



**Horwath HTL™**

*Hotel, Tourism and Leisure*

## Bali Hotel & Branded Residences Update

November 2013

## HOTEL & BRANDED RESIDENCES UPDATE

*Interesting times ahead for Bali hoteliers: remain strong on rates and tailor new product development for market gaps.*

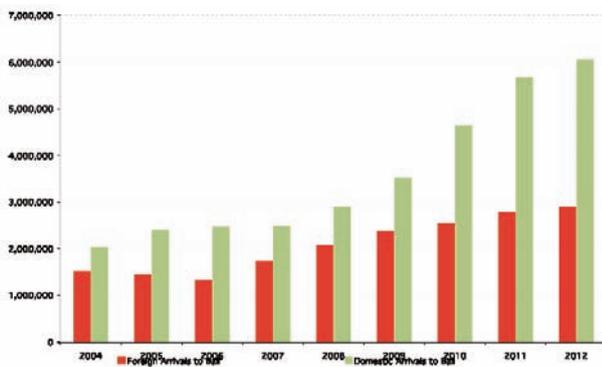
### BALI TOURISM ARRIVALS

Bali's tourism arrivals grew but at a slower pace in 2012 recording a 6% YOY increase compared to the nearly 20% YOY growth in each of the 4 previous years. An additional 0.5 million people descended on Bali's stressed infrastructure, nearly 80% of which were Indonesians. This is down in real terms from increases of nearly 1.3 million people in 2011 and 2010.

Domestic arrivals topped 6 million for the first time, up 7% YOY, with foreign arrivals just under 3 million, up 4% YOY.

The proportion of international to domestic arrivals continued its 5 year decline, down to just over 30%. Domestic tourism arrivals have more than doubled in 4 years, paralleling 5 years of solid growth in domestic consumption and rising commodity prices, the combination of which has kept Indonesia's economy strong despite flagging foreign economies.

### BALI DOMESTIC VS FOREIGN

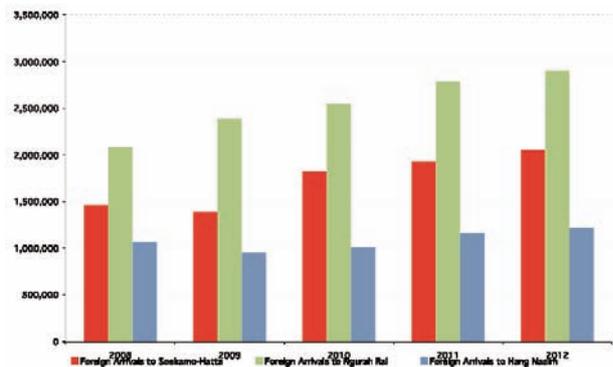


Source : BPS Statistics Indonesia

Hampered by continuing renovations in 2012, the newly completed Ngurah Rai airport aims to boost capacity from 13.5 million to 25 million passengers. The renovations began in May 2012 and were completed in September 2013. It is understood that they have doubled the size of the airport's international terminal, while the domestic terminal is now five times larger. In 2012, Ngurah Rai welcomed more foreign tourists than any other airport in Indonesia, processing nearly 1 million people more than Jakarta's Soekarno Hatta airport. This represents a total of 36% of foreign direct arrivals to Indonesia.

Expansion of Soekarno Hatta airport also began in 2012 but is not scheduled to complete until late 2014.

### INDONESIA TOP 3 AIRPORTS



Source : BPS Statistics Indonesia

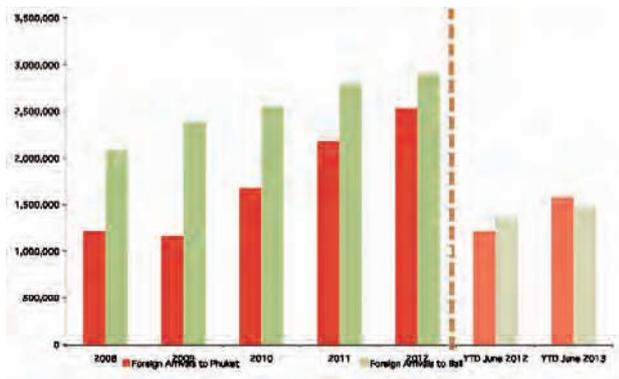


## PHUKET VS BALI: THE BATTLE FOR REGIONAL RESORT SUPREMACY!

The battle has taken an interesting turn YTD June 2013: the foreign arrivals' gap between Phuket and Bali narrowed further in 2012 and was reversed for the first time YTD June 2013, with Phuket's remarkable 5 year growth (ignoring the 2009 hiccup caused by airport closures and demonstrations) continuing.

As seen below, YTD June 2013, Phuket foreign arrivals numbers inched ahead of Bali by around 80,000 passengers, up another 30% YOY. The encouraging news is, however, that total tourism numbers to both destinations has increased an impressive 0.5 million people in 12 months.

### FOREIGN BALI VS PHUKET

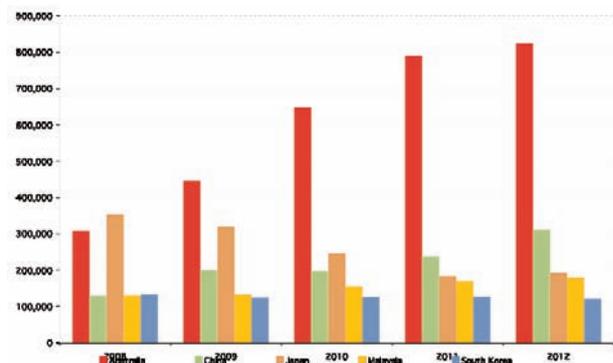


Source : BPS Statistics Indonesia

It is believed that Bali's tourism growth is impacted by the government's slow response to infrastructure failures: traffic jams, garbage disposal, water, electricity and safety matters are a major concern for visitors, especially long haul Europeans.

In addition, as domestic incomes increase and the LCC routes proliferate, there is a possibility that domestic tourists will go further afield than Bali to Singapore, Bangkok and even Phuket. Data from the Transportation Ministry shows the number of air passengers flying with LCCs reached almost 35 million in 2012, representing 47% market share which is predicted to reach 55% over the next few years.

### NATIONALITY MIX



Source : BPS Statistics Indonesia

In 2012, South Korea replaced Taiwan in the top 5 source markets for foreign arrivals to Bali. The big 3 contributors remained the same as in 2011, with Australia leagues ahead of the rest followed by China, slightly reducing the gap and Japan. It was the 1st time since 2009 that Japanese arrivals numbers increased, with a small 5% recovery. Taiwan was a big disappointment, with arrivals falling 26% YOY, causing them to drop from the top 5.

It is safe to say, that Australia will continue to lead the way for the next few years, but China is hot on its heels. An additional 74,036 Chinese nationals landed in Bali in 2012, a 31% YOY increase, more than doubling the increase from Australia of 32,856 people representing a 4% YOY increase. The next big mover was New Zealand with an increase in 12,029 people, 32% up from their 2011 figure.

For regional comparisons, we split Asia into ASEAN and Asia Others, and we combined Australia & New Zealand into Australasia.

### TOP FIVE FOREIGN MARKETS 2012

Australia	28%
China	11%
Japan	7%
Malaysia	6%
Taiwan	4%

### TOP FIVE GROWTH MARKETS 2012

China	74,036
Australia	32,856
New Zealand	12,029
Malaysia	10,228
UK	7,454

### TOP FIVE REGIONAL MARKETS 2012

Australasia	30%
Asia Others	29%
Europe	22%
ASEAN	13%
Americas	5%

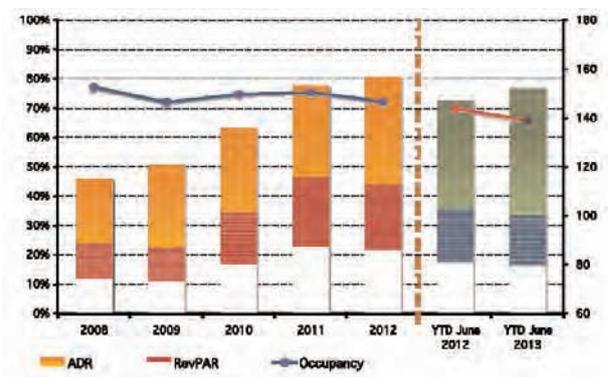
Source : BPS Statistics Indonesia

Not surprisingly, Australasia is the single most important source region for Bali arrivals with 30%, followed by Asia Others (China, Japan, South Korea, Taiwan etc) with 29%, a proportion that has fallen from 45% in 2007 despite the increase in Chinese visitors. Europe's contribution to Bali arrivals has been falling gradually over the last 5+ years whereas ASEAN contributions have been inching upward. Singapore and Malaysia generate 80% of ASEAN arrivals, both of which have grown 15- 20% YOY since 2005.

### HEALTHY GROWTH IN ADR - NOT SO HEALTHY DECLINE IN OCCUPANCY

Market wide, Bali hotels have shown consistently great rate growth, 8% annually on average between 2008 and 2012. Occupancy on the flipside has fluctuated, struggling with the high amounts of new supply opening on the island.

### HOTEL PERFORMANCE 2008 - YTD JUNE 2013



Source : BHA and Horwath HTL

YTD June 2013 has seen occupancy fall to below 70%, down 4% YOY with ADR increasing by around USD 5, creeping above the USD 150 mark. RevPAR is subsequently down USD 3 on the same period last year. It is expected that this negative trend will continue to the end of 2013.

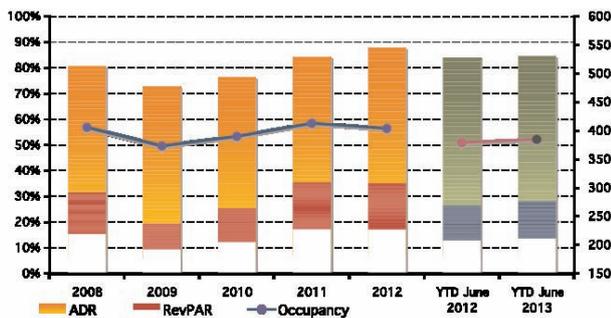
### PERFORMANCE BY SEGMENT

**Luxury (> USD 350):** in 2012 the global economic uncertainties seemed to affect occupancy levels in the luxury market with RND fell about 9% over 2011. This had a negative impact of 2% in occupancy. With a small ADR increase, RevPAR effectively flat-lined between 2011 and 2012.



YTD June 2013 and the luxury segment have seen improvement in RND (up 5% YOY) and occupancy (nearly 2% up YOY) with ADR up marginally. This has led to a 3% YOY increase in RevPAR which equates to nearly USD 10.

### LUXURY HOTEL PERFORMANCE 2008 - YTD JUNE 2013

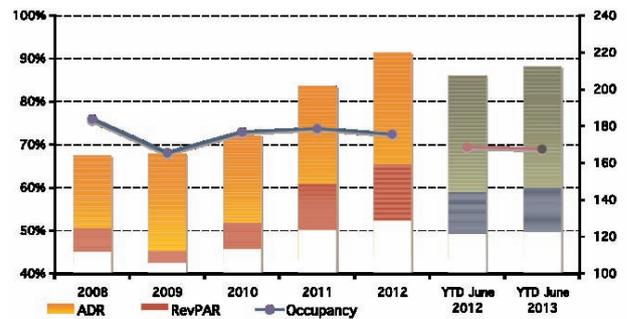


Source : BHA and Horwath HTL

**UPPER UPSCALE (USD 151 - 349):** Great ADR and RevPAR performance recorded by this segment in 2012, up 9% and 7% respectively YOY. This is the 4th consecutive year of ADR increases (8% annually from 2008 to 2012) and the 3rd year of improvements in RevPAR.

YTD June 2013, upper upscale hotel performance has been flat, with RND and occupancy static and ADR and RevPAR up marginally over the previous year.

### UPPER UPSCALE HOTEL PERFORMANCE 2008 - YTD JUNE 2013

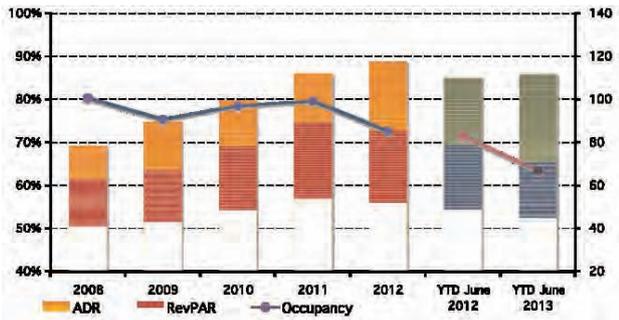


Source : BHA and Horwath HTL

**UPSCALE (USD 101 - 150):** YOY, the upscale segment underperformed in 2012 and YTD June 2013. This is in large part due to an influx of new supply and could also indicate that guests are upgrading their hotel choices to Upper Upscale. ADR was up 5% in 2012 but RND, occupancy and RevPAR all fell by 4%, 9% and 4% respectively.

YTD June 2013, RND, occupancy and RevPAR are down with the latter showing a fairly large 10% fall YOY (equating to USD 8). ADR is the only indicator that has stood tall, with a small but symbolic 2% increase over the same period in 2012.

## UPSCALE HOTEL PERFORMANCE 2008 - YTD JUNE 2013

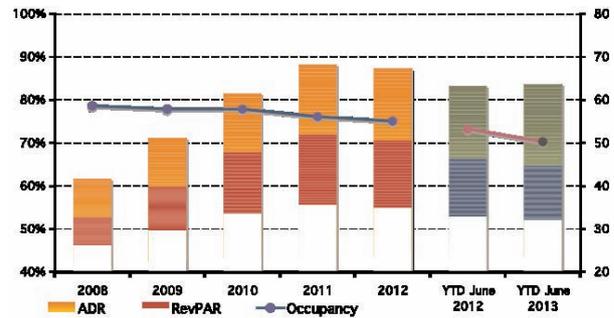


Source : BHA and Horwath HTL

**MIDSCALE (USD 40 – 101):** midscale hotels showed remarkable resilience in 2012 with a very large number of new properties opening and battling for business. The 18% YOY increase in RNA was almost matched by RND increases, such that occupancy only took a 1% hit, down to a solid and still impressive 75%. Price wars were also seemingly avoided with ADR in the midscale segment falling slightly and RevPAR down 3% YOY.

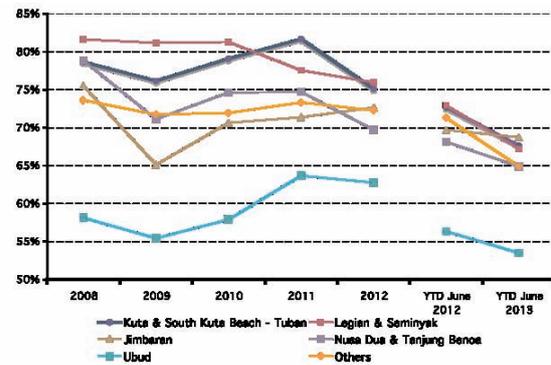
This resilience has been further tested YTD June 2013 however, with less impressive results. With RNA remaining static, RND is down 5% YOY causing a 4% fall in occupancy. ADR has remained static at around USD 64 but due to the hit in occupancy, RevPAR is also down 4% YOY.

## MIDSCALE HOTEL PERFORMANCE 2008 - YTD JUNE 2013



Source : BHA and Horwath HTL

## OCCUPANCY PERFORMANCE BY LOCATION



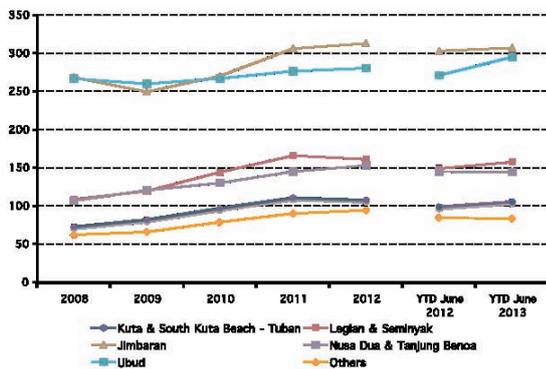
Source : BHA and Horwath HTL

In terms of occupancy by region in 2012, Legian & Seminyak was head to head with Kuta & South Kuta Beach-Tuban, following a large YOY fall in occupancy in the Kuta region. These areas are the mostly densely populated in Bali with a perfect combination of beach and 24 hour entertainment. The Ubud area is still far behind other areas in Bali with occupancy percentages in the low 60s due to a combination of luxury product, isolation, lack of amenities and poor accessibility.

YTD June 2013 has shown occupancy falls across the board, with Jimbaran suffering the least.



## ADR PERFORMANCE BY LOCATION



Source : BHA and Horwath HTL

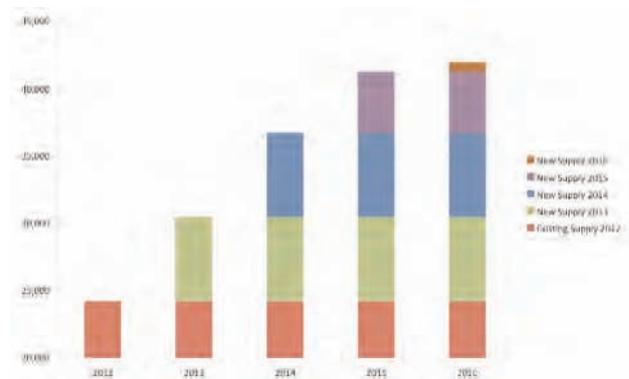
Not surprisingly with their high proportion of luxury product, Jimbaran and Ubud are leading the pack for ADR performance by region with average ADR of around USD 300, YTD June 2013. Rates have been consistently growing in these markets since 2009. Legian/Seminyak and Nusa Dua/Tanjung Benoa are around USD 100 lower and the remaining Kuta/Others a further USD 50 lower. YTD June 2013, Legian/Seminyak is up, recovering ground from a decline in ADR in 2012 over 2011. Otherwise, ADR growth has been quite flat YTD June 2013 across the board. Rates increase as the mass market orientation of the region reduces. Candi Dasa, Sanur, and Tabanan all fall under Others and are in a developing stage with a lack of international brand options.

## OUTLOOK FOR 2013/14

In 2012 Indonesia's central bureau of statistics (BPS) recorded more than 24,000 hotel rooms were available in Bali, up 2,000 in just 12 month. A further, and much more significant, 6,000 new rooms are expected to enter the market in 2013 (around 4,000 of which have already opened this year). If this eventuates Bali inventory will top 30,000 rooms.

The following table shows projected inventory increases to 2016 based on rumoured developments.

## SUPPLY GROWTH 2012-2016



Source : BHA and Horwath HTL

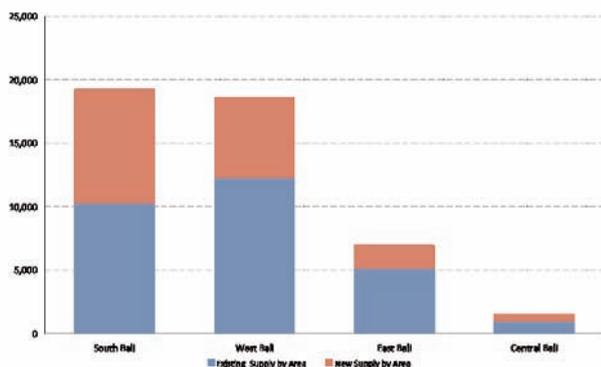
Clearly investors still believe that Bali has growth potential and the government is coming to the party

with long overdue infrastructure improvements namely; the airport expansion completed in time for the APEC conference in October 2013; and the Ngurah Rai – Tanjung Benoa toll road which was officially opened in late September. There is however, as we all know, a long way to go.

Of the rumoured new hotel developments to 2016, 50% is happening in the South: Nusa Dua, Bukit (Uluwatu)-Pecatu, Tanjung Benoa, & Jimbaran. West Bali, which already has the majority of hotel rooms, is not far behind and will house 35% of the projected new supply.

The remaining 15% of new supply will be dispersed around the island, in the undersupplied north, central and eastern areas.

### SUPPLY BY AREA 2012-2016



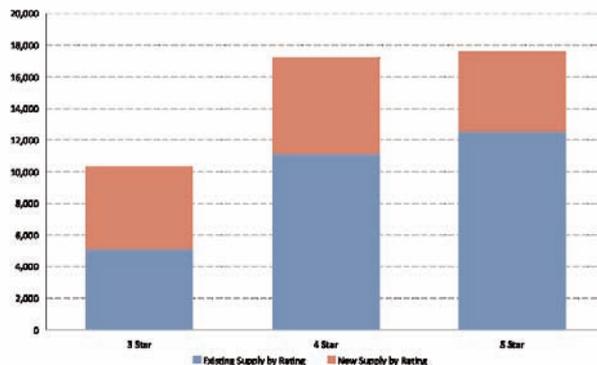
Source : BHA and Horwath HTL

With this massive increase in supply there are going to be both occupancy and rate pressures in Bali over the coming years. It is believed that the keys to weathering any potential storm that may rain down on Bali in the next few years include:

- focussed development, build what makes sense in terms of positioning and size, examine the market, do the research;
- avoid price wars. Tourism numbers will increase, new properties will induce new demand, LCC will fly in more guests so resist dumping prices as occupancy slips; and
- continue lobbying the government to improve infrastructure. New roads to open up the north and improve access to the east would be a great start.

Gridlock, raw sewage, power outages, rogue developments that ignore the no-new development moratorium, lack of fresh water and trash are hampering growth in tourism arrivals.

### SUPPLY BY STAR 2012-2016



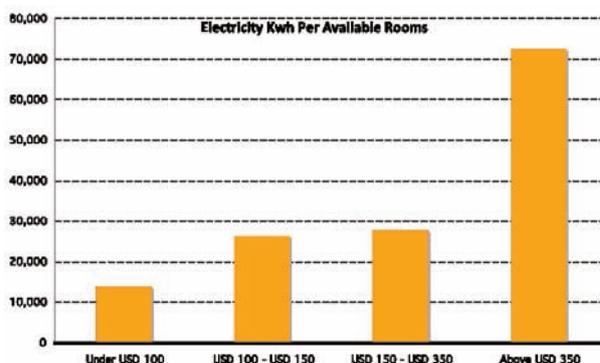
Source : BHA and Horwath HTL

Looking at distribution of new hotels to 2016 by positioning, the mix is well spread and maintains the current proportions of 3, 4 and 5 star rooms. That said, in 2012 the bulk of new properties are at the lower end, 3 star or less and in 2013 there is a greater number of 4/5 star properties scheduled to open their doors.

### MONITORING ENERGY & WATER CONSUMPTION

Energy consumption has become a major concern lately, with the government reducing electricity subsidies further in 2013. Electricity is set to increase by 15% in the coming year, in quarterly increments of 3.75%.

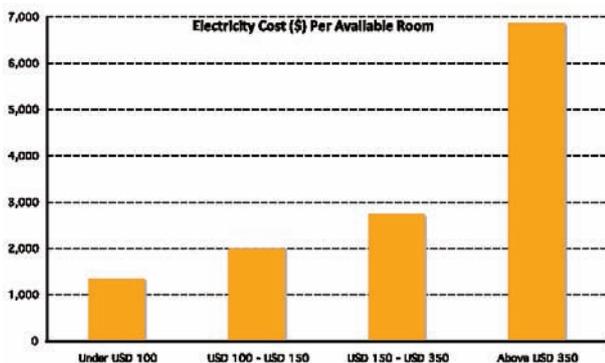
Our collection of energy and water statistics, in conjunction with the BHA only began in 2012 so the figures presented are for year-end 2012.



Source : BHA and Horwath HTL

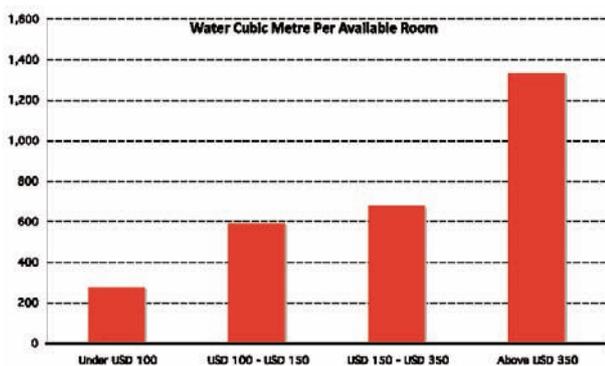
Not surprisingly, Luxury properties use significantly more electricity PAR than other hotel categories. This is due to a combination of factors including the high proportion of standalone villas to block rooms, fewer keys to spread BOH and FOH power usage, general property size and plunge pools.

From electricity consumption to cost, luxury properties are spending almost triple the upper upscale properties in electricity PAR.



Source : BHA and Horwath HTL

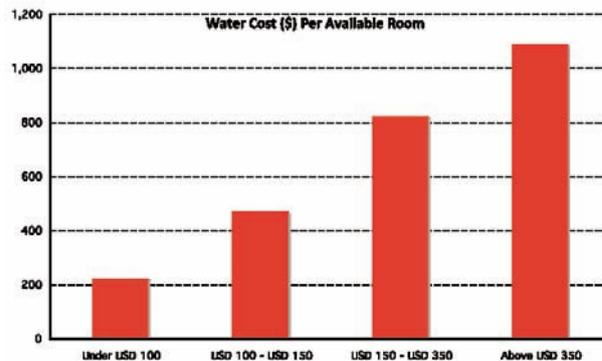
Mass resort development on the island has also affected fresh water supplies which is causing concern in the general community. Hotels & resorts still supplement mains water with deep well water which puts the local community at risk as they compete for this limited resource.



Source : BHA and Horwath HTL

For similar reasons as for power consumption, Luxury properties consume significantly more water than other segments. Their water consumption is double that of the upper upscale properties.

Water cost is quite difficult to track in Bali as deep well supply is free and as mentioned above hotels' supplement mains water with the free water. Figures can therefore be misleading. That said, the figures we have are shown below.



Source : BHA and Horwath HTL

## HOTEL BRANDED RESIDENCES MARKET

### Brand concentration sets the stage for the Bali market's next step forward

Over the past few years, the Bali property market has witnessed a dramatic shift in demand towards hotel branded/managed projects across all segments. The hospitality led residential property sector has been strengthened by domestic buyers which created strong underlying demand and favorable market conditions. With increasing access from Jakarta, Surabaya and other domestic cities, Bali continues to be a popular playground for Indonesians.

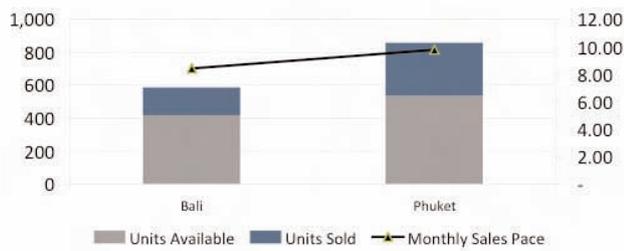
Looking forward a series of upcoming international branded products with real estate offerings such as Rosewood, Raffles, Jumeirah and Shangri-La will induce more demand to the island. It is anticipated that the Island of Gods will attract a wider base of international visitors which will create sustained tourism and in turn spur real estate demand. Though there continues to be a post GFC disconnect over low transactional levels of hotel branded pool villas over the one million dollar mark.

The Bali residential market remains in a growth stage in its property cycle. Every new upper-tier resort development in Bali continues to induce added levels of demand to the island. This indicates the unrealized potential of the market and supports well structured and rational development as the market evolves. There are warning signs though in the broad condominium hotel market for products developed in tertiary locations and offering guaranteed returns which may not be sustainable in the long term. A significant secondary market is looming in the not too distant future.

Looking forward, the growing middle class population in Indonesia continues to view Bali favorably both in aspirational and investment terms. While its expected that the island's real estate sector will remain relatively healthy, the underlying concern remains regarding overbuilding and a potential cooling down in the property market.

### BALI VS. PHUKET HOTEL MANAGED APARTMENT/CONDOMINIUM PROJECTS

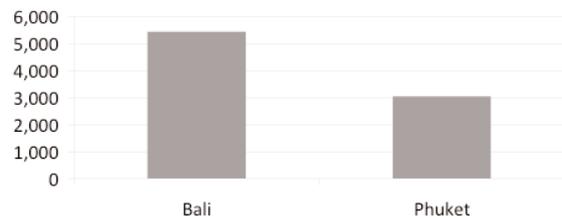
#### CURRENT INVENTORY AND SALES PACE COMPARISON



Source: C9 Hotelworks Market Research

**Phuket outperformed Bali with 9.8 units sold per month compared to 8.4 units**

#### PRICING COMPARISON



Source: C9 Hotelworks Market Research

**Bali achieved higher average selling price per Sq M at US\$5,432**

#### HOTEL MANAGED APARTMENT/ CONDOMINIUM PROJECTS

A total of 800 units representing 8 projects which are currently for sale are identified in our analysis.

Project Name	Location	Total Units	Launch Year
Sea Sentosa	Canggu	67	2010
Double-Six	Seminyak	146	2012
Amarin Seminyak	Seminyak	157	2012
Ailla Seminyak	Seminyak	108	2013
De Vins Sky Villa	Seminyak	110	2013
Ayana Residences	Jimbaran	68	2012
Klapa Breeze	Pecatu	128	2011
The Residences at The Westin Ubud	Ubud	16	2011

Source: C9 Hotelworks Market Research

**Two-thirds of inventory is located in Seminyak**

## HOTEL BRANDED VILLA PROJECTS

We identified 226 villas from 6 projects which are on offer in the primary market segment.

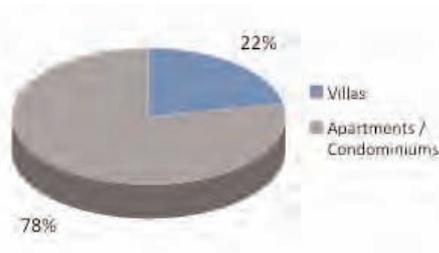
Project Name	Location	Total Units	Launch Year
<b>Allia Villas Uluwatu</b>	<b>Uluwatu</b>	<b>29</b>	<b>2007</b>
<b>Anantara Uluwatu Bali</b>	<b>Uluwatu</b>	<b>14</b>	<b>2010</b>
Banyan Tree Residences Ungasan	Bukit	73	2006
Bvlgari Residences Bali	Bukit	5	2009
Karma Kandara Phase V	Bukit	26	2010
<b>The Residences at W - Ball Seminyak</b>	<b>Seminyak</b>	<b>79</b>	<b>2009</b>

Source: C9 Hotelworks Market Research

**55% of total units were launched during 2009-2010**

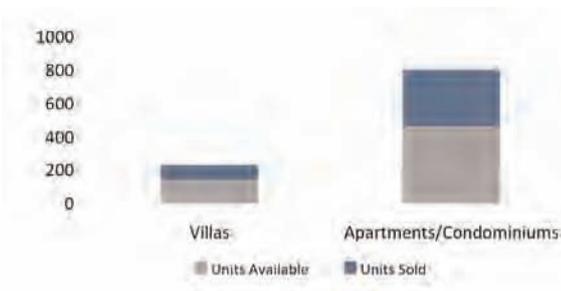
## HOTEL BRANDED VILLAS VS. APARTMENTS/CONDOMINIUMS

### INVENTORY MIX



Source: C9 Hotelworks Market Research

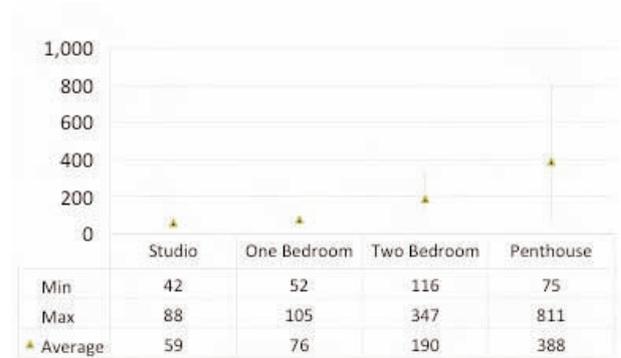
### UNIT AVAILABILITY



Source: C9 Hotelworks Market Research

## APARTMENT/CONDOMINIUM PROJECT METRICS

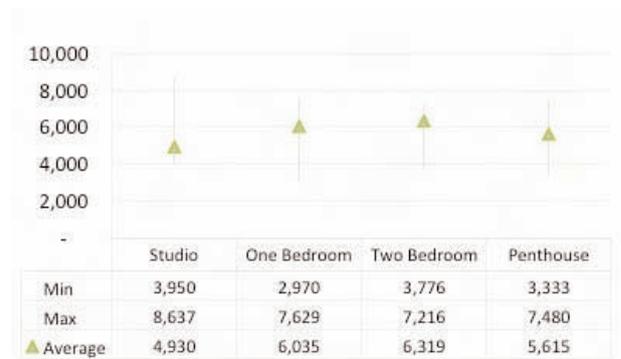
### INVENTORY MIX



Source: C9 Hotelworks Market Research

**Studios and 1-bedroom units most dominant with 49% and 33% share respectively**

### AVERAGE PRICE PER SQUARE METER BY TYPE

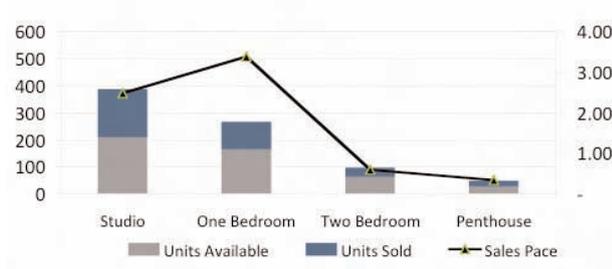


Source: C9 Hotelworks Market Research

**One and two bedroom types premium priced with average of US\$6,159 per sqm**

## CURRENT INVENTORY & MARKET ABSORPTION

### BY TYPE



Source: C9 Hotelworks Market Research

**One bedroom type most popular with average sales pace of 3.3 units per month**

## HOTEL BRANDED VILLA PROJECTS

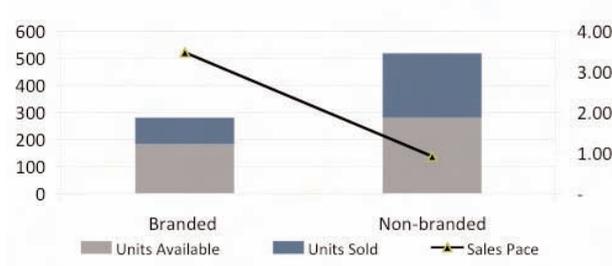
### UNIT SIZE BY TYPE



Source: C9 Hotelworks Market Research

**60% of all villas are one bedroom configurations**

## BRANDED VS. NON-BRANDED



Source: C9 Hotelworks Market Research

**Hotel branded units accounted for 35% of total inventory, achieving higher monthly sales pace of 3.5 units**

## AVERAGE PRICE PER SQUARE METER BY TYPE

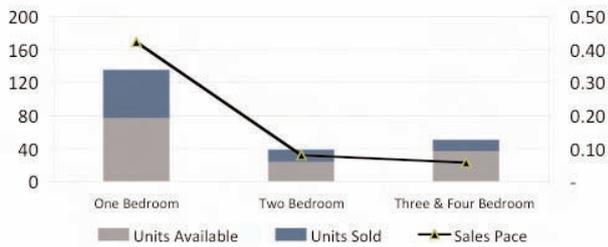


Source: C9 Hotelworks Market Research

**Built up price per square meter averaged US\$4,041**



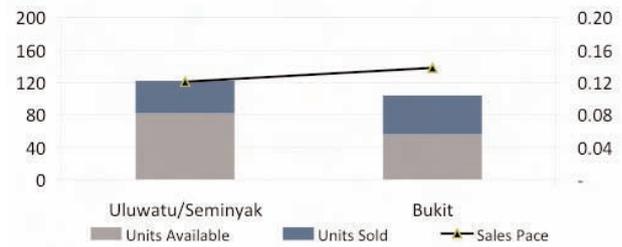
## CURRENT INVENTORY & MARKET ABSORPTION BY VILLA TYPE



Source: C9 Hotelworks Market Research

**Average sales absorption rate recorded at 0.4 per month, led by one bedroom units**

## CURRENT INVENTORY & MARKET ABSORPTION BY LOCATION



Source: C9 Hotelworks Market Research

**Villa design and views are the most important factors driving project success**



#### ASIA PACIFIC

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