

- Occupancy rates and revenue for hotels will tend to grow in line with continuing growth momentum of the markets for both domestic and international tourism, in particular for increases in the number of Chinese tourists coming to Thailand, who currently account for 27% of all international arrivals.
- Investment in the hotel sector is also expected to continue (i) in tourist destinations mostly along with investment plan of Thai and international chains, and (ii) in regional centers which are developing or which are home to other tourism attractions and that are benefiting from being connected to regional economic development and from building secondary tourist attractions. At the same time, however, the sector faces the possibility of competition from substitution goods/services and from ever-increasing numbers of hotel rooms, which are helping to raise overall levels of competition.

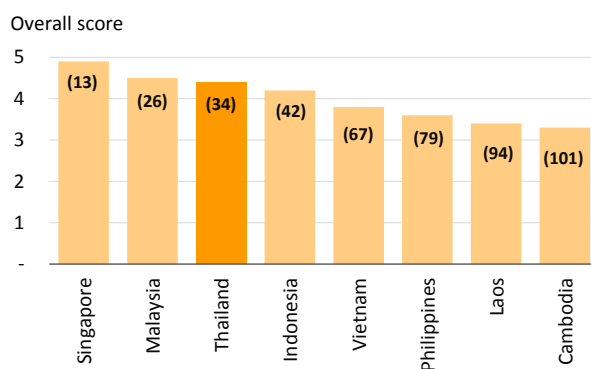
▲ Overview

The state of the hotel sector directly relies on tourism situation. As regards the latter, information from the World Travel & Tourism Council 2017 indicates that tourism contributes around 10% of global GDP, though in the case of Thailand, this rises to over 17% of national GDP, generating THB 2.5 trn for the domestic economy. The tourism value chain scatters across the various regions of Thailand and extends beyond tourist accommodation business to include a number of other businesses, including those in the food and beverages, and transport business. Overall, it is estimated that in Thailand 4-5 million people depend on tourism for their livelihood (source: Ministry of Tourism and Sports, 2017).

Thailand is considered one of the world's foremost tourist destinations, partly because of its wealth of tourism attractions. These are spread throughout the country but include most notably the seaside and beach destinations in the south and east, and the eco-tourism travel options available in the north.

In addition, though, the country benefits from the competitive pricing of its accommodation, which, when compared to other countries in the Asia-Pacific region, provides considerable value for money. Lately, the 2017 Travel and Tourism Competitiveness Index, reported by the World Economic Forum, places Thailand 34th out of the 136 countries surveyed, and 3rd in South-East Asia, after only Singapore and Malaysia (Figure 1). Thailand benefits in particular from its inexpensive accommodation options, natural resources, and tourism infrastructure and these strengths help to underpin the competitiveness of the Thai tourism sector (Table 1).

Figure 1: Travel & Tourism Competitiveness Index (2017)



Source : WEF

Note: (Global Rank 2017)

Table 1: Travel & Tourism Competitiveness Ranking
Room rates and tourism's natural resources --
Strong points of Thai tourism compared to competitors

Countries	Hotel Price Index	Hotel Rooms (number/100 pop.)	Natural Resources	Tourist Service Infrastructure *
Thailand	35	39	7	16
Malaysia	18	35	28	46
Singapore	96	29	103	24
Hong Kong	91	26	49	60
Vietnam	53	74	34	113

Source: WEF (The Travel & Tourism Competitiveness Report 2017, survey from 136 countries)

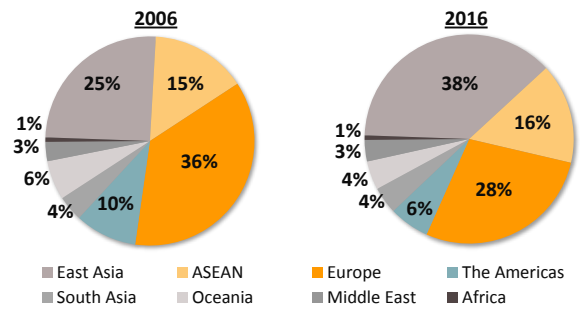
Note: Tourist Service Infrastructure consists of 1) hotel rooms 2) quality of tourism infrastructure 3) presence of major car rental companies 4) ATMs per adult population

Considered in terms of the demand side, foreign tourists comprise the most important group for operators in the Thai tourism sector. Around 65% of the total receipts to the sector comes from overseas tourists, who spend more per head and stay for longer in tourist accommodations than do domestic tourists. Within total foreign tourists, those from East Asia (China, Japan, South Korea, Hong Kong and Taiwan) are the most important, providing 38% of total receipts (Figure 2) and 40% of the total visitors (Figure 3). East Asia is followed in importance by Europe, which supplies around 28% and 20% of the total receipts and total visitors respectively.

As regards visitors from individual countries, in 2016, China was the most important, accounting for 26.9% of all overseas arrivals (Table 2). Over the past decade, the number of Chinese tourists in Thailand has increased almost 10-fold to the current level of around 9 million arrivals in 2016. This explosive increase is a result of: (i) the relaxation of restrictions on travel overseas previously implemented by the Chinese government (Chinese citizens are now permitted by the government to be outbound tourist travelling to more than 140 countries); (ii) a growing number of low-cost airlines directly linking between Thailand and China and improved land links, especially the R3a Thailand-Laos-Southern China route, which are helping to make travel between the two countries much more convenient; (iii) the expanding size of the Chinese middle class (forecast by the Economist Intelligence Unit to reach 35% of the population by 2030). This is helping to build demand for foreign travel and thus it is expected that the total number of foreign trips made by the Chinese will grow from 122 million in 2016 to 150 million in 2020; and (iv) the film ‘Lost in Thailand’, which was released in China in December 2012. This film was shot in Chiang Mai and generated a considerable amount of interest in Thailand among Chinese film-goers. As a result of these developments, Chinese tourists are now the most important group of foreign tourists for Thai hotel operators (Figure 4).

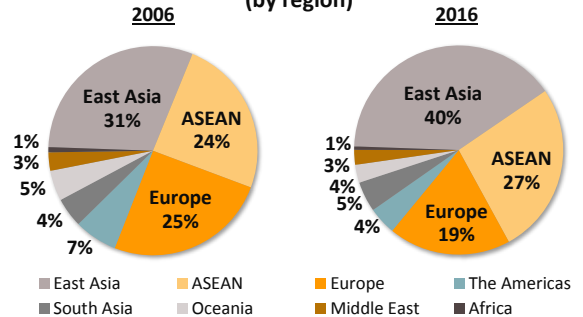
When considering visitor arrivals from different countries and fluctuations in visitor numbers over time, an analysis of data relating to Thai tourism shows that while the number of travelers arriving from East Asian countries (China in particular) is sensitive to events such as terrorism, outbreaks of disease, and natural disasters, arrivals from Europe and the Americas are more sensitive to economic conditions. This may be partially explained by the fact that travelers from more distant countries have to make their travel plans further in advance and so responding to short-term events is more difficult.

Figure 2: Share of International Tourism Receipts (by region)



Source : Department of Tourism

Figure 3: Share of International Tourist Arrivals (by region)



Source : Department of Tourism

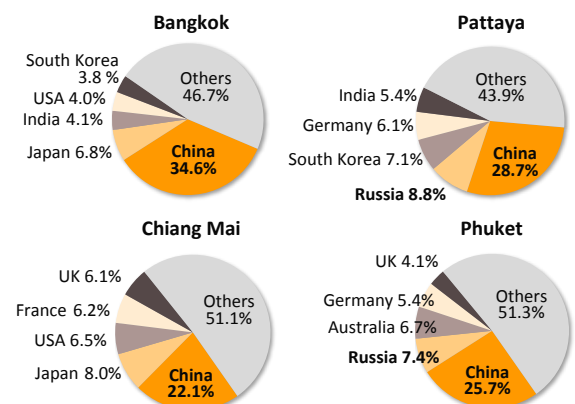
Table 2: Share of International Tourist Arrivals (Top 10)

Rank	Country	2006	% share*	2016	% share*
1	China	949,117	6.87	8,757,466	26.87
2	Malaysia	1,591,328	11.51	3,533,826	10.84
3	South Korea	1,092,783	7.90	1,464,218	4.49
4	Japan	1,311,987	9.49	1,439,629	4.42
5	Laos	276,207	2.00	1,409,456	4.33
6	India	459,795	3.33	1,193,822	3.66
7	Russia	187,658	1.36	1,089,992	3.34
8	UK	850,685	6.15	1,003,386	3.08
9	USA	694,258	5.02	974,632	2.99
10	Singapore	687,160	4.97	966,909	2.97

Source : Department of Tourism

Note: * % share of Thailand's international tourist arrivals

Figure 4: Foreign Arrivals at Accommodations (2015)



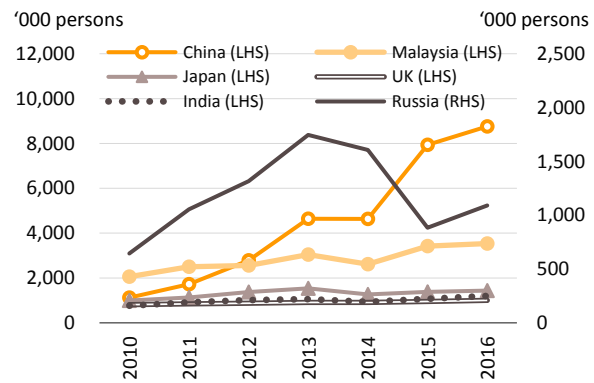
Source : Department of Tourism

Within the European market, **Russia now provides the single greatest source of arrivals to Thailand, with Russian arrivals breaking the one-million mark for the first time in 2011 (Figure 5) and in the process, overtaking arrivals from the United Kingdom, which had been the most important European country for Thai tourism for many years. Unlike Russia, the United Kingdom breached the one-million visitors mark only in 2016.** The development of Russian tourism in Thailand has occurred for a variety of reasons including: (i) the rapid growth of the Russian economy, supported by exports of crude oil and natural gas; (ii) unrest in the MENA zone causing a switch in preferences from favoring travel to Turkey and Egypt to Thailand; (iii) improving air links between Russia and Thailand, in particular the expansion of the charter flight to the main tourist areas of Bangkok, Phuket, and Pattaya (around 60% of Russian arrivals travel via charter flights); and (iv) support from the Thai government, including Tourism Authority of Thailand roadshows promoting Thailand and the bilateral agreement between Russia and Thailand which since April 2007 has allowed for visa-exempt tourism between the two countries for periods of up to 30 days.

Domestic tourism has also seen on-going expansion, although the rate of expansion has not been particularly high and has often been adversely affected by the state of the economy and political conflict within the country. During 2006-2016, growth averaged 6% annually, underpinned by: (i) continuous efforts to support tourism, including the government's introduction of tax measures and the private sector's cutting of the price of accommodation; (ii) the expansion of low-cost airline services and the upgrade and development of provincial airports, which has helped to increase travel between the regions; and (iii) easier access to tourist sites for those traveling by road transport thanks to improvements in the road network.

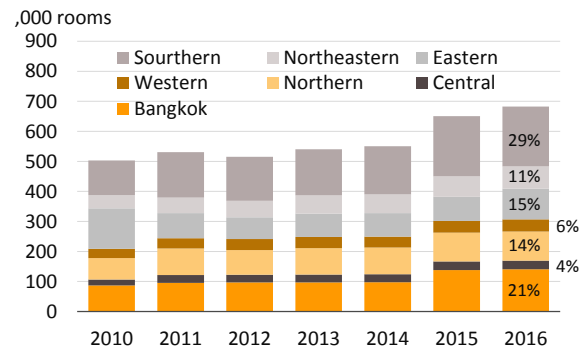
Although, as a result of domestic tourists' lower spending per head and their shorter period of stay, **domestic tourism accounts for only around 35% of the receipts for the entire tourism sector**, Thai tourists nevertheless remain important for hotel operators and the tourism sector generally. This is particularly the case outside the main tourist areas of Bangkok, Pattaya, and Phuket, since in secondary destinations such as Rayong, Chiang Mai and Kanchanaburi, and in regional centers such as Nakhon Ratchasima, Phitsanulok and Khon Kaen, operators are reliant on domestic tourism.

Figure 5: International Tourist Arrivals (main market)



Source : MOTS

Figure 6: Number of Room by Region



Sources : REIC & Department of Tourism
Note: (% share)

From the supply side, expansion of the hotel sector has tended to be concentrated in those tourist destinations which are preferred by international tourists. In the past, investment in hotel business typically concentrated in Bangkok, as this was both the central tourist destinations and the national travel hub but following a policy of developing international airports in tourist centers to meet the growth in tourism outside the Bangkok region, investment has increasingly been directed to these provinces, including areas such as Pattaya, Phuket, Chiang Mai, Krabi, and Koh Samui (in Suratthani province). This expansion in supply had been continuing, resulting in double increase in the supply of hotel accommodation from around 300,000 rooms in 2000 to over 600,000 in 2016 (Figure 6). This includes both hotels operated by Thai investors and those which are part of international hotel chains (Figure 7).

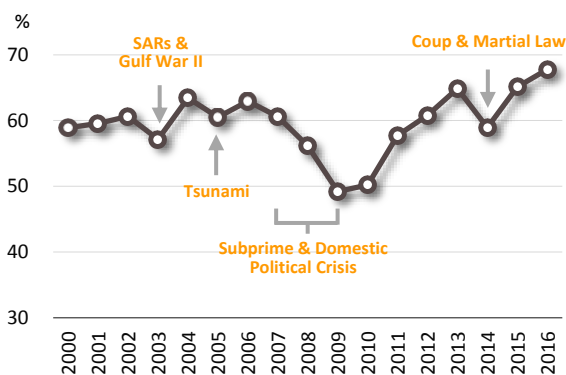
Figure 7: Chain of Some Selected Large Hotels in Thailand



Source : Collected by Krungsri Research

Hotel operators’ turnover is directly connected to the state of the tourism sector and receipts of accommodation business is dependent on the total number of overnight tourist, length of stay, and room rate. Receipts from room charges accounts for around 60-70% of all hotel receipts, with around a further 25% coming from food and beverages, though the percentage varies with the type of hotel (four- and five-star hotels will typically derive a greater portion of their income from food and beverages than will smaller hotels). Other income will usually contribute a further 5-10%.

Figure 8: Occupancy Rate



Sources : BOT & Department of Tourism

Thai hotel business has experienced oversupply situation, reflected by the low level of occupancy rate. During 2000-14, the occupancy rate averaged at 59%^{1/} (Figure 8). **This was caused by both supply and demand factors.** That is, many years of fast-growing tourist arrivals encouraged new investment in hotel and accommodation. In addition, there are additional supply from apartments and condominiums, which offer daily rental rates (although this is illegal, law enforcement in this area is weak). Meanwhile, the number of tourist arrivals recorded a slow growth and contraction during 2008-11 due to the continuing sluggishness in the world economy and domestic political conflicts. However, after the headwinds faded, tourism sector has recovered again. Bangkok has enjoyed the highest average occupancy rates, followed by Chonburi and Phuket (Table 3).

Table 3: Occupancy Rate by Location

Area/Location	Occupancy Rate (%)		
	2014	2015	2016
Bangkok	67.5	76.3	78.3
Chonburi	69.1	74.8	75.2
Phuket	70.4	73.4	74.1
Petchaburi	63.6	68.9	70.5
Chiang Mai	62.2	66.3	70.0
Suratthani	62.6	66.8	69.1
Rayong	58.7	64.8	67.3
Prachuap Kiri Khan	60.8	65.7	67.1
Krabi	59.5	62.8	65.5
Trad	56.3	60.4	63.1
Nakhon Ratchasima	51.7	56.7	58.7
Tak	49.8	53.4	57.4
Nong Khai	51.3	54.4	56.2
Sa Kaew	51.3	52.6	54.6
Nationwide	58.9	62.2	67.8

Source: Department of Tourism

▲ Situation

Between 2007 and 2009, the world economy came under severe stress as a result of the subprime crisis while over the same period, domestic political conflicts flared up. The result of this was that large numbers of domestic and international travelers were dissuaded from traveling to and within Thailand and so in 2009, the occupancy rate dropped to 49.2%, its lowest level. Thanks to a variety of factors, chief among them the sudden explosion in tourism from China, the situation began to resolve itself and by 2016, occupancy rates had returned to a more healthy average of 67.8%. The sector has been supported by the potential of Thai tourist attractions, Thai tourism's unique characteristics, and growth in the number of direct and charter flights and low-cost airlines. Chinese carriers such as Xiamen Airlines, China Eastern Airlines, Juneyao Airlines and Spring Airlines, have been especially important factors in this. **The state of the tourism sector and business indicators for hotel businesses in 2016 and 2017** are presented below.

2016:

- **In 2016, there were 32.6 million international arrivals in Thailand, up 8.9% YoY.** However, this increase was lower than that of the previous year and one cause of this was the overspill of the bombing campaign in the far south which saw explosions in the 7 southern provinces of Trang, Krabi, Phangnga, Phuket, Suratthani, Nakhon Si Thammarat, and Prachuap Khiri Khan during the middle of the year.

Total arrivals from East Asia (China, Japan, South Korea, and Taiwan) grew 8.5% YoY, although with 8.8 million visitors, Chinese tourists represent the core East Asian market (Table 4). For the year, Chinese arrivals increased 10.3% YoY, down from the 71.2% YoY growth seen in 2015, with the number of arrivals falling in the final quarter as a result of Thai government action against 'zero-dollar tours'^{2/} from September 2016 onward. Following Chinese arrivals in total numbers of visitors were Malaysia, South Korea, Japan and Laos PDR. The number of arrivals from Europe expanded 9.6% YoY, a significant turnaround from the -8.6% YoY decline in the previous year. This was a result of a rebounding Russian economy and improving air links between Thailand and Russia which in turn spurred a sharp increase in the number of Russian arrivals.

Table 4: International Tourist Arrivals by Region

Region	2014	2015	% YoY	2016	% YoY
ASEAN	6,641,772	7,920,481	19.25	8,658,051	9.3
Malaysia	2,613,418	3,418,855	30.82	3,533,826	3.4
CLMV	2,370,531	2,769,312	16.82	3,268,173	18.0
East Asia	7,962,053	11,988,304	50.57	13,006,379	8.5
China	4,636,298	7,936,795	71.19	8,757,466	10.3
Japan	1,267,886	1,381,702	8.98	1,439,629	4.2
Korea	1,122,566	1,373,045	22.31	1,464,218	6.6
Europe	6,161,893	5,631,438	-8.61	6,170,481	9.6
France	635,073	681,114	7.25	738,763	8.5
Germany	715,240	761,819	6.51	835,506	9.7
Russia	1,606,430	884,136	-44.96	884,085	-
UK	907,877	947,568	4.37	1,003,386	5.9
The Americas	1,099,709	1,235,468	12.34	1,405,611	13.8
USA	763,520	867,505	13.6	974,632	12.3
South Asia	1,239,183	1,404,271	13.3	1,522,873	8.4
India	932,603	1,069,422	14.7	1,193,822	11.6
Oceania	942,706	922,977	-2.1	905,811	-1.9
Australia	831,854	807,450	-2.9	791,631	-2.0
Middle East	597,892	658,278	10.1	747,135	13.5
Africa	164,475	161,968	-1.5	171,962	6.2
Total	24,809,683	29,923,185	20.6	32,588,303	8.9

Source : Department of Tourism

1/ The occupancy rate that make hotel business profitable is around 65-70% (according to the survey by the Bank of Thailand)

2/ Zero-dollar tours' are those which are sold at below-cost prices to attract travelers but which generate their profit from sales of goods and services to middlemen, which travelers have to buy at inflated prices.

Receipts from international tourists rose on rising tourist arrivals to a total of THB 1.64 trn, up 12.6% YoY (Table 5). The most important market remains that of **East Asia**, which contributed 38% of all receipts from international tourism and which increased by 12.8% YoY. Within this group, Chinese arrivals were the most significant, spending THB 439 bn (up 15.2% YoY). **The European market** grew too, up 13.3% YoY, with receipts from Russian tourists jumping 27.5% YoY due to a strong recovery in the Russian market from a very weak position in the previous year.

- **Total domestic tourism numbered 148 million trips** (i.e. more than 1 trip per person was made) which represented **growth of 6.5% YoY** (Table 6). Here, measures to reduce taxes related to travel (for both the first and second halves of the year, tax cuts worth THB 15,000 were offered on accommodation and other tourism-related charges) helped, as did low oil prices. In addition, new domestic airline routes operated by low-cost carriers improved access to regional centers and lower-tier tourism destinations; in 2016, the number of Thai travelers taking domestic flights increased 10.3% YoY, while the total number of domestic flights increased by 4.3% YoY (Source: Airports of Thailand).

Receipts from travel within Thailand by Thais grew 8.3% YoY to THB 870 bn (Table 7), a rate of growth which was lower than that of the previous year. Thanks to their more attractive and greater number of tourist destinations, with earnings totaling THB 309 bn (+4.1% YoY) and THB 169 bn (+9.0% YoY) respectively, Bangkok and the south of Thailand contributed the greatest share to this total. In fact, these earnings represent respectively 35.6% and 19.4% of all receipts from domestic tourism.

- **The total supply of hotel rooms increased 5% YoY to 683,000 rooms** (Figure 9), although this was a slower rate of growth than had been experienced in 2015. With almost 200,000 rooms (or 29% of the total), the south of Thailand has the greatest share of hotel rooms of all regions.

Table 5 : International Tourism Receipts

(mn.baht)

Region	2014	2015	% YoY	2016	% YoY
ASEAN	178,600	225,668	26.35	254,427	12.7
Malaysia	60,944	86,539	42.00	92,411	6.8
CLMV	65,968	80,170	21.53	97,303	21.4
East Asia	325,608	546,923	67.97	617,001	12.8
China	199,899	380,874	90.53	438,782	15.2
Japan	48,794	57,792	18.44	61,511	6.4
South Kore	43,884	57,425	30.86	62,874	9.5
Europe	424,381	406,170	-4.29	460,154	13.3
France	42,611	46,453	9.02	51,954	11.8
Germany	46,870	48,667	3.83	55,432	13.9
Russia	112,878	69,220	-38.68	88,269	27.5
UK	63,376	70,363	11.02	76,940	9.3
The America:	77,861	86,311	10.85	102,164	18.4
USA	53,940	58,291	8.1	68,470	17.5
South Asia	49,994	61,534	23.1	68,619	11.5
India	38,343	47,780	24.6	54,698	14.5
Oceania	67,034	72,770	8.6	72,981	0.3
Australia	60,213	65,049	8.0	65,183	0.2
Middle East	39,356	47,106	19.7	54,447	15.6
Africa	9,965	10,669	7.1	11,477	7.6
Total	1,172,799	1,457,151	24.2	1,641,270	12.6

Table 6: Number of Thai Tourists

('000 trips)

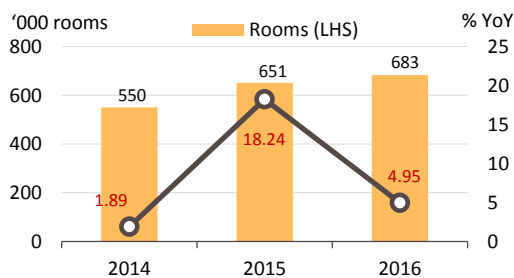
Number	2014	2015	% YoY	2016	% YoY
Bangkok	28,891	35,646	23.38	37,407	4.9
Central	18,175	18,103	-0.40	19,032	5.1
North	14,046	15,998	13.9	16,801	5.0
Northeast	23,437	22,041	-6.0	23,889	8.4
East	12,553	10,651	-15.2	12,428	16.7
West	14,311	18,102	26.5	19,105	5.5
South	19,035	18,475	-2.9	19,376	4.9
Total	130,448	139,016	6.6	148,038	6.5

Table 7: Receipts from Thai Tourists

(mn. baht)

Number	2014	2015	% YoY	2016	% YoY
Bangkok	250,931	297,331	18.49	309,430	4.1
Central	35,180	38,880	10.52	42,132	8.4
North	97,084	109,339	12.6	116,767	6.8
Northeast	56,464	63,265	12.0	71,409	12.9
East	68,972	77,698	12.7	93,666	20.6
West	53,231	61,398	15.3	67,002	9.1
South	139,589	155,162	11.2	169,103	9.0
Total	701,451	803,073	14.5	869,509	8.3

Source: Department of Tourism

Figure 9: Number of Rooms

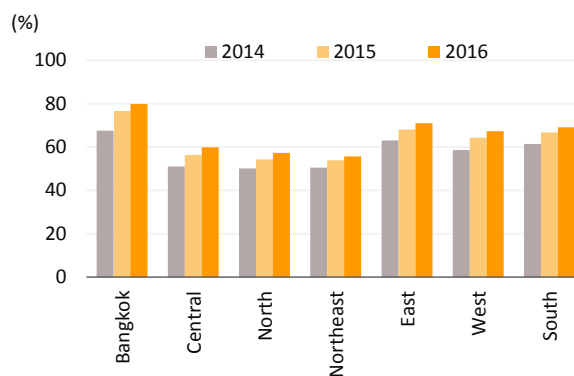
Source: Department of Tourism

- In 2016, the average occupancy rate rose from the previous year's 65.1% to 67.8% (Figure 10) due to the increasing number of Chinese tourists and greater levels of domestic tourism. The average length of stay rose very slightly, from 6.95 days in 2015 to 7.03 days in 2016 (Figure 11) but overall, because of the greater distance they travel and a strong desire to escape cold weather, European travelers had the longest average length of stay.

Occupancy rates in major tourist areas which are reliant on foreign arrivals saw reasonable rates of improvement. The rate in **Bangkok** rose from 76.3% in 2015 to 78.3% in 2016, **Phuket** went from 73.4% to 74.1% (thanks to more direct and charter flights) and **Chonburi** increased to 75.2% from 74.8%. In provincial centers and in secondary tourist destinations, occupancy rates also strengthened, while in border regions, greater connections to neighboring countries also contributed to rising occupancy rates.

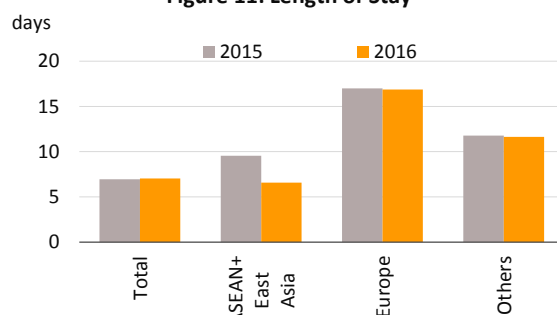
- Information supplied by the Ministry of Tourism shows that **room rates have risen steadily**, although some hotels, in particular those servicing the budget market, may have been adversely affected by the fall in the number of Chinese arrivals in 4Q16 and thus may have been forced to seek out alternative markets to replace the lost Chinese tourists. However, overall, room rates rose by 22.1% YoY in 2016 to THB 1,471/room/night and as a result, **revenue per available room (RevPAR)** rose to THB 985/room/night (+25.6% YoY). Turnover for major hotels thus increased, following a sluggish market in 2014 caused by domestic political conflicts (Figure 12).

Figure 10: Occupancy Rate (by region)



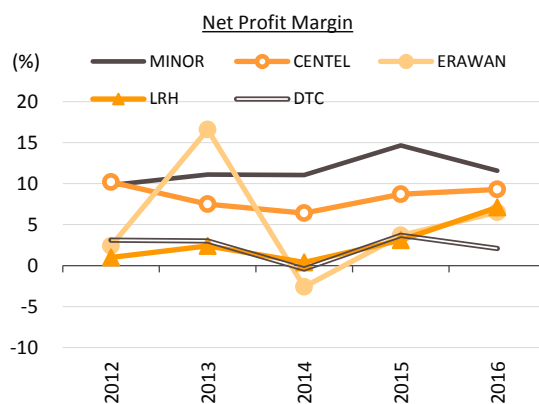
Source: Department of Tourism

Figure 11: Length of Stay



Source: Department of Tourism

Figure 12: Performance of Selected Hotels Listed on the Stock Exchange of Thailand



MINOR = Minor International Pcl. CENTEL = Central Plaza Hotel Pcl.
ERAWAN = The Erawan Group Pcl. LRH = Laguna Resorts & Hotels Pcl.
DTC = Dusit Thani Pcl.

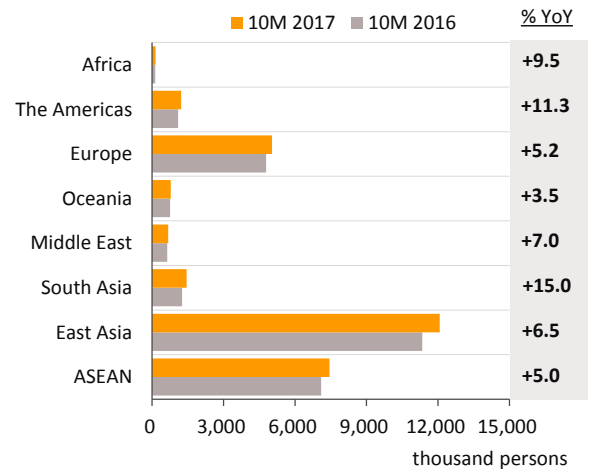
Source: Compiled by Krungsri Research

2017

- **Continuing strength in the tourism and hotel sectors**

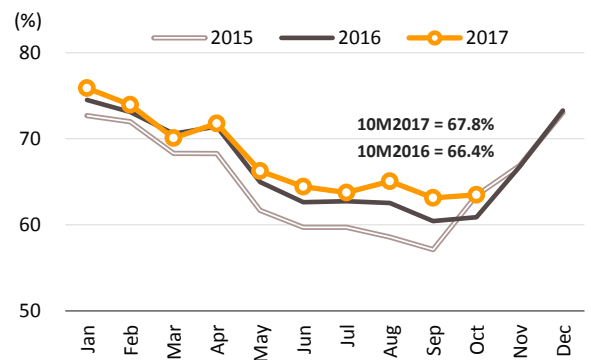
- **For the first 10 months of 2017, tourist arrivals rose 6.4% YoY to a total of 28.8 million visitors.** Stimulus measures which helped achieve this include visa exemptions and reduced visa charges between 1st December 2016 and 31st August 2017^{3/}. **The East Asian market** increased in number by 6.5% YoY (Figure 13), with Chinese arrivals up 5.3% YoY. **ASEAN** arrivals rose 5.0% while the number of long-haul arrivals from **Europe and the Americas** also increased (+5.2% YoY and +11.3% YoY, respectively).
- **Domestic tourism by Thais rose 6.3% YoY for 9M17, with 109.2 million trips being made.** Here, a recovering economy and long New Year and Songkran holidays also helped.
- **Performance indicators for the sector show a generally improving situation.** For the first 10 months of 2017, the occupancy rate rose to 67.8%, up from 66.4% for the same period a year earlier (Figure 14), while room rates rose 10.4% YoY and this elevated RevPAR to THB 1,081/room/night (+12.7% YoY).
- **For the year as a whole,** it is expected that foreign arrivals will increase 7-8% YoY, while domestic tourism should increase at the slightly lower rate of 5% YoY. Overall, the occupancy rate for the year will likely be in the range 67-69% and the 2017 RevPAR should be up on that of the previous year.

Figure 13: International Tourist Arrivals



Source: Ministry of Tourism and Sports

Figure 14: Nationwide Occupancy Rate (monthly)



Source: BOT

3/ Measures to implement visa-exemption and reduced visa charges were extended to 21 countries. These were: China, India, Taiwan, Andorra, Bulgaria, Bhutan, Cyprus, Ethiopia, Kazakhstan, Latvia, Lithuania, Maldives, Malta, Mauritius, Romania, San Marino, Saudi Arabia, Ukraine, Uzbekistan, Papua New Guinea, and the Philippines.

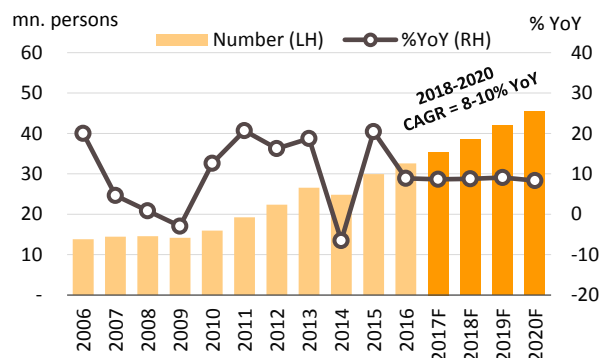
▲ Outlook

The forecast for the period 2018 to 2020 is for annual growth of 8-10% in international arrivals (Figure 15) and 5-7% in domestic tourism (Figure 16), while over the same period, occupancy rates should average 66-70%. This healthy outlook will be supported by Thailand's advantages in its environment and natural beauty and its price-competitiveness when compared to other countries in the same region.

- **The country will also benefit from Chinese arrivals, who will remain a driving force in the sector.** As the rate of growth in the Chinese economy slows, long-haul tourism (which is more expensive) may become relatively less attractive and travel destinations closer to home may instead become more attractive, providing advantages for Thailand. In addition, **greater clarity over the regulation of 'zero-dollar tours' should also help to encourage Chinese tourists** to return to the country. In its turn, tourism from European countries should benefit from gradually improving economic conditions, **especially in Russia**, where a strengthening economy and a stabilizing Ruble should go some way toward returning Russian tourism to its earlier importance (in 2012, Russian arrivals to Thailand were the fourth largest). This will help sustain receipts for hotels, especially in Phuket and Pattaya, which are the areas of primary interest to Russian tourists. **Arrivals from the ASEAN zone** will also increase in number as connections within the region improve and the ASEAN economies develop further, with rising consumer spending power supported by greater levels of exports; the Asia Development Bank forecasts that developing economies in Asia will grow by 5.7% in 2017-2018, close to the 5.8% of 2016.
- **The MICE^{4/} (meetings, incentives travel, conventions, and exhibitions) market is also experiencing solid growth** and Thailand is now the premier MICE destination in Asia. Hotels serving this market are able to improve their earnings from room rates, hiring of conference facilities and sales of food and beverages since travelers in this group are traveling on business and usually have high levels of spending power and require higher quality goods and services.
- **Domestic tourism is likewise forecast to continue growing**, benefiting from government measures to stimulate the market by reducing tax on hotel accommodation and other travel-related expenses, the low cost of oil, and the extension of low-cost airline flights that help boost opportunities more spreading to secondary destinations.

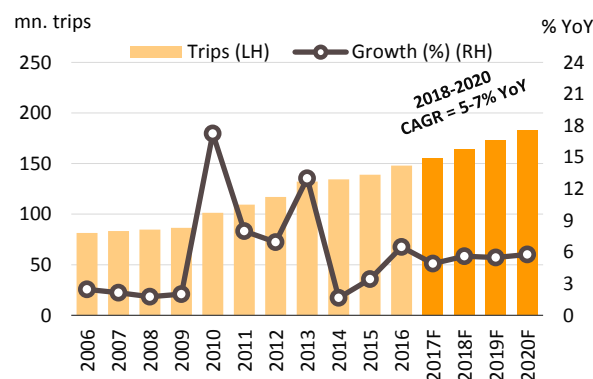
This analysis is in line with forecasts by the World Travel and Tourism Council, which anticipates that over the next decade, the Thai tourism sector will experience annual growth of 6.7%, a figure which is somewhat better than the 6.2% per annum forecast for the rest of the ASEAN zone. Thailand is in this better position thanks to its future growth prospect of demand and more convenient transport system.

Figure 15: International Tourist Arrivals



Source: Department of Tourism (forecast by Krungsri Research)

Figure 16: Thai Tourists



Source: Department of Tourism (forecast by Krungsri Research)

4/ Around 5% of all international arrivals are MICE-travelers but this group contributes around 10% of all earnings from foreign tourists.

The supply of hotel rooms is continuing to grow and in 9M17, construction permission for new hotels (a leading indicator measuring supply 1-2 years in the future) had been granted for 1.5 million sq.m. of new buildings, up 26% YoY (Figure 17).

With a 28.4% share of new hotel building permits (by total area) in 9M17, the Greater Bangkok Region is the most important area for ongoing hotel development, a fact which reflects that area's high potential as a tourist destination. Following Bangkok in importance is the south that accounts for 21.1% of the total, though this is dominated by a single area, in this case Phuket with 65.2% of new southern hotel building. Meanwhile, the eastern area (with 19.5% of the total), though this is dominated by applications from Chonburi (79.6% of the eastern new hotel building permits) since this is where Pattaya is located and the latter is a world-class tourist destination which attracts a large amount of new hotel construction.

Most investment in new hotels is going into the expansion of the supply of 3- and 4-star accommodation and budget hotels. Investment is also being directed to regional centers, secondary tourist destinations, and border regions which are benefiting from greater regional economic interdependence. Much of this investment is being made by large operators such as Hop Inn (part of the Erawan Group), Fortune D (a C.P. Land brand) and Cosi (a brand from the Central Plaza Group). 5-star hotels, both Thai and international, are also continuing to invest in the major tourist areas (Table 8).

As the supply of hotel accommodation has kept pace with the number of tourists, stiff levels of competition have been a persistent feature of the sector. However, in addition to this, **alternative services such as apartments, serviced apartments and condominiums have entered the market** and this has placed additional pressure on the receipts of operators, especially on SMEs, which have had to seek out alternative marketing strategies in order to reach new customers. Officials have tried to solve this problem by relaxing regulations in order to bring alternative services (and un-permitted hotels) into the system which governs the legal operations of hotel businesses but they have had only a limited level of success and many businesses continue to offer hotel-like services without permission.

In addition, the development of the **'sharing economy' has the potential to impact the hotel sector**. At present, although **Airbnb has grown rapidly thanks to its low prices and the many types of accommodation which it offers** (everything from rooms sublet in a house to full condominiums), its impact on Thai hotels has not been significant (the number of Airbnb rooms accounts for 10% of total keys in five main tourist destinations including Bangkok, Pattaya, Phuket, Koh Samui, and Chiang Mai). However, in the future this may change and the operations of companies such as Airbnb may have effects on both the receipts and profitability of hotels and limit the space which operators have to increase room rates. These changes may be driven by customer preferences which favor having a more authentic local experience, such as in rural home-stays, though the results of this may be felt more strongly by hotels which are focused on the budget end of the market.

Figure 17: Hotel Building Construction Permits

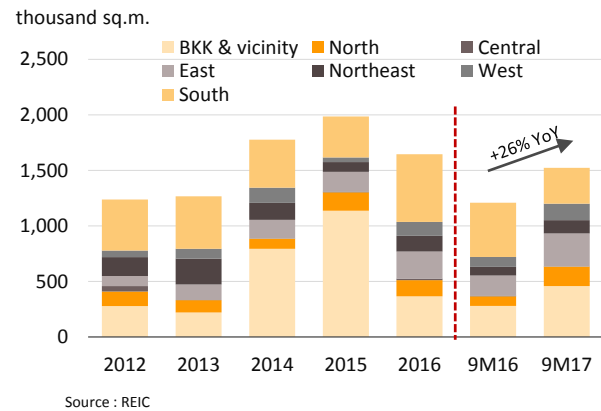


Table 8: Thailand's Luxury Hotels and Resorts During 2017-2020

Name	Location	Room	Year
ibis Bangkok IMPACT	Bangkok	587	April, 2017
Ananda Hua Hin Resort and Spa	Hua Hin	196	April, 2017
Park Hyatt Bangkok	Bangkok	259	April, 2017
Mercure Bangkok Makkasan	Bangkok	180	Q1 2017
The Bangkok Edition	Bangkok	150	June, 2017
Rosewood Phuket	Phuket	103	2017
The Ritz-Carlton, Koh Samui	Koh Samui	175	2017
Hyatt Regency	Bangkok	N.A.	2017
Baba Beach Club	Phang Nga	N.A.	2017
Park Hyatt Phuket	Phuket	N.A.	2018
Ramada Chaofa	Phuket	N.A.	2018
Kempinski Hotel	Phuket	N.A.	2018
Sheraton Phuket Kalim Beach Resort	Phuket	N.A.	Jan, 2018
Best Western Premier Bayphere	Pattaya	N.A.	2019
Sheraton Phuket Grand Bay Resort	Phuket	N.A.	Jan, 2019
InterContinental Phuket Resort	Phuket	260	2019
Park Regis Pranburi	Pranburi	N.A.	2019
Four Points by Sheraton Phuket	Phuket	N.A.	Jan, 2020

Source: newthaihotels.com

▲ **Krungsri Research view:** *The outlook for hotels and other providers of accommodation which are located in major tourist zones is strongly positive, especially for large operators. This is supported by the expectation that there will be increasing numbers of travelers using these services as a consequence of the strengthening world economy. At the same time, however, SMEs in the sector will likely face stiffening competition.*

- **Hotels in major tourist destinations such as Bangkok, Pattaya and Phuket:** *Turnover should remain high and occupancy rates will remain in the range of 75-80%, with the outlook particularly good for large operators and chains, Thai and international. Investment in hotels at all levels of the market to meet continuing demand is ongoing and the forecast is thus for increasing levels of receipts. However, competition between hotels in the area is likely to increase, and problems with apartments and condominiums which offer daily rates and online marketplaces, such as Airbnb, will add to this.*
- **Hotels in regional centers and secondary destinations such as Chiang Mai, Songkhla, Nakhon Ratchasima, and Suratthani:** *Operators in this group will benefit from growing economic connections and the development of the Eastern Economic Corridor (EEC), which will help to stimulate business travel.* In addition, spending by the government on infrastructure (e.g. high-speed and twin-track railway, inter-city motorways, and expansion of provincial airports) will help to make travel between the regions more convenient and, because they are much more dependent on domestic tourism, this will benefit more secondary destinations and thus hotel owners in this group. On the other hand, the expansion of Thai and international chains into this area and the continuing supply of apartments, condominiums and other alternatives means that competition may be strong and occupancy rates are unlikely to rise to very high levels.
- **Hotels in other parts of the provinces:** *Operators in this group are likely to continue to be affected by an oversupply of accommodation, most of which is from SMEs.* A large portion of customers in this group are business travelers, or are traveling on their way to another province for business or tourism and so the typical length of stay is short and expenditure on hotel services is low. Moreover, competition on price is usually high due to the large number of apartments offering daily rates and this helps to keep occupancy rates relatively low when compared to the situation in major and secondary tourist destinations and in regional centers. The outlook for the receipts of operators in this group is thus uncertain.

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