2%	20.9%
Beverage	7.3%	9.4%
Other Food & Beverage	3.5%	1.6%
Telephone	1.5%	0.9%
Spa/Health Club	3.1%	3.2%
Minor Operated Departments	2.6%	2.5%
Rentals & Other Income (NET)	7.7%	3.2%
Total	100.2%	99.9%

Table 3.4 (Continued)

Department Expenses	**Phuket**	**All Hotels**
Rooms	16.6%	15.5%
Food & Beverage	49.4%	61.6%
Telephone	47.4%	39.0%
Spa/Health Club	39.5%	44.7%
Minor Operated Departments	42.9%	43.4%
Total	33.5%	30.3%
Department Profit (Loss)	**Phuket**	**All Hotels**
Rooms	82%	85%
Food & Beverage	37%	38%
Telephone	52%	61%
Spa/Health Club	61%	55%
Minor Operated Departments	57%	57%
Rentals & Other Income (NET)	100%	100%
Undistributed Operating Expenses	Phuket	All Hotels
Administrative & General	7.5%	7.5%
Marketing	5.8%	5.9%
Energy	5.4%	5.6%
Property Operations & Maintenance	3.9%	3.6%
Total	22.6%	22.6%
Income Before Mgmt Fee & Fixed Charges	43.9%	47.1%
Fixed Charges	Phuket	All Hotels
MF (Base + Incentive)	4.9%	4.9%
Property Taxes	0.7%	0.8%
Property Insurance	0.5%	0.5%
Other	2.4%	2.4%
Total	8.5%	8.6%
EBITA	35.4%	38.5%

Source: Horwath HTL, 2007

The size of Resort Alpha is the average size of the upper tier resorts in Phuket. This number is extrapolated from multiple industry reports as seen in Table 1.3 (HVS International, 2002) (Horwath Asia Pacific, 2006) (Horwath HTL, 2007). These reports are created in different years, and the number of resorts and rooms fluctuates between reports. Also, it is recognized that within the same company the reported numbers change drastically between years. This is due to additions in supply as well as decreases in supply. Some resorts previously considered upper tier are downgraded as new supply comes into the market. These dynamic figures are not a hindrance in the quest to create and evaluate Resort Alpha because these averages are used to deduct resort room inventory number only. Operational and other important data are much more stable year on year.

Table 3.5 Average Size Upper Tier Resort

Report	Resort Numbers	Total Rooms	Ave Per Resort
Horwath 2009, Top-Tier Report Market Overview	14	1,542	110
Horwath 2006, Phuket Hotel Market Overview	14	2,395	171
HVS International 2002, Regional Hotel Value Watch	12	2,407	201
Total Average Room per Resort			**159**

Source: HVS International, 2002; Horwath Asia Pacific, 2006; Horwath HTL, 2007

Other essential pieces of data in evaluating operations of Resort Alpha include the segment's historic Average Daily Rates and Occupancies. In order to secure this data the researcher again compiled information from multiple industry reports (Horwath HTL, 2007;HVS International, 2002). The data were then averaged to obtain ADR and Occupancies for Resort Alpha over a 10-year period (see table 3.6).

Table 3.6 Resort Alpha's ADR and Occupancy

Year	Average Daily Rate	Occupancy
1998	4,153	84%
1999	4,243	78%
2000	4,954	78%
2001	5,872	78%
2002	5,102	63%
2003	4,206	65%
2004	5,254	75%
2005	6,138	56%
2006	6,138	62%
2007	6,687	69%
2008	6,751	60%

Source: Author

Resort Alpha must have a "ramp-up" period when its operations are not yet "stabilized." In order to simulate an appropriate ramp-up period, the study has taken the average occupancies of four upper tier resorts during their ramp-up periods to stabilization. Therefore, the study assumes that Resort Alpha was opened in 1995 with ramp-up occupancies as can be found in table 1.5. In addition, as historic ADR information is not available from 1995 to 1998 for upper tier resorts in Phuket, for the purpose of this study the researcher has calculated the average change in ADR from 1998 to 2008 (which is 6%) and used this figure as the Resort Alpha's ADR backed down to a 1995 level. This calculation gives Resort Alpha an ADR of 3,449 Baht in 1995, 3,669 Baht in 1996, and 3,904 Baht in 1997.

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Source: Author

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Table 3.7 Ramp Up Occupancy

	Partial	Year 1	Year 2	Year 3
Banyan Tree	50%	70%	70%	78%
Sheraton Grande	30%	44%	67%	72%
Dusit		62%	72%	72%
Laguna Beach	37%	40%	54%	53%
Le Meridien		61%	70%	72%
JW Marriott		46%	68%	80%
Evason		49%	65%	44%
Average (Resort Alpha)	39%	53%	67%	67%

Source: Horwath Asia Pacific, 2006

As can be seen in Table 3.4, hotel operation information can be expressed in the form of proportions to fix indicators such as room revenue, total revue, or department review. In order to compile a complete list of such proportions or ratios this study must utilize the Amos Control Theorem to find the department revenues, which are calculated as proportions of room revenue. Cost numbers are then taken as proportions of total revenue or department review as appropriate per category.

Step 3: Gather Facility-Specific Data

Step 3 of the Amos TAP Method is not used in this research as the subject facility is not a "specific facility" but a hypothetical benchmarking facility that is an "average upper tier resort." Therefore industry averages are used across the board with no adjustments made.

Step 4: Apply Amos Control Theorem to generate departmental revenues and Amos Control Ratios

Step 4 of the Amos TAP Method involves the application of the Amos Control Theorem to generate Amos Control Ratios.

During the Amos TAP Method Steps 1 through 3, input data were collected and inserted into the Amos Control Theorem. These data are found in tables 1.3 and 1.4 above and consolidated in table 1.6 (occupancy and ADR are taken from year 1995 as a standardized year).

Amos Control Theorem First Phase

Phase 1 of the Amos Control Theorem will output *room revenue* (for a given year). Phase 1 of the Amos Control Theorem is as follows:

$$f(\gamma) = \frac{r}{a} \times \frac{a}{t \times \beta} \times t \times \beta$$

Table 3.8 Amos Control Theorem Input Factors

ADR	4,153
Occupancy	84%
Room Count	159
Period	365
Room Rev to Total Rev Ratio	53.3%
Department Rev to Total Rev Ratio	x/1

Source: Author

Written in industry concept form Phase 1 of the Amos Control Theorem appears as follows:

$$Room\ Revneu = \frac{Room\ Revenue}{Total\ Rooms\ Sold} \times \frac{Total\ Rooms\ Sold}{Total\ Room\ Count \times Period} \times Total\ Room\ Count \times Period$$

The Theorem must be organized by concept in order to input available data.

$$Room\,Revenue = ADR \times Occupancy \times Room\,Count \times Period$$

Data from table 3.6 are inserted into the equation.

$$202{,}456{,}258 = (4{,}153 \times 84\% \times 159 \times 365)$$

202,456,258 is the number of Baht revenue generated by the *room department* of Resort Alpha in year 4 of operations or 1998.

Amos Control Theorem, Second Phase

Phase Two of the Amos Control Theorem will output an individual *department revenue.* Associated department costs will be found in industry publications as ratios of *department revenue.* When each department's revenue has been found, the figure can be multiplied by the department cost ratios to generate data on specific department-related costs. In addition, the summation of *department revenues* will yield Resort Alpha's total revenue. This number will be needed to generate cost figures for undistributed and fixed costs. The example below will utilize Phase Two of the Amos Control Theorem in order to find *food revenue* (a subset of *food and beverage department*).

$$f(\omega) = \frac{\frac{x}{l}\left(\frac{r}{a} \times \frac{a}{t \times \beta} \times t \times \beta\right)}{\frac{r}{l}}$$

Written in industry concept form Phase Two of the Amos Control Theorem for Food Revenue appears as follows:

$$f(\omega) = \frac{\left(\frac{Food\ Revneu}{Total\ Revneu}\right)\frac{Room\ Revenue}{Total\ Rooms\ Sold} \times \frac{Total\ Rooms\ Sold}{Total\ Room\ Count \times Period} \times Total\ Room\ Count \times Period}{\frac{Room\ Revenu}{Total\ Revneu}}$$

The Theorem must be organized by concept in order to input available data.

$$Food\ Revenue = \frac{Food\ Rev\ To\ Total\ Rev\ Ratio(ADR \times Occupancy \times Room\ Count \times Period)}{Room\ Rev\ To\ Total\ Rev\ Ratio}$$

Data from table 1.6 and 1.2.1 are inserted into the equation.

$$80{,}535{,}086 = \frac{21.2\%\ (4{,}153 \times 84\% \times 159 \times 365)}{53.3\%}$$

80,535,086 (corrected for rounding errors) is the number of Baht revenue generated by the food sales in the *food and beverage department* of Resort Alpha in year 4 of operations or 1998. This exercise is repeated for each department and revenue-generating aspect of each department (for instance, F&B *department revenues* is the aggregate of *food sales revenues*, *beverage sales revenues* and *other F&B revenues*).

Amos Control Theorem, Third Phase

Phase Three of the Amos Control Theorem will output a figure that will be an individual department's Amos Control Ratio. It allows the user to create a dynamic financial projection system where the only static input variable is the total room revenue. The Amos Control Ratio can also easily be used instead of Phase Two to find *departmental revenues* by simply multiplying the Ratio by the *total room revenue*. The full equation is as follows.

$$f(z) = \frac{\frac{x}{l}\left(\frac{r}{a} \times \frac{a}{t \times \beta} \times t \times \beta\right)}{\frac{r}{l}} \times \frac{1}{\left(\frac{r}{a} \times \frac{a}{t \times \beta} \times t \times \beta\right)}$$

Unlike the first and second Phase of the Amos Control Theorem, the third phase can be simplified without complications.

$$f(z) = \frac{\frac{x}{l}}{\frac{r}{l}}$$

Written in industry concept form the third phase of the Amos Control Theorem appears as follows:

$$Food\ Sales\ Revenue = \frac{Departmental\ Revnue\ to\ Total\ Revenue}{Room\ Revenue\ to\ Total\ Revenue}$$

Data from table 1.6 are inserted.

$$39.8\% = \frac{21.2\%}{53.3\%}$$

The resulting Amos Control Ratio is 39.8%. This ratio can be adjusted as necessary and applied to Phase One of the Theorem over multiple years.

Step 5: Apply Ratios to Estimate Total Revenues

Phases 1, 2 and 3 of this Theorem are individually applied (as necessary) to each revenue generating department (and sub-operating departments). The results can be seen in table 1.7. The Resort Alpha has five departments broken down into seven sub-departments: Food, Beverage, Other F&B, Spa, Telephone, Other Operated Departments, and Rental and Other Income.

Table 3.9 Amos Theorem Results

Departments	Revenues	Total Rev Ratios	Amos Control Ratios
Rooms	202,456,258	53%	
Food Revenue	80,535,086	21%	40%
Beverage revenue	27,590,724	7%	14%
Other F&B revenue	13,422,514	4%	7%
Total Food & Beverage	121,548,324	32%	
Spa Revenue	11,931,124	3%	6%
Telephone	5,592,714	2%	3%
Other Operated Departments	9,694,038	3%	5%
Rental and Other Income	28,709,267	8%	14%
Total Other Revenue	43,996,019	12%	
Total Revenue	379,931,726	100%	

Source: Author

Resort Alpha's departmental revenue ratios, rooms, food and beverage, spa, telephone, and other operated departments mach the percentages found in varies industry studies. The exact Baht figures are calculated using the Amos Control Theorem as mentioned above.

The *rooms department* is the highest-grossing revenue earner, contributing 53.3% or 202 million Baht (of the resort's total revenue) in a stabilized year (SBY).

The next highest contributor is the *food and beverage* or *F&B department* with a combined 32% contribution or 121 million Baht in a SBY. The *F&B department* breaks revenues down into three different areas. Those areas are *food, beverage* and *other food and beverage*. The food component of the F&B departmental review accounts for 21.2% or 80 million Baht. The beverage component accounts for 7.3% or 27 million Baht. The third component of the F&B department is the *other F&B revenue*. This is extra revenue generated by banquets or catering activities. This component contributes 3.5% or 13 million Baht.

The spa business is booming in Phuket. In a competitive luxury hotel 9% or even 10% of total revenues would be generated by the spa department. However, industry studies show that the average luxury resort is behind the curve in this area. As such, Resort Alpha's spa department contributes only 3.1% or 12 million Baht to total Revenue. Telephone revenues are in steady decline but averages still hover at 1.5% or 5.5 million Baht of total revenues. *Other operated departments* and *rental and other income* come in at 2.6% (9.6 million Baht) and 7.6% (28.5 million Baht) respectively.

Step 6: Apply Market Segment Operations Costs Ratios to Individual Departments

For the purpose of this study each department's associated costs are broken down into three categories. The categories are *direct costs of sales*, *direct wages* and *direct expenses*. The Room department does not have a *direct cost of sales*, such as a *cost of goods* (COG) as that cost was incurred upon resort construction. The room department does have *direct wage costs* and *direct expenses*. Those costs are 7.1% (14.2 million Baht) and 9.5% (19 million Baht) of *department revenue* or *room revenue*. The attributed *direct cost of sales* for the rooms department is quite low. This is common throughout Asia where labor costs are considerably lower than other areas of the world.

The *direct cost of sales* for Resort Alpha's F&B department is broken down into two separate categories because COG for food and COG for beverages are quite different. The *direct cost of sales* for food is 33.2% (26.5 million Baht) of food-only revenue. This number is quite high because luxury hotels in Phuket must import a large quantity of raw ingredients in order to maintain high standards for dining outlets. Some of the expensive raw ingredients include cheeses, meats, and pastry products. The *direct cost of sales* for beverages is 27.7% or 7.5 million Baht. The cost of importing some types of beverages, such as wine, is very high throughout Thailand due to an import tariff as high as 400%. *Direct wages*, which includes restaurant staff accounts for 19.4% or 23.4 million Baht. This figure combines food and beverage as the Resort Alpha's F&B staff is obviously not divided between working only with food or only with beverages. Other *direct expenses* for F&B make up 9.5% or 11.4 million Baht.

The Resort Alpha's spa (as mentioned above) is not very large. The spa may have only a few treatment rooms with a limited amount of wet and dry treatments available. However, as Thailand is famous for spas, all Luxury hotels must have some type of spa facilities. The *direct cost of sales* for the Resort Alpha's spa is 16.5% or 1.9 million Baht. The *direct wages* and *direct expense* of the spa is 18.1% (2.1 million Baht) and 4.9% (580,000 Baht) respectively.

Direct *costs* incurred for telephone are 27% (1.5 million Baht). *Direct wages* for telephone, as operators are needed to direct calls, is 10.3% or 572,000 Baht, while *direct expenses* is 3% or 166,000 Baht. Other operating department *direct cost of sales* is 15% (5.7 million Baht), while other operating *departments direct wages* and *direct expenses* are 18.8% (7.1 million Baht) and 9.5% (3.6 million Baht) respectively.

Step 7: Apply Market Segment Operations Costs Ratios to Undistributed Expenses and Fixed Costs

Undistributed payroll related and other expenses have been broken down between *undistributed wages* and *undisturbed expenses. Administration and general*, *marketing* and *property operations* and *maintenance*, and *energy costs* are extrapolated from industry reports. However, industry reports do not make allowance for *HR and training*, as per data gathered from interviews with luxury hotel GMs in the area. We should allow a 1% undisturbed waged cost and 1.1% undistributed expenses for *HR and training*, however, since the Resort Alpha is the average hotel we need to keep our bottom line figure in sync with industry averages. For the purpose of this study, extra *HR and training* expenses will be ignored. Resort Alpha's *administration* and *general undistributed wages and expenses* are 4.3% (15.8 million Baht) and 3.3% (12.4 million Baht) respectively. The *sales and marketing undistributed wages* and *expenses* are 1.5% (5.6 million Baht) and 4.3% (16.2 million Baht) respectively. *Property operations and maintenance*, and *energy undistributed* costs are 1.1% (4.1 million Baht) and 2.8% (10.5 million Baht) respectively. The last undistributed expense is *energy*; this expense does not have a wage component and is 5.4% or (20.3 million Baht).

The remaining Resort Alpha expenses are fixed charges. These charges include fees paid to management companies and incentive fees paid to management personnel. Usually management fees are a proportion of total revenue while incentive fees are based on gross operating income. For the purpose of this study the two are grouped together as *base fee* and *incentive* and take 4.9% (18.5 million Baht) off of the bottom line. Property taxes are 0.7% or 2.6 million Baht, while *insurance* is 0.5% or 4 million Baht. The final fixed charge is a compilation of other expenses and charges estimated to be 2.4% or 9 million Baht.

Up to this point, this study has replicated an average upper tier resort in Phuket using the Amos Tourism Accommodation Profiling Method. This has yielded a running ADR for 14 years as well as running occupancies for the same time. The study has also yielded specific operations costs for a base year and Amos Control Factors that generate revenues over the 14-year period. As this study has not gathered operational costs data for every year over the 14 years (as a complete data set is not available), for the purposes of this study, the researcher uses the costs generated above as a base year and, using information extracted from interviews with operations managers, adjusts operating costs on a year-by-year basis to reflex changes in labor costs, efficiencies of scale, and effects of lower occupancy on overall revenues and expenses.

Direct costs of sales for individual departments are held constant. There has been improved cost efficiency in some areas but savings have been negated by increases in other areas. For example, in the F&B department, in the early days of luxury resorts in Phuket there were few options in raw ingredient suppliers. However, as the industry advanced, more competitors in the raw ingredient import business became more efficient and lowered overall prices. These savings were eventually negated by increases in food costs, labor costs, and fuel prices. Ergo, for Resort Alpha, the ratio of department *direct cost of sales* is held constant.

The direct wages for Resort Alpha (as a ratio to department revenue) decrease slightly over the first few years of operation. As the hotel stabilizes it gains economies of scale in terms of labor cost in *room labor costs*, *F&B labor costs* and *spa labor costs*. Room labor costs experience an economy of scale equal to 1% over the first two years of operations at a rate 0.5% per year. The F&B department experiences an economy of scale equal to 2.5% over the first three years of operations, at a rate of 1.3% at the end of the first year, and 1.1% by the end of the second year. *Room labor costs* experience an economy of scale equal to 3% over the first three years of operations at a rate 1% per year. Direct expenses also see reductions due to economies of scale. The rooms department drops by 1% in the first three years. The F&B department drops 2% in the third year and the other operated departments drop 0.5% in the first year. *Undistributed wages* have high start-up costs in the first few years of operations. *Sales and marketing undistributed wages* are 0.6% higher in the first two years as extra emphasis will be placed on generating business for the new resort. The *undistributed expenses* also fluctuate in the first few years of operations. POMEC (in both undisturbed wages and expenses) will increase by 0.3% as systems come online in the first three years of operations. Economies of scale will be realized in energy consumption due to better utilization of common area faculties as occupancies increase; therefore a 0.7% decrees is experienced in the first three years.

Step 8: Generate EBITDA Estimations for Required Time Period

The run-up fluctuations in the Resort Alpha operations affect the EBITDA. As the resort stabilizes in the fourth year, the EBITDA stabilizes as well. Initially, the resort opens with at 32% EBITDA. That rate improves to 33.4% in the second year and 34.6% in the third year.

The completion of these 8 steps (as outlined above) concludes the execution of the Amos Tourism Accommodation Profiling Method. This has rendered a complete cash flow representation down to the EBITDA line over a 14-year period, which has fulfilled the purpose of the Amos TAP Method's design. Moving past this point (to return on investment analysis) requires more assumptions and leads to more subjectivity in assigning variable values.

Beyond Operations Cash Flows: Estimating Resort Alpha's Development Cost

Identifying Resort Alpha's operation data (as seen above) is the first step in assessing the profitability of the Resort. The next step is to identify the costs associated with the development of the resort. The data used to generate the cost numbers come from historic data on land prices, construction costs, and labor costs as found in 1995 in Phuket.

As Resort Alpha started operations in 1995, the construction phase of the development would span from 1993 to 1995. At that time the most prime real estate in Phuket cost 10,000,000 Baht per rai (in the Surin Beach area). However, very nice beach-front property could be found from 4,500,000 Baht a rai to as little as 2,500,000 a rai in Rawai, Panwa Cape, Nai Ton Beach, and Mai Khaow Beach. As Resort Alpha is the average upper tier resort, it is built on beach-front land costing 4.5 million Baht per rai. Resort Alpha is developed using a 25% land-to-room ratio. Therefore, for every four rooms, one rai of land is needed (this includes the property allocation for common areas, etc.). The total land area of Resort Alpha is 39.75 rai. The cost of this land is 178,875,000 Baht.

The Resort consists of 159 units. Each unit has 45 square meters of indoor space with 10 meters of outdoor covered space. The 1993 cost of construction for a very nice upper tier resort was 60,000 baht per square meter for internal space and 28,300 Baht per square meter for outdoor space. At a total size per unit of 55 square meters, Resort Alpha has a total of 8,745-room inventory space at a cost of 2,992,003 Baht per unit and a total cost of 475,728,477 Baht.

Resort Alpha has three restaurants. The restaurants are quite large at 585 square meters per restaurant. The restaurants include a signature Asian restaurant, steak house, seafood restaurant, and an all-day dining restaurant. The costs of development for the restaurants (including fixtures, furniture and equipment) are 40,700 Baht per square meter. The total restaurant (or food and beverage outlet) size is 1,755 square meters at a cost of 23,837,405 Baht.

Resort Alpha's spa is 1,611 square meters at 58,500 Baht per square meter for a total of 10,481,220 Baht in cost. The resort has two small merchandise outlets at 90 square meter each. The cost per square meter for these shops is calculated at 59,000 Baht for a total of 5,314,050.

Back-of-house costs are calculated at 16,400 Baht per square meter and based on 20.7% ratio to room area, making the back of house 1,810 square meters and 29,698,387 Baht. The resort's common area is 1,609 square meters at a cost of 8,600 Baht per square meter. The total common area cost is 13,838,088 Baht. The infrastructure cost of this hotel is 109,417,550 Baht or about 23% of the room costs.

The total cost of Resort Alpha is 984,028,793 Baht. This cost includes construction costs, land costs, FFE costs, and infrastructure costs. For profitability calculation purposes, the capital outlay is a onetime outlay in year 1, 1994.

The next step of this case study requires the application of the strata ownership component to Resort Alpha. The general purpose of this case study is to apply the Amos TAP Method in order to evaluate the effects of strata ownership on the profitability (return on investment) of this "average upper tier resort." The financial information gathered on average upper tier operations (as seen above) is quite detailed and mathematically controlled. The application of the strata ownership component, however, will require more flexibility. Nevertheless, the following assumptions still follow industry trends. Resort Alpha's room inventory is 159 units. Of these 159 units, 59 are sold to third parties. The price of these units is development cost, including land and construction costs, plus 35%. As these 59 units are identical to the other 100 units, they have the same occupancy rates and ADR. (Cannibalization of occupancy by the unit owners is negligible assuming advanced booking enables the ability to avoid scheduling conflicts.) These units are placed in the resort rental pool, and profits from the rentals are split 50/50 between the developer and the unit owner. These 59 units are sold during the first year of operation.

The Application of the Strata Ownership Concept: Calculating and Comparing IRRs

There are many methods of evaluating the return on investment of a project including Accounting Rate of Return (ARR), Payback Period, Net Present Value (NPV) and Internal Rate of Return (IRR). IRR is perhaps the most popular method. This method uses the discounted cash flow concept by determining the interest rate that will equate total discounted cash inflows with the initial investment. The focus of the financial analyses of case 1 is IRR. However, NPV and Payback Period are also evaluated, as well as the total amount of operating income generated and property sales value.

The positive impact of the SOC (strata ownership concept) can be seen in three of the return-on-investment analysis methods, including the IRR, NPV, and Payback Period. As can be seen in table 4.11, the IRR of the resort, if SOUs (strata ownership unit) are not incorporated, is 13% while the IRR of the resort with SOUs is 15%. Although the total investment position over 14 years is better without the inclusion of the SOC, IRR is still much lower because the return comes many years later, reflecting the time value of money. One of the benefits of the SOC is found in the speed at which it delivers the return on investment. The payback period for the resort without SOUs is 10 years while the payback period for the resort with SOUs is only 6 years.

The total operating income generated (in the SOC model) is 1.57 billion Baht, while the alternative model generates 1.75 billion Baht. This difference is due to the profit share that is paid to SOU buyers. The hotel sales price is also affected for the same reason, as the actual operation revenue generating ability of the strata ownership resort is less than that of the alternative.

In light of this evidence, the favorable capital budgeting decision in the case of Resort Alpha would be to include the use of the SOC. Although in the long term, Resort Alpha without SOUs would generate more profit, the time value of money kicks in and the resort developers would make a 2%-better IRR and see their return four years sooner by utilizing the SOC.

Table 3.10 SOU

SOU Information		Value on Sale	
Unit Number	59	Building Value	241,546,138
Price	4,039,204	Land Value	554,512,500
Total Rev From SO units	238,313,039	Total Value	796,058,638
Rev Share SO units	50%	Sales Value (dircap)	1,390,627,929

Source: Author

Table 3.11 Project Returns on Investment

	With SOU	Without SOU
IRR	15%	13%
NPV @ 12%	$169,058,830	$73,930,785
NPV @ 8%	$536,837,956	$469,816,084
Payback Period	6 Years	10 Years
Total Operating Income (Less Rev Share)	1,576,171,590	1,750,136,082
Hotel Sales Price	1,390,627,929	1,543,279,853
Ave EBITDA Change	13%	13%
Average Yearly ROI	11%	13%

Source: Author

Table 3.12 Building Cost Breakdown

	Units	Size per Unit	Size Total	Cost/Unit	Total Costs
Rooms	159	55	8,745	2,992,003	475,728,477
Indoor SqM	45			2,708,244	
Outdoor SqM	10			283,759	
Restaurants	3	585	1,755	23,837,405	71,512,214
Spa	9	179	1,611	10,481,220	94,330,977
Shops	2	90	180	5,314,050	10,628,100
Back of House			1,810		29,698,387
Common Area			1,609		13,838,088
Infrastructure					109,417,550
Subtotal			15,710		805,153,793
Land (rai)	39.75				
Land Cost	178,875,000				178,875,000
Total					984,028,793

Source: Author

Table 3.13 Resort Alpha's Cash Flow

Year		1	2	3	4	5	6	7
Year		1995	1996	1997	1998	1999	2000	2001
Rm Rev		78,072,860	113,175,527	150,823,026	202,456,258	190,819,951	224,254,204	264,083,189
Total Rev		146,512,420	212,386,487	283,036,213	379,931,726	358,094,898	420,838,000	495,581,529
Direct Costs		51,853,750	73,114,726	94,785,745	126,710,773	119,427,987	140,353,396	165,281,060
Undistributed Expenses		34,430,419	49,061,278	64,532,257	85,864,570	80,929,447	95,109,388	112,001,425
Other Costs and Fixed Expenses		13,282,451	19,254,430	25,659,358	34,443,663	32,463,991	38,152,124	44,928,186
EBITDA		46,945,800	70,956,053	98,058,854	132,912,720	125,273,473	147,223,092	173,370,857
% Change per Yr			51%	38%	36%	-6%	18%	18%
Rev Share with Unit Investors		5,069,826	7,349,291	9,794,011	13,146,924	12,391,296	14,562,419	17,148,798
EBITDA less Rev Share		41,875,974	63,606,762	88,264,843	119,765,796	112,882,178	132,660,672	156,222,059
Building and Land Cost	(984,028,793)							
Cash Inflow from Sales		238,313,039						
Net Cash	(984,028,793)	280,189,013	63,606,762	88,264,843	119,765,796	112,882,178	132,660,672	156,222,059

Table 3.13 (Continued)

	8	9	10	11	12	13	14
Year	2002	2003	2004	2005	2006	2007	2008
Rm Rev	186,539,579	158,661,887	228,686,918	157,688,059	220,855,675	267,775,231	235,076,571
Total Rev	350,062,304	297,746,708	429,156,481	295,919,212	414,460,281	502,510,056	441,147,377
Direct Costs	116,749,042	99,301,303	143,127,687	98,691,816	138,226,368	167,591,789	147,126,763
Undistributed Expenses	79,114,081	67,290,756	96,989,365	66,877,742	93,668,023	113,567,273	99,699,307
Other Costs and Fixed Expenses	31,735,776	26,992,974	38,906,257	26,827,298	37,573,936	45,556,309	39,993,322
EBITDA	122,463,405	104,161,675	150,133,172	103,522,356	144,991,954	175,794,686	154,327,985
% Change per Yr_y	-29%	-15%	44%	-31%	40%	21%	-12%
Rev Share with Unit Investors	12,113,341	10,303,044	14,850,267	10,239,806	14,341,729	17,388,549	15,265,192
EBITDA less Rev Share	110,350,065	93,858,631	135,282,905	93,282,550	130,650,225	158,406,137	139,062,793
Building and Land Cost							
Cash Inflow from Sales							1,390,627,929
Net Cash	110,350,065	93,858,631	135,282,905	93,282,550	130,650,225	158,406,137	1,529,690,722

Source: Author

Table 3.14: Resort Alpha's Revenue and Expenses

Nov 11 '09

Historic Record of Revenues and Expenses
Resort Alpha
Phuket, Thailand
(Stated in Thai Baht)

	1	2	3	4	5
	1995	1996	1997	1998	1999
Ave Daily Rate	3,449	3,670	3,904	4,163	4,243
Occupancy	39%	53%	67%	84%	76%
Room Nights	22,634	30,841	38,635	48,749	44,977
EBITDA Margin	32%	33%	35%	35%	35%
EBITDA	฿ 46,945,800.09	฿ 70,956,053.44	฿ 93,058,854.22	฿ 132,912,719.93	฿ 125,273,473.23

Departmental Revenues					
Sales:					
Rooms	78,072,860	113,175,527	150,823,026	202,456,258	190,819,951
Food Revenue	31,056,607	45,020,099	59,995,900	80,535,056	75,906,279
Beverage revenue	10,639,764	15,423,553	20,554,151	27,590,724	26,004,929
Other F&B revenue	5,176,101	7,503,350	9,999,317	13,422,514	12,651,046
Total Food & Beverage	46,872,472	67,947,002	90,549,367	121,548,324	114,562,254
Spa Revenue	4,600,979	6,669,644	8,888,281	11,931,124	11,245,375
Telephone	2,156,709	3,126,396	4,166,382	5,592,714	5,271,269
Other Operated Departments	3,738,295	5,419,086	7,221,729	9,694,038	9,136,867
Rental and Other Income	11,071,105	16,048,832	21,387,427	28,709,267	27,059,163
Total Other Revenue	16,966,109	24,594,314	32,775,538	43,996,019	41,467,319
Total Revenue	146,512,420	212,386,487	283,036,213	379,931,726	358,094,893
Direct Cost of Sales					
Food	10,310,794	14,948,673	19,916,639	26,737,649	25,200,885
Beverage	2,947,215	4,272,324	5,693,500	7,642,631	7,203,355
Spa	759,162	1,100,491	1,466,566	1,968,635	1,655,487
Telephone	582,311	844,127	1,124,923	1,510,033	1,423,243
Other Operated Departments	2,221,410	3,220,168	4,291,373	5,760,496	5,429,407
Cost of Sales	16,820,891	24,383,803	32,495,002	43,619,443	41,112,387
Direct Wages					
Rooms	6,323,902	8,601,340	10,708,435	14,374,394	13,548,216
Food and Beverage	10,218,199	14,065,029	17,566,577	23,580,375	22,225,077
Spa	970,807	1,340,599	1,697,662	2,159,533	2,035,413
Telephone	222,141	322,019	429,137	576,050	542,941
Other Operated Departments	2,784,167	4,035,969	5,378,521	7,219,821	6,804,857
Direct Wages	20,519,215	28,364,955	35,780,333	47,910,174	45,156,505
Direct Expenses					
Rooms	8,197,650	11,317,553	14,629,834	19,233,345	18,127,895
Food and Beverage	4,452,885	6,454,965	8,602,190	11,547,091	10,883,414
Spa	317,468	460,205	435,526	584,625	551,023
Telephone	64,701	93,792	124,931	167,781	158,138
Other Operated Departments	1,480,940	2,039,452	2,717,870	3,648,314	3,438,625
Direct Expenses	14,513,644	20,365,967	26,510,411	35,181,156	33,159,096
Total Direct Costs	51,853,750	73,114,726	94,785,745	126,710,773	119,427,987
Dept. Profit:					
Rooms	63,551,308	93,256,635	125,484,758	168,848,519	159,143,839
F&B	18,943,380	28,203,010	38,768,462	52,040,580	49,049,513
Spa	2,553,543	3,768,349	5,288,527	7,218,330	6,803,452
Other	9,610,438	14,038,768	18,708,721	25,113,524	23,670,108
TOTAL DEPARTMENTAL PROFIT	94,658,670	139,271,761	188,250,468	253,220,953	238,666,911
Undistributed Wages					
Administrative and General	6,153,522	8,920,232	11,887,521	15,957,132	15,039,986
Sales & Marketing	3,076,761	3,822,957	4,245,543	5,698,976	5,371,423
POMEC	1,172,099	1,911,478	3,113,398	4,179,249	3,939,044
Total Undistributed Wages	10,402,382	14,654,668	19,246,462	25,835,357	24,350,453
Undistributed Expenses					
Administrative and General	4,834,910	7,008,754	9,340,195	12,537,747	11,817,132
Sales & Marketing	6,300,034	9,132,619	12,170,557	16,337,064	15,398,031
POMEC	3,662,811	5,734,435	7,925,014	10,638,089	10,026,657
Energy	9,230,282	12,530,803	15,850,028	20,516,313	19,337,124
Total Undistributed Expenses	24,028,037	34,406,611	45,285,794	60,029,213	56,578,994
Total Undistributed Wages & Expenses					
Administrative and General	10,988,432	15,928,987	21,227,716	28,494,879	26,857,117
Sales & Marketing	9,376,795	12,955,576	16,416,100	22,036,040	20,769,504
POMEC	4,834,910	7,645,914	11,038,412	14,817,337	13,965,701
Energy	9,230,282	12,530,803	15,850,028	20,516,313	19,337,124
Total Undistributed Wages & Expenses	34,430,419	49,061,278	64,532,257	85,864,570	80,929,447
HOUSE PROFIT	60,228,251	90,210,483	123,718,212	167,356,383	157,737,464
Base Fee and Incentive	7,179,109	10,406,938	13,868,774	18,616,655	17,546,650
Property Taxes	1,025,587	1,486,705	1,981,253	2,659,522	2,506,664
Building and Contents Insurance	1,561,457	2,263,511	3,016,461	4,049,125	3,816,399
Other Fixed Charges	3,516,298	5,097,276	6,792,869	9,118,351	8,594,278
EBITDA	46,945,800	70,956,053	98,058,854	132,912,720	125,273,473

Table 3.14: (Continued)

Nov 11:09

	6	7	8	9	10
	2000	2001	2002	2003	2004
Ave Daily Rate	4,954	5,872	5,102	4,206	5,254
Occupancy	78%	76%	63%	65%	75%
Room Nights	45,267	44,977	36,562	37,723	43,526
EBITDA Margin	35%	35%	35%	35%	35%
EBITDA	$ 147,223,091.55	$ 173,370,857.04	$ 122,463,405.45	$ 104,161,674.58	$ 150,133,171.92
Departmental Revenues					
Sales:					
Rooms	224,264,204	264,083,169	166,539,579	158,661,887	228,656,918
Food Revenue	69,206,092	105,049,667	74,203,589	63,114,121	90,969,362
Beverage revenue	30,561,346	35,989,238	25,421,600	21,622,430	31,165,436
Other F&B revenue	14,867,682	17,508,278	12,367,265	10,519,020	15,161,564
Total Food & Beverage	134,635,121	158,547,182	111,992,454	95,255,571	137,296,381
Spa Revenue	13,215,717	15,562,914	10,993,124	9,350,240	13,476,945
Telephone	6,194,866	7,295,116	5,153,027	4,382,925	6,317,318
Other Operated Departments	10,737,770	12,644,667	8,931,914	7,597,070	10,950,018
Rental and Other Income	31,600,320	37,448,261	26,452,206	22,499,016	32,428,900
Total Other Revenue	48,732,958	57,388,244	40,537,146	34,479,010	49,696,236
Total Revenue	420,838,000	495,581,529	350,062,304	297,746,708	429,156,481
Direct Cost of Sales					
Food	29,616,423	34,876,489	24,635,692	20,953,888	30,201,835
Beverage	8,465,493	9,969,019	7,041,783	5,989,413	8,632,826
Spa	2,160,593	2,587,881	1,813,866	1,642,790	2 223,698
Telephone	1,672,614	1,969,681	1,391,317	1,183,390	1,705,676
Other Operated Departments	6,350,714	7,613,969	5,307,618	4,514,413	6,506,838
Cost of Sales	48,315,837	56,697,039	40,190,176	34,183,693	49,270,870
Direct Wages					
Rooms	15,922,048	18,749,906	13,244,310	11,264,994	16,236,771
Food and Beverage	26,119,213	30,758,153	21,726,536	18,479,581	26,635,498
Spa	2,392,045	2,816,887	1,989,756	1,692,393	2,439,327
Telephone	638,071	751,397	530,762	451,441	650,684
Other Operated Departments	7,997,161	9,417,508	6,652,214	5,659,064	8,155,237
Direct Wages	53,068,539	62,493,852	44,143,578	37,546,473	54,117,517
Direct Expenses					
Rooms	21,304,149	25,087,903	17,721,260	15,072,879	21,725,257
Food and Beverage	12,790,336	15,061,932	10,639,283	9,049,279	13,043,156
Spa	647,570	762,593	538,663	458,162	660,370
Telephone	185,846	218,853	154,591	131,488	189,520
Other Operated Departments	4,041,119	4,768,847	3,361,491	2,859,128	4,120,997
Direct Expenses	38,969,021	45,890,169	32,415,288	27,570,936	39,739,300
Total Direct Costs	140,353,396	165,281,060	116,749,042	99,301,303	143,127,687
Dept. Profit:					
Rooms	187,028,006	220,245,350	155,574,009	132,324,013	190,724,689
F&B	57,643,655	67,881,538	47,949,260	40,783,410	58,783,067
Spa	7,995,509	9,415,563	6,650,640	5,656,895	8,153,652
Other	27,817,433	32,757,988	23,139,153	19,681,087	28,367,285
TOTAL DEPARTMENTAL PROFIT	280,484,604	330,300,469	233,313,262	198,445,405	286,028,793
Undistributed Wages					
Administrative and General	17,675,196	20,814,424	14,702,617	12,505,362	18,024,572
Sales & Marketing	6,312,570	7,433,723	5,250,935	4,466,201	6,437,347
POMEC	4,628,218	5,451,397	3,850,685	3,275,214	4,720,721
Total Undistributed Wages	28,616,984	33,699,544	23,804,237	20,246,776	29,182,641
Undistributed Expenses					
Administrative and General	13,887,654	16,354,190	11,552,056	9,825,641	14,162,164
Sales & Marketing	18,096,034	21,310,006	15,052,679	12,803,108	18,453,729
POMEC	11,783,464	13,876,283	9,801,745	8,336,908	12,016,381
Energy	22,725,252	26,761,403	18,903,364	16,078,322	23,174,450
Total Undistributed Expenses	66,492,404	78,301,882	55,309,844	47,043,980	67,806,724
Total Undistributed Wages & Expenses					
Administrative and General	31,562,850	37,168,615	26,254,673	22,331,003	32,186,736
Sales & Marketing	24,408,604	28,743,729	20,303,614	17,269,309	24,891,076
POMEC	16,412,682	19,327,680	13,652,430	11,612,122	16,737,103
Energy	22,725,252	26,761,403	18,903,364	16,078,322	23,174,450
Total Undistributed Wages & Expenses	95,109,389	112,001,425	79,114,031	67,290,756	96,989,365
HOUSE PROFIT	165,375,216	218,299,043	154,199,181	131,154,649	189,039,429
Base Fee and Inctive	20,621,062	24,283,495	17,153,053	14,589,589	21,028,668
Property Taxes	2,945,866	3,469,071	2,450,436	2,084,227	3,004,095
Building and Content's Insurance	4,465,084	5,281,664	3,730,792	3,173,238	4,573,738
Other Fixed Charges	10,100,112	11,893,957	8,401,495	7,145,921	10,299,756
EBITDA	147,223,092	173,370,857	122,463,405	104,161,675	150,133,172

Table 3.14: (Continued)

Nov.11 09

	11	12	13	14
	2005	2006	2007	2008
Ave Daily Rate	4,652	6,138	6,687	6,751
Occupancy	66%	62%	69%	60%
Room Nights	32,500	35,982	40,044	34,821
EBITDA Margin	35%	35%	35%	35%
EBITDA	$ 103,522,356.07	$ 144,991,953.74	$ 175,784,685.75	$ 154,327,985.32
Departmental Revenues				
Sales				
Rooms	167,688,059	220,855,675	267,775,231	235,076,571
Food Revenue	62,726,742	87,854,191	106,518,324	93,511,122
Beverage revenue	21,489,717	30,098,195	36,492,389	32,036,218
Other F&B revenue	10,454,457	14,642,365	17,753,054	15,585,187
Total Food & Beverage	94,670,916	132,594,751	160,763,767	141,132,527
Spa Revenue	9,292,851	13,015,436	15,760,492	13,853,500
Telephone	4,356,024	6,100,955	7,397,106	6,493,828
Other Operated Departments	7,550,441	10,576,042	12,821,650	11,255,968
Rental and Other Income	22,360,922	31,318,392	37,971,810	33,334,983
Total Other Revenue	34,267,387	47,994,419	58,190,566	51,084,760
Total Revenue	295,919,212	414,460,281	502,510,056	441,147,377
Direct Cost of Sales				
Food	20,826,278	29,167,591	35,364,084	31,045,693
Beverage	5,952,652	8,337,200	10,108,392	8,874,032
Spa	1,533,320	2,147,547	2,603,781	2,265,827
Telephone	1,176,126	1,647,266	1,997,219	1,753,334
Other Operated Departments	4,486,704	6,284,015	7,619,019	6,658,643
Cost of Sales	33,974,081	47,583,619	57,692,494	50,647,529
Direct Wages				
Rooms	11,195,652	15,660,753	19,012,041	16,690,437
Food and Beverage	18,366,158	25,723,392	31,188,171	27,379,710
Spa	1,692,006	2,355,794	2,856,269	2,507,483
Telephone	448,670	628,402	761,902	668,664
Other Operated Departments	5,623,336	7,875,956	9,549,170	8,383,099
Direct Wages	37,316,023	52,264,296	63,367,554	55,629,593
Direct Expenses				
Rooms	14,960,368	20,981,269	25,438,647	22,332,274
Food and Beverage	8,993,737	12,596,601	15,272,558	13,407,590
Spa	455,350	637,766	773,244	678,821
Telephone	130,681	183,030	221,913	194,815
Other Operated Departments	2,841,579	3,979,876	4,825,379	4,236,140
Direct Expenses	27,401,713	38,378,453	46,531,741	40,849,641
Total Direct Costs	98,691,816	138,226,368	167,591,789	147,126,763
Dept. Profit:				
Rooms	131,511,841	184,193,633	223,324,543	196,053,860
F&B	40,533,091	56,770,077	68,830,563	60,425,502
Spa	5,622,175	7,874,339	9,547,198	8,381,367
Other	19,560,289	27,395,665	33,215,964	29,159,885
TOTAL DEPARTMENTAL PROFIT	197,227,396	276,233,913	334,918,268	294,020,614
Undistributed Wages				
Administrative and General	12,428,607	17,407,332	21,105,422	18,528,190
Sales & Marketing	4,438,788	6,216,904	7,537,651	6,617,211
POMEC	3,255,111	4,559,063	5,527,611	4,852,621
Total Undistributed Wages	20,122,506	28,183,299	34,170,684	29,998,022
Undistributed Expenses				
Administrative and General	9,765,334	13,677,189	16,582,832	14,557,863
Sales & Marketing	12,724,526	17,821,792	21,607,932	18,969,337
POMEC	8,285,738	11,604,888	14,070,282	12,352,127
Energy	15,979,637	22,380,855	27,135,543	23,821,958
Total Undistributed Expenses	46,755,236	65,484,724	79,396,569	69,701,286
Total Undistributed Wages & Expenses				
Administrative and General	22,193,941	31,084,521	37,688,254	33,086,053
Sales & Marketing	17,163,314	24,038,696	29,145,583	25,586,548
POMEC	11,540,849	16,163,951	19,597,892	17,204,748
Energy	15,979,637	22,380,855	27,135,543	23,821,958
Total Undistributed Wages & Expenses	66,877,742	93,669,023	113,567,273	99,699,307
HOUSE PROFIT	130,349,654	182,565,890	221,350,995	194,321,307
Base Fee and Incetive	14,500,041	20,309,554	24,622,993	21,616,221
Property Taxes	2,071,434	2,901,222	3,517,570	3,088,032
Building and Contents Insurance	3,153,761	4,417,113	5,355,505	4,701,531
Other Fixed Charges	7,102,061	9,947,047	12,060,241	10,587,537
EBITDA	103,522,356	144,991,954	175,794,686	154,327,985

Source: Author

3.6 Case 2: An investigation of the Strata Ownership Resort, Amanpuri

Case 2: A look at simulated profitability, ROI and Capital Budgeting Decisions based on Strata Ownership and the application of the Amos TAP Method on an established resort, the Amanpuri.

In case study 1, a hypothetical average upper tier resort in Phuket was created (Resort Alpha) using the Amos TAP Method. A strata ownership component was applied to the resort, and the effects on the resort's return on investment were evaluated. The results showed that in terms of capital budgeting, the use of a strata ownership model is effective in increasing the project's return on investment and lowering the project's risk (as it increases the speed of the return).

Case study 2 also evaluates the effects of strata ownership in terms of capital budgeting in investment decisions. However, rather than recreating a hypothetical "average" resort, this case study attempts to recreate the critical financial information from an actual operating Phuket luxury resort. This resort is the Amanpuri, the icon of Phuket luxury resorts for the past 20 years. The financial information of the Amanpuri recreated in this study is not supposed to be an exact replica of the resort's financial cash flow and investment position. The information generated in this study is a representation of the resort's financial standings. The purpose of case study 2 is not to expose the financial workings of the Amanpuri, but rather to create a picture of a real-world resort that has used the strata ownership concept and to shed light on how that concept has affected the resort's financial standing.

The raw data used in case study two were gathered and compiled from multiple sources. In general the data were acquired through industry reports, resort management, reservation employees, construction managers, and local experts in resort development. Specifically, ADRs and occupancies came from industry reports from Smith Travel Research, Horwath Asia Pacific, HVS Hospitality Services, C9 Hotel Works, CB Richard Eills, and Jones Lang LaSalle, as well as interviews with local industry experts. The resort's inventory numbers were found through an investigation of the company's website and supplemented with information gathered in interviews with resort employees. Construction and land costs came from interviews with construction managers and development consultants that worked on the project.

The Amos TAP method was used to generate operational financial data. The cost and revenue ratios used reflect upper tier and luxury resorts in Thailand. The variations in cost between years are based on certain economies of scales. The resort inventory is broken down by pavilion and strata ownership villas (SOUs).

ADR and Occupancy for pavilions were acquired for years 1995 to 2008. The average ADR and Occupancy and changes in ADR and occupancy were calculated, and the results were used to back the ADR and occupancy to 1988.

Information for the SOUs was more difficult to acquire, but through interviews with resort management, information from a "standard" year was found. Calculations reveled that SOU revenues were proportional to the number of bedrooms in the unit. (For the purpose of this study this is known as "keys" per unit.) Therefore, for further calculations the units are broken down into keys, i.e. a five-bedroom SOU is counted as five keys. Different-sized SOUs have different occupancy but roughly (within 5%) the same ADR per key. A weighted average occupancy is applied to the SOUs. The rate change and occupancy change trends of SOUs are assumed to be proportional to the rate and occupancy change trends of the pavilions. Therefore, the changes in the SOU metrics are adjusted from the base rates to match the changes in pavilion numbers. By doing this, a complete history of ADR and occupancy rates was recreated dating back to 1990 when the first SOUs were developed. Also, the SOUs came online in two different phases with mostly two- and three-key SOUs coming online in the first phase in 1990 and the remain two-, three-, four-, five-, and six-key units coming online in the second phase in 1993. The change between the SOUs per key is negligible so the same controls ratios that were used to generate the 1990 numbers were also used in the 1993 and later numbers. However, the occupancy between the different SOUs is markedly different; therefore, an adjusted control rate was applied to the occupancy levels of the SOUs during the years of 1990, 1991, and 1992.

With the implementations of the assumptions (as outlined above), the Amos TAP method is utilized in order to output resort room revenue calculations. The Amos TAP method is applied individually to the pavilion units and then to the SOUs in order to generate room revenue numbers. The revenue numbers for the two types of units are then combined, and the Amos TAP method is again used to generate departmental incomes, department costs, fixed and undistributed costs and EBITDA numbers.

After finding the EBITDA, additional calculations are necessary. Interviews from industry experts reveal that SOU owners in the luxury tourism accommodation sector of Phuket on average receive 50% profit share from the rental of their units. Therefore, in this case study, a 50% share of SOU profit is paid to the SOU owners and is taken out of the cash flow statement after the EBITDA.

In this case study, the assumption is that there is no debt financing on the project. In addition, no attempts to evaluate tax impacts on the project have been made. A number of complicated corporate structures could be implemented in order to create tax shields of various sorts. Some of these corporate structures may well transfer all tax burdens to parent companies.

Results of case study 2 reveal an impressive impact of the SOC on the return on investment of the Amanpuri Resort. As can be seen in table 4.17, the IRR of the resort, if the SOC is not applied, is 13% while the IRR of the resort, if the SOC is applied, is 31%. The power of the SOC is found in the speed at which it delivers the return on investment. Although the total investment position over 21 years is better without the inclusion of the SOC, IRR is still much lower because the return comes many years later, reflecting the time value of money.

The total operating income generated (in the SOU model) is 1.075 billion Baht, while the alternative model generates 2.192 billion Baht. This difference is due to the profit share that is paid to SOU buyers. The hotel sales price is also affected for the same reason, as the actual operation revenue-generating ability of the strata ownership resort is less than that of the alternative.

Payback period (or breakeven point) is another interesting aspect to evaluate between these two alternatives. The Amanpuri with SOUs will break, even on the initial investment, within 6 years and the resort will have generated enough cash to pay for the 1996 and 1997 remodeling. In contrast, the Amanpuri without SOUs will continue to run red for 14 years.

The reasoning behind capital budging decisions of the developers in this investment is not hard to see. Although in the long term, the Amanpuri without SOUs would generate more profit, the time value of money kicks in, and the resort developers would make 18% better IRR and see their return much faster by utilizing the SOC.

Table 3.15 Costs and Cash Inflows

Building, Land and Remodeling Costs		
Cost	**Year**	**Amount**
Initall 44Villa	1987	225,000,000
Phase 2: 15 Villas 700SqM	1990	183,750,000
Phase 3: 15 Villas 700SqM+	1993	450,000,000
Remodel Part 1	1996	150,000,000
Remodel Part 2	1997	172,500,000
Total		**1,181,250,000**
Cash Inflows from Unit Sales		
Cost	**Year**	**Amount**
Phase 2: 7 Villas 700SqM	1990	262,500,000
Phase 3: 15 Villas 700SqM+	1993	750,000,000
Hypothetical Resort Sale	2008	500,531,709
Total		**1,513,031,709**

Source: Author

Table 3.16 Operating Data

Pavilion Units								
365	RM Number	Year	RM Rev	ADR	Room Nights	ADR Increase	Occupancy	Occupancy Increase
1	44	1988	80,542,827	9,020	8,929	8.60%	55.60%	
2	44	1989	87,469,510	9,796	8,929	8.60%	55.60%	
3	44	1990	94,991,888	10,638	8,929	8.60%	55.60%	
4	44	1991	103,161,191	11,553	8,929	8.60%	55.60%	
5	44	1992	112,033,053	12,547	8,929	8.60%	55.60%	
6	44	1993	121,667,896	13,626	8,929	8.60%	55.60%	
7	44	1994	132,131,335	14,797	8,929	8.60%	55.60%	
8	44	1995	143,494,629	16,070	8,929	8.60%	55.60%	
9	44	1996	120,667,581	11,667	10,343	8.60%	64.40%	
10	44	1997	120,155,299	12,265	9,797	5.13%	61.00%	-5.28%
11	44	1998	198,365,154	19,668	10,086	60.36%	62.80%	2.95%
12	44	1999	192,120,400	20,449	9,395	3.97%	58.50%	-6.85%
13	44	2000	240,969,909	22,631	10,648	10.67%	66.30%	13.33%
14	44	2001	237,209,894	26,142	9,074	15.51%	56.50%	-14.78%
15	44	2002	234,313,794	28,275	8,287	8.16%	51.60%	-8.67%
16	44	2003	187,371,538	30,865	6,071	9.16%	37.80%	-26.74%
17	44	2004	242,514,432	31,925	7,596	3.43%	47.30%	25.13%
18	44	2005	155,550,768	19,449	7,998	-39.08%	49.80%	5.29%
19	44	2006	184,424,594	27,479	6,711	41.29%	41.79%	-16.08%
20	44	2007	189,092,396	24,157	7,828	8.60%	48.74%	16.63%
21	44	2008	173,769,390	24,271	7,160	8.60%	44.58%	-8.54%
			Ave Rrcd Chng ADR		11%	Ave	53%	

Table 3.16 Operating Data

Villa Units (Strata Ownership)								
365	Key	Year	RM Rev	ADR	Room Nights	ADR Increase	Occupancy	Occupancy Increase
1		1988	-		-	8.60%		
2		1989	-		-	8.60%		
3	34	1990	66,092,145	18,365	3,599	8.60%	29.00%	
4	34	1991	71,776,070	19,944	3,599	8.60%	29.00%	
5	34	1992	77,948,812	21,659	3,599	8.60%	29.00%	
6	84	1993	142,792,989	23,522	6,071	8.60%	19.80%	
7	84	1994	155,073,186	25,545	6,071	8.60%	19.80%	
8	84	1995	168,409,480	27,741	6,071	8.60%	19.80%	
9	84	1996	148,202,821	20,141	7,358	8.60%	24.00%	
10	84	1997	147,573,641	21,173	6,970	5.13%	22.73%	-5.28%
11	84	1998	243,630,272	33,953	7,176	60.36%	23.40%	2.95%
12	84	1999	235,960,521	35,301	6,684	3.97%	21.80%	-6.85%
13	84	2000	295,957,043	39,068	7,575	10.67%	24.71%	13.33%
14	84	2001	291,339,026	45,129	6,456	15.51%	21.06%	-14.78%
15	84	2002	287,782,063	48,811	5,896	8.16%	19.23%	-8.67%
16	84	2003	230,128,013	53,282	4,319	9.16%	14.09%	-26.74%
17	84	2004	297,854,011	55,112	5,405	3.43%	17.63%	25.13%
18	84	2005	191,046,033	33,575	5,690	-39.08%	18.56%	5.29%
19	84	2006	226,508,603	47,437	4,775	41.29%	15.57%	-16.08%
20	84	2007	232,241,555	41,702	5,569	8.60%	18.16%	16.63%
21	84	2008	213,421,978	41,899	5,094	8.60%	16.61%	-8.54%
			Ave Rrcd Chng ADR		11%	Ave	20%	

Source: Author

Table 3.17 Project Returns on Investment

	With SOU	Without SOU
IRR	31%	13%
NPV @ 12	$256,022,316	$53,260,747
NPV @ 8%	$430,051,151	$308,741,692
Break Even	6 Years	14 Years
Total Operating Income	1,075,848,865	2,192,970,343
Hotel Sales Price	500,531,709	1,140,797,642
Total Income	2,588,880,574	3,333,767,985
Ave EBITDA Change	6.2%	6.2%
Average Yearly ROI	4.34%	8.84%

Source: Author

Table 3.18 Cash Flow

Year		1	2	3	4	5	6	7	8	9	10
Year		1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Rm Rev		80,542,827	87,469,510	161,084,033	174,937,260	189,981,865	264,460,885	287,204,521	311904109.8	268,870,402	267,728,940
Total Rev		151,147,589	164,146,282	178,262,862	193,593,468	210,242,506	228,323,362	247,959,171	269283659.9	226,446,160	225,484,806
Direct Costs		53,494,232	56,507,881	59,698,291	64,565,226	70,117,836	76,147,970	82,696,695	89808611.07	75,521,906	75,201,285
Undistributed Expenses		35,519,683	37,917,791	40,643,933	43,752,124	47,514,806	51,601,080	56,038,773	60858107.13	51,176,832	50,959,566
Other Costs and Fixed Expenses		13,702,664	14,881,093	16,160,867	17,550,701	19,060,062	20,699,227	22,479,360	24412585.38	20,529,044	20,441,890
EBITDA		48,431,010	54,839,517	61,759,772	67,725,417	73,549,802	79,875,085	86,744,343	94204356.31	79,218,378	78,882,064
% Change per Yr			13%	13%	10%	9%	9%	9%	9%	-16%	0%
Rev Share with Unit Investors				19,827,644	21,532,821	23,384,644	42,837,897	46,521,956	50522844.14	44,460,846	44,272,092
EBITDA less Rev Share		48,431,010	54,839,517	41,932,129	46,192,596	50,165,159	37,037,189	40,222,387	43681512.17	34,757,532	34,609,972
Build, Land , Remodel Cost	(225,000,000)			(183,750,000)			(450,000,000)			(150,000,000)	(172,500,000)
Cash Inflow from Sales				262,500,000			750,000,000				
Cash inflow from IncSales	(225,000,000)	48,431,010	54,839,517	120,682,129	46,192,596	50,165,159	337,037,189	40,222,387	43681512.17	(115,242,468)	(137,890,028)

Table 3.18 Cash Flow (Content)

	11	12	13	14	15	16	17	18	19	20	21
Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Year	441,995,426	428,080,921	536,926,952	528,548,920	522,095,857	417,499,551	540,368,442	346,596,801	410,933,197	421,333,951	387,191,367
Rm Rev	372,254,313	360,535,336	452,206,883	445,150,795	439,715,941	351,623,568	455,105,351	291,908,348	346,093,299	354,852,950	326,097,620
Total Rev	124,150,284	120,241,896	150,815,211	148,461,940	146,649,366	117,269,738	151,781,878	97,354,155	115,425,342	118,346,767	108,756,597
Direct Costs	84,129,475	81,480,986	102,198,756	100,604,080	99,375,803	79,466,926	102,853,809	65,971,287	78,217,086	80,196,767	73,698,062
Undistributed Expenses	33,747,648	32,685,235	40,995,949	40,356,261	39,863,551	31,877,316	41,258,717	26,463,683	31,375,956	32,170,084	29,563,197
Other Costs and Fixed Expenses	130,226,906	126,127,219	158,196,967	155,728,514	153,827,222	123,009,587	159,210,948	102,119,223	121,074,916	124,139,332	114,079,764
EBITDA	65%	-3%	25%	-2%	-1%	-20%	29%	-36%	19%	3%	-8%
% Change per Yr	73,089,081	70,788,156	88,787,113	87,401,708	86,334,619	69,038,404	89,356,203	57,313,810	67,952,581	69,672,466	64,026,593
Rev Share with Unit Investors	57,137,825	55,339,063	69,409,854	68,326,806	67,492,603	53,971,184	69,854,744	44,805,412	53,122,335	54,466,866	50,053,171
EBITDA less Rev Share											
Build, Land , Remodel Cost											500,531,709
Cash Inflow from Sales	57,137,825	55,339,063	69,409,854	68,326,806	67,492,603	53,971,184	69,854,744	44,805,412	53,122,335	54,466,866	550,584,880
Cash inflow from IncSales											

Source: Author

Table 3.19: Amanpuri's Hypothetical Costs and Cash Inflows

Nov 11/09

Historic Record of Revenues and Expenses
Aman (Hypothetical)
Phuket, Thailand
(Stated In Thai Baht)

	1	2	3	4	5
	1988	1989	1990	1991	1992
Ave Daily Rate	9,020	9,796	10,638	11,553	12,547
Occupancy	56%	56%	56%	56%	56%
Room Nights	8,929	8,929	8,929	8,929	8,929
EBITA Margin	32%	33%	35%	35%	35%
EBITA	฿ 48,431,010.15	฿ 54,839,516 93	฿ 61,759,772.10	฿ 67,725,416.63	฿ 73,549,802.46

Departmental Revenues					
Sales:					
Rooms	80,542,827	87,469,510	94,991,888	103,161,191	112,033,053
Food Revenue	32,039,136	34,794,501	37,786,828	41,036,496	44,565,634
Beverage revenue	10,976,371	11,920,338	12,945,488	14,058,799	15,267,856
Other F&B revenue	5,339,856	5,799,084	6,297,605	6,839,416	7,427,606
Total Food & Beverage	48,355,362	52,513,923	57,030,121	61,934,711	67,261,096
Spa Revenue	4,746,539	5,154,741	5,598,049	6,079,481	6,602,316
Telephone	2,224,940	2,416,265	2,624,035	2,849,757	3,094,836
Other Operated Departments	3,856,563	4,188,227	4,548,415	4,939,578	5,364,382
Rental and Other Income	11,421,359	12,403,595	13,470,305	14,628,751	15,856,823
Total Other Revenue	17,502,861	19,008,107	20,642,634	22,418,036	24,346,041
Total Revenue	151,147,559	164,146,282	178,262,862	193,593,458	210,242,506
Direct Cost of Sales					
Food	10,836,993	11,551,774	12,545,227	13,624,117	14,795,791
Beverage	3,040,455	3,301,934	3,585,900	3,894,287	4,229,196
Spa	763,178	850,532	923,678	1,003,114	1,089,382
Telephone	600,734	652,397	708,503	769,434	835,606
Other Operated Departments	2,291,688	2,488,773	2,702,808	2,935,240	3,187,681
Cost of Sales	17,353,049	18,845,411	20,466,116	22,226,202	24,137,655
Direct Wages					
Rooms	6,523,969	6,647,683	6,744,424	7,324,445	7,954,347
Food and Beverage	10,541,469	10,870,362	11,083,843	12,015,334	13,048,653
Spa	1,001,520	1,036,103	1,069,227	1,100,356	1,195,019
Telephone	229,169	248,877	270,281	293,526	318,768
Other Operated Departments	2,872,249	3,119,263	3,387,519	3,678,846	3,995,227
Direct Wages	21,168,376	21,922,308	22,535,295	24,412,535	26,512,013
Direct Expenses					
Rooms	8,456,997	8,746,951	9,214,213	9,600,313	10,643,140
Food and Beverage	4,593,759	4,988,823	5,417,661	5,883,798	6,389,604
Spa	327,511	355,677	274,304	297,695	323,513
Telephone	66,748	72,469	78,723	65,493	92,845
Other Operated Departments	1,527,792	1,576,223	1,711,778	1,858,991	2,018,665
Direct Expenses	14,972,608	15,740,163	16,696,860	17,926,469	19,468,167
Total Direct Costs	53,494,232	56,507,881	59,698,291	64,565,226	70,117,836
Dept. Profit:					
Rooms	65,561,661	72,074,877	79,033,251	86,036,433	93,435,566
F&B	19,542,686	21,601,010	24,417,269	26,517,176	28,797,653
Spa	2,634,329	2,912,429	3,330,839	3,678,066	3,934,401
Other	9,914,481	10,650,085	11,783,193	12,796 547	13,697,050
TOTAL DEPARTMENTAL PROFIT	97,653,357	107,638,401	118,564,571	129,028,242	140,124,671
Undistributed Wages					
Administrative and General	6,348,199	6,894,144	7,487,040	8,130,926	8,830,185
Sales & Marketing	3,174,099	2,954,633	2,673,943	2,903,902	3,153,638
POMEC	1,209,181	1,477,317	1,960,891	2,129,528	2,312,668
Total Undistributed Wages	10,731,479	11,326,093	12,121,875	13,164,356	14,296,490
Undistributed Expenses					
Administrative and General	4,987,870	5,416,827	5,882,674	6,388,584	6,938,003
Sales & Marketing	6,499,346	7,058,290	7,665,303	8,324,519	9,040,428
POMEC	3,778,690	4,431,950	4,991,360	5,420,617	5,886,790
Energy	9,522,298	9,684,631	9,982,720	10,454,047	11,353,095
Total Undistributed Expenses	24,788,205	26,591,698	28,522,058	30,587,768	33,218,316
Total Undistributed Wages & Expenses					
Administrative and General	11,336,069	12,310,971	13,369,715	14,519,510	15,768,188
Sales & Marketing	9,673,446	10,012,923	10,339,246	11,228,421	12,194,065
POMEC	4,987,870	5,909,266	6,952,252	7,550,145	8,199,458
Energy	9,522,298	9,684,631	9,982,720	10,454,047	11,353,095
Total Undistributed Wages & Expenses	35,519,683	37,917,791	40,643,933	43,752,124	47,514,606
HOUSE PROFIT	62,133,674	69,720,610	77,920,639	85,276,118	92,609,864
Base Fee and Incetive	7,406,232	8,043,168	8,734,660	9,486,060	10,301,683
Property Taxes	1,058,033	1,149,024	1,247,840	1,355,154	1,471,698
Building and Contents Insurance	1,610,857	1,749,390	1,899,838	2,063,224	2,240,661
Other Fixed Charges	3,627,542	3,939,511	4,278,309	4,646 243	5,045,620
EBITDA	**48,431,010**	**54,839,517**	**61,759,772**	**67,725,417**	**73,549,802**

Table 3.19: (Continued)

Nov 11:09

	11	12	13	14	15
	1998	1999	2000	2001	2002
Ave Daily Rate	19,688	20,449	26,142	28,275	28 275
Occupancy	63%	59%	66%	57%	52%
Room Nights	10,086	9,395	10,646	9,074	8,287
EBITA Margin	35%	35%	35%	35%	35%
EBITA	฿ 130,226,906.42	฿ 126,127,219.44	฿ 158,196,967 26	฿ 155,728,513.71	฿ 153,827,221.52
Departmental Revenues					
Sales:					
Rooms	198,365,154	192,120,400	240,960,900	237,209,694	234,313,794
Food Revenue	78,907,686	76,423,584	95,655,433	94,359,737	93,207,697
Beverage revenue	27,033,189	26,182,164	32,839,361	32,326,947	31,932,207
Other F&B revenue	13,151,281	12,737,264	15,975,906	15,726,623	15,534,616
Total Food & Beverage	119,092,155	115,343,003	144,670,701	142,413,306	140,674,560
Spa Revenue	11,690,028	11,322,013	14,200,605	13,979,220	13,808,548
Telephone	5,479,700	5,307,193	6,656,627	6,552,759	6,472,757
Other Operated Departments	9,498,147	9,199,135	11,538,154	11,358,116	11,219,445
Rental and Other Income	28,129,129	27,243,593	34,170,687	33,637,499	33,226,818
Total Other Revenue	43,106,976	41,749,921	52,365,468	51,548,375	50,919,020
Total Revenue	372,254,313	360,535,336	452,206,833	445,150,795	439,715,941
Direct Cost of Sales					
Food	26,197,352	25,372,630	31,824,004	31,327,433	30,944,955
Beverage	7,488,193	7,252,457	9,096,503	8,954,564	8,845,238
Spa	1,928,855	1,868,132	2,343,133	2,306,571	2,278,410
Telephone	1,479,519	1,432,942	1,797,289	1,769,245	1,747,644
Other Operated Departments	5,644,091	5,466,409	6,856,326	6,749,342	6,666,939
Cost of Sales	42,738,010	41,392,570	51,917,255	51,107,156	50,483,187
Direct Wages					
Rooms	14,083,928	13,640,548	17,108,864	16,841,902	16,636,279
Food and Beverage	23,103,878	22,376,542	28,066,116	27,628,181	27,290,568
Spa	2,116,895	2,049,284	2,570,346	2,530,239	2,499,347
Telephone	564,409	546,641	685,633	674,934	666,694
Other Operated Departments	7,073,928	6,851,233	8,593,262	8,459,176	8,355,697
Direct Wages	46,942,036	45,464,249	57,024,220	56,134,433	55,449,066
Direct Expenses					
Rooms	18,844,690	18,251,438	22,892,141	22,534,940	22,259,810
Food and Beverage	11,313,755	10,957,565	13,743,717	13,529,264	13,364,085
Spa	572,811	554,779	695,839	684,987	676,619
Telephone	164,391	159,216	199,699	196,583	194,163
Other Operated Departments	3,574,591	3,462,059	4,342,340	4,274,583	4,222,395
Direct Expenses	34,470,238	33,385,077	41,873,736	41,220,352	40,717,092
Total Direct Costs	124,150,284	120,241,696	150,815,211	148,461,940	146,649,366
Dept. Profit:					
Rooms	165,438,539	160,228,414	200,963,904	197,833,051	195,417,704
F&B	60,988,977	49,383,768	61,940,361	60,973,864	60,229,433
Spa	7,072,467	6,849,818	8,591,487	8,457,428	8,354,171
Other	24,606,047	23,831,421	29,890,918	29,424,511	29,065,267
TOTAL DEPARTMENTAL PROFIT	248,104,029	240,293,440	301,391,672	296,688,855	293,066,575
Undistributed Wages					
Administrative and General	15,634,681	15,142,484	18,992,689	18,696,333	18,468,070
Sales & Marketing	5,583,815	5,408,030	6,783,103	6,677,262	6,595,739
POMEC	4,094,797	3,965,889	4,974,276	4,896,659	4,836,875
Total Undistributed Wages	25,313,293	24,516,403	30,750,068	30,270,254	29,900,684
Undistributed Expenses					
Administrative and General	12,284,392	11,897,666	14,922,827	14,689,976	14,510,626
Sales & Marketing	16,006,935	15,503,019	19,444,896	19,141,484	18,907,765
POMEC	10,423,121	10,094,989	12,661,793	12,464,222	12,312,046
Energy	20,101,733	19,468,903	24,419,172	24,038,143	23,744,661
Total Undistributed Expenses	58,816,182	56,964,583	71,448,688	70,333,826	69,475,119
Total Undistributed Wages & Expenses					
Administrative and General	27,919,074	27,040,150	33,915,516	33,386,310	32,978,696
Sales & Marketing	21,590,750	20,911,049	26,227,999	25,818,748	25,503,525
POMEC	14,517,918	14,060,878	17,635,068	17,360,881	17,148,922
Energy	20,101,733	19,468,909	24,419,172	24,038,143	23,744,661
Total Undistributed Wages & Expenses	84,129,475	81,480,956	102,198,756	100,604,060	99,375,803
HOUSE PROFIT	163,974,555	158,812,454	199,192,916	196,084,775	193,690,773
Base Fee and Incetive	18,240,461	17,666,231	22,158,137	21,812,359	21,546,081
Property Taxes	2,605,780	2,523,747	3,165,448	3,116,056	3,078,012
Building and Contents Insurance	3,967,303	3,842,403	4,819,398	4,744,198	4,686,276
Other Fixed Charges	8,934,104	8,652,848	10,852,965	10,683,619	10,553,183
EBITDA	**130,226,906**	**126,127,219**	**158,196,967**	**155,728,514**	**153,827,222**

CHAPTER 4
SUMMARY

4.1 Conclusion and Discussion

This study has evaluated the luxury tourism accommodation sector of Phuket including a key element of the sector, the strata ownership resort. A study of this kind in Phuket is without precedent. Although references to the luxury tourism accommodation sector of Phuket in both academic and nonacademic writing are myriad, there has not been a systematic attempt to trace the evolution of this sector. This study has not only explored the evolution of this sector going back more than 40 years, but also illuminated the current and future status of the luxury tourism accommodation sector of Phuket.

This study has shown that over the years the evolution of luxury resorts has not been geographically confined to beachfront locations or even sea view sites. Instead, this sector has spread to all corners of Phuket Island and beyond. The latest stages of evolution of this sector are seen in the trend of luxury resorts to be comprised of private villas with private pools.

A key aspect of this sector, which first appeared nearly 40 years ago, is the strata ownership resort. This study is the first of its kind in Thailand to track the presence of this concept in resort development. The majority of the luxury resorts in the Phuket area are strata ownership resorts, and the proliferation of this concept continues. As this study suggests, it will continue its growing popularity. The risk-mitigating benefits of the strata ownership resort will undoubtedly make it a continued mainstay in Phuket luxury resort development strategy.

In addition to risk mitigation, this study has shown that the strata ownership model increases returns on investments for resort owners. There has been much skepticism in the tourism industry as to the economic feasibility of this model in the long term. This study shows that in the Phuket market, the strata ownership model can indeed provide long-term economic benefit to resort owners.

Finally, these calculations were made possible by the introduction of a new tool in hospitality management, the Amos Tourism Accommodation Profiling Method. This new method is a hotel operation and investment profiling tool that enables users to generate operational data for a theoretic or existing hospitality accommodation facility. P 119 y, (through industry publications) market operational cash flow data has been restricted mainly to ratios, room rate, and occupancy information. Now, with the use of the Amos TAP Method, a resort's operational cash flows in currency amounts are ascertainable.

4.2 Limitation and Suggestions for Further Research

In general, this study was limited by the amount of available data on luxury resorts. A vast amount of useful, current information is proprietary and difficult to collect. Also, the geographic boundaries of this study could be expanded to include other developing tourism areas such as Bangkok, Pattaya, and Chiangmai.

This study has not fully explored the subject of strata ownership resorts in Phuket. A large part of this study was undertaken in order to build the foundation for the evaluation of this concept. As the luxury tourism accommodation industry of Phuket has now been addressed, further research is required to gain a more complete understanding of the Phuket strata ownership resort market as well as its impact on stake holders.

Additional details concerning the individual characteristics of Phuket strata ownership resorts could be explored. Details of these characteristics could include the exact unit mixes in each resort and exact data on the sizes and features of these units. Buyer-demographic information would be an especially interesting subject of additional study.

In terms of the strata ownership concept, this research was limited to the economic impact on developers. Additional research in this area should include a more in-depth look at potential problems and benefits arising from the implementing the strata ownership concept in luxury resorts. Such research could include the impact on multiple stake holders such as unit buyers, real estate agents, local governments, and the local community, etc. In fact, a very valuable additional research project would include an in-depth look at the economic impact on the buyers of individual strata ownership units.

This research incorporated the use of the Amos Tourism Accommodation Profiling Method. This method is still relatively new and additional testing and evaluation of this method is recommended. Also, this method may have additional applications that have not been explored in this study. Additional research into the possible uses and expansion of this new method is appropriate.

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