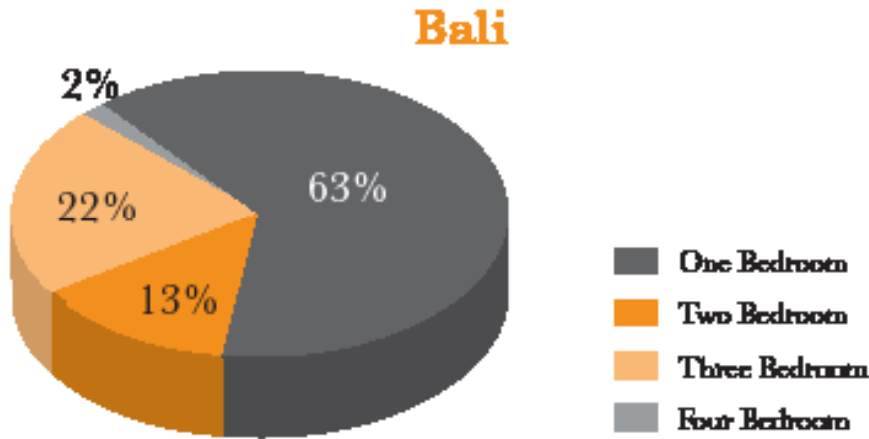


Bali's Branded 'Villa-fication'

A new mantra for property on the Island of the Gods has become "Eat, Pray, Sell". On the heels of an economic explosion in South East Asia's second largest economy, discretionary spending is on the rise.



Source: C9 Hotelworks Market Research

Perhaps the best poster child for this shift is not Julia Roberts who starred in the Hollywood adaptation of the popular Bali-themed movie, but more so a new stream of hotel branded luxury villas. Hotel chains with well known names including Starwood's W, Bvlgari, Banyan Tree and Alila have linked up with developers in a new spate of mixed use properties.

One key demand driver which is not present in competing regional resort real estate markets such as Thailand's Phuket and Koh Samui is a large segment of domestic buyers. According to a recent global wealth management survey by financial institution Credit Suisse there are over 60,000 millionaires within Indonesia.

Based on market research conducted by our firm C9 Hotelworks in the report "Bali Hotel Branded Villa Market" there are 222 properties in the sector located within 6 hotel projects as of the end of June this year.

The majority of the inventory are one bedroom units with 62 per cent of the total and two bedrooms at 12 per cent. The remainder are three and four bedroom configurations. This would suggest that demand is focused on more of an investment model than on owner usage.

Viewing Bali with Phuket and Samui, the current level of market penetration in

“ WITH SENTIMENT HIGH IN THE HOSPITALITY SECTOR AS BALI HIT 3 MILLION VISITORS IN 2010. ”

the Indonesian resort destination shows it leading the two Thai islands as a result of strong local demand. Looking at the key metric of villa sales per month, Bali also leads the pack, though the absorption rate remains below 20 per cent. Going back to the pre GFC (Global Financial Crisis) days, a market such as Phuket hit numbers over 1.50 per cent monthly in combined projects on average. Needless to say the good ol days of the mid-decade ago are still not back.

With sentiment high in the hospitality sector as Bali hit 3 million visitors in 2010, the knock on effect is certain to spur a second wave of hotel branded projects. As this article was going to press, a new Westin managed project in Ubud was set to launch. Also Outrigger Panorama in Bukid will open for sales later in the year, and from our market intelligence

at least twelve hotels in various tiers currently in the planning phase are looking at residential sales.

For prospective hotel owners the ability to mitigate risk, accelerate profits and lower debt by leveraging a part of a property into mixed use is simply too good of a proposition to pass on. Much ink has already been spilled about the onslaught of condotels with low entry pricing points of US\$60,000-150,000. According to local brokers this sweet spot has an estimated 4,000-5,000 units in the market.

In what is a mix of truth being stranger than fiction and urban lore the tales of busloads of Indonesian buyers disembarking in groups from buses and buying multiple units has actually happened in certain cases.

Motivation seems to be split into two camps when speaking to industry players on whether it's a straight investment play or the steady stream of the upward classes from Jakarta who look at actually using the free room nights that come as part of a hotel lifestyle investment.

Worries over a bubble are keen in this segment and during a recent trip to the island, feedback from projects is that the sales pace is waning and this could be an indication of absorption. Economically, the lead up to the important APEC Conference in 2013 is touted to see a quick succession of new mega infrastructure projects on the island including an airport expansion, which bodes well for short to medium term prospects.

Though as anyone who has driven through the popular Seminyak area at any point of the day or night can tell you – traffic and gridlock are now the rule rather than the exception. Despite this troublesome issue, demand from nearly every corner of the world is still increasing. For now property firms might have to forego with their eating and praying while buyers continue to stream through their doors and sell while the selling is good.



Bill Barnett

is the founder and managing director of hospitality and property consulting firm C9 Hotelworks, a leading analyst in the region, he also writes for various publications including his own news site www.thephuketinsider.com