



Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

Bali Hotel & Branded Residences

in conjunction with



MAY 2019



What shall we pray for now?

2018 was an eventful year for Bali. As everyone was praying for a good start to the year after Mount Agung's eruption and subsequent airport closure in Q4 2017, it erupted again in January, and then again in June. In June it led to a further 12-hour closure of the Ngurah Rai Airport.

When it rains, it pours – neighbouring island Lombok was hit by a 7.0-magnitude earthquake on August 5th, which triggered a brief tsunami warning and caused a series of aftershocks as strong as magnitude-5.4 in Bali.

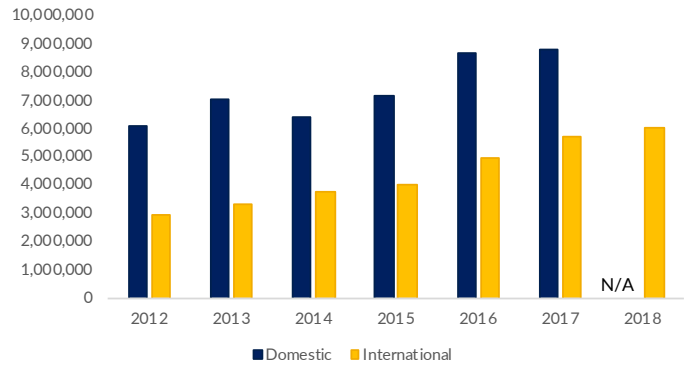
In October, just a few days after the tsunami in Sulawesi, a 6.0-magnitude earthquake rocked Bali again.

There hasn't been a quiet moment on the island of the Gods. Mount Agung's explosive activity continued on March 8th 2019, the day after Nyepi (Silence Day).

The local discontent with Chinese 'zero-dollar' tourism grew more intense in Q4 2018 with the Balinese Provincial Government closing unlicensed shops in an effort to curb price manipulation and fraud against Chinese tourists. Combined with negative publicity in China, the net effect was a massive drop in Chinese arrivals in November & December.

Bali Visitor Arrivals: Every Dark Cloud has a Silver Lining

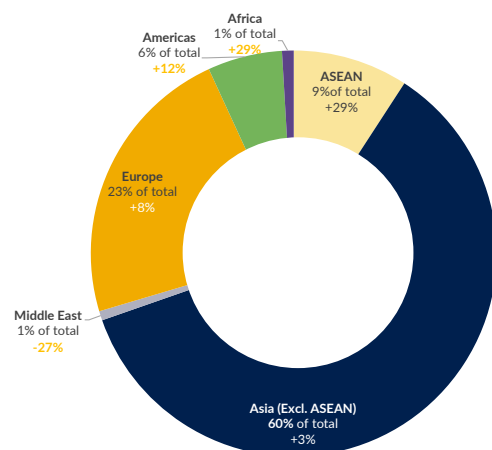
Despite travel warnings most notably in China, Mount Agung's continued rumblings and Lombok's earthquakes Bali weathered the storm in 2018 although with slower growth after two years of double-digit growth in international arrivals.



Note: 2018 domestic arrivals not available
Source: BPS and Horwath HTL

In 2018, international arrivals to Bali reached 6 million and recorded a YOY growth of only 6% compared to 16% in 2017 and 23% in 2016. The achieved number of foreign arrivals is around 7% short of the targeted 6.5 million. In June, the closure of the Ngurah Rai Airport due to volcanic ash caused airlines such as Air Asia, Jet Star, Qantas and Virgin to cancel flights. In total, the shutdown triggered at least 48 flight cancellations and around 8,000 passengers were affected.

Nationality Mix



2018 saw growth in arrivals from almost all regions except the Middle East. Indonesia is not particularly favoured by Middle Easterners, typically preferring Thailand or Malaysia where a vacation can be combined with medical procedures.



Source: Six Senses Uluwatu, Bali

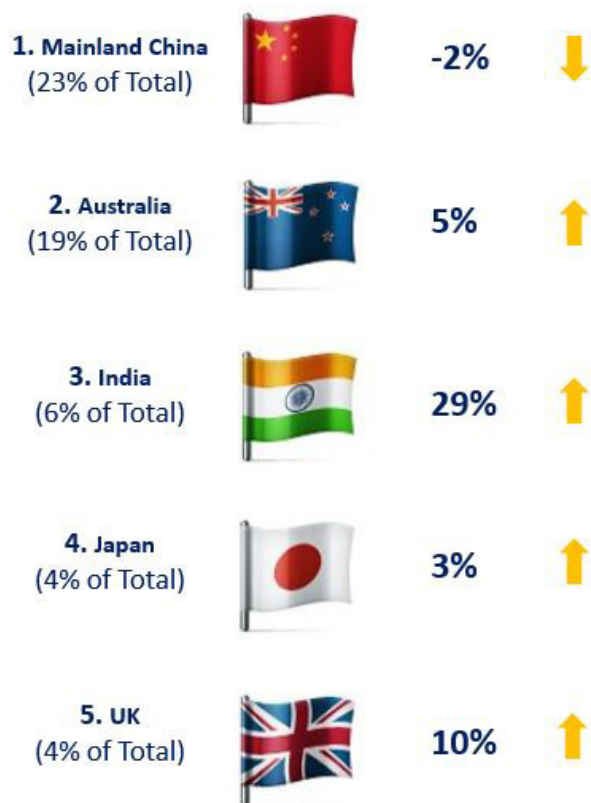
Arrivals from Asia (excluding ASEAN) saw a small increase of 3%. Arrivals from markets such as Taiwan (-19%), Korea (-18%), Hong Kong (-7%) and China (-2%) were negatively affected by the Mount Agung eruptions and the numerous natural disasters that blighted the country including Lombok and Palu.

ASEAN and Africa both recorded strong growth of 29%. Due to visa exemption, close proximity as well as frequent and affordable flights to Bali, arrivals from ASEAN countries such as the Philippines (+52%), Vietnam (22%), Malaysia (13%) recorded double-digit growth.

Europe is the second largest source region, accounting for 23% of the market. Arrivals from European countries grew moderately, from Russia (17%), UK (10%) and France (10%).

Although accounting for only 6% of the market, arrivals from the Americas increased by 12%. Arrivals from the US (+21%) and Mexico (24%) registered strong growth.

The top 5 foreign source countries remained the same as 2017, with China leading the market, followed by Australia, India, Japan and the UK.



Source: BPS and Horwath HTL

- Chinese are still dominating but declining. Tourists from China have surged, increasing from under 200,000 to almost 1.4 million in just 7 years to overtake Australia as the top source market for foreign visitors to Bali. Chinese arrivals for 2018 totaled 1,361,295 – down about 2% from 2017, mainly because 1) Mount Agung volcanic activities; and 2) a crackdown on ‘zero dollar’ practices.
- Australians arrivals still strong. Australia remained Bali’s second largest source market with arrivals up about 5% in 2018. In November and December, Australian arrivals even outnumbered Chinese arrivals again.
- India is getting stronger. India is the fastest-growing source country among the top 5 source markets. Arrivals from India increased by around 80,000 in 2018. Between 2010 and 2018, India market grew at a compound annual growth rate of about 30%.
- The Philippines and the US are the next to watch. Tourists from the Philippines and the US recorded the highest increases in volume, by about 30,000 (+52%) and 40,000 (+21%) arrivals, respectively. Over the past 8 years, the US has climbed up the rankings from number 11 in 2010 to number 6 in 2018.

Hotel Performance - By Rate Segment

Despite the odds being stacked against hotel performance, Bali hotels recorded increases in both occupancy and ADR in 2018 over 2017.

	2017	2018	% Δ
Occupancy	71%	72%	1 pt
ADR (IDR)	1,754,000	1,989,000	13%
RevPAR (IDR)	1,237,000	1,438,000	16%
ADR (USD)	131	136	4%
RevPAR (USD)	92	99	7%

Source: Bali Hotel Association and Horwath HTL

Luxury (>USD 350):

The Luxury segment comprises mostly all-villa resorts with international brand affiliation. Both occupancy and ADR in this segment grew positively.

	2017	2018	% Δ
Occupancy	57%	58%	1 pt.
ADR (IDR)	6,852,000	7,465,000	9%
RevPAR (IDR)	3,917,000	4,308,000	10%
ADR (USD)	511	526	3%
RevPAR (USD)	292	304	4%

Source: Bali Hotel Association and Horwath HTL

Upper Upscale (USD 151 - 349):

This is the only rate segment that saw a decline in occupancy levels in 2018 due in part to a drive to increase ADR. Despite the myriad of negative events plus new hotels, Upper Upscale hotels grew ADR and RevPAR by 8 and 5% respectively.

	2017	2018	% Δ
Occupancy	71%	69%	-2 pts.
ADR (IDR)	2,770,000	2,981,000	8%
RevPAR (IDR)	1,961,000	2,059,000	5%
ADR (USD)	207	209	1%
RevPAR (USD)	146	144	-1%

Source: Bali Hotel Association and Horwath HTL

Upscale (USD 101 – USD 150):

Similar to the Upper Upscale segment, Upscale hotels took a small hit to occupancy in 2018 to the benefit of a 5% increase in ADR (IDR) driving increased IDR RevPAR. Due to depreciation in the Rupia, USD RevPAR fell by USD 1 or 2%.

	2017	2018	% Δ
Occupancy	73%	72%	-1 pt.
ADR (IDR)	1,696,000	1,781,000	5%
RevPAR (IDR)	1,234,000	1,290,000	5%
ADR (USD)	127	125	-1%
RevPAR (USD)	92	91	-2%

Source: Bali Hotel Association and Horwath HTL



Source: KANVAZ Resort Seminyak, Bali

Midscale (USD 50 – USD 101):

Despite supply growth in this segment, hotels in the Midscale market were able to register the strongest growth amongst segments – IDR RevPAR up 33%.

	2017	2018	% Δ
Occupancy	71%	75%	4 pts.
ADR (IDR)	922,000	1,158,000	26%
RevPAR (IDR)	656,000	874,000	33%
ADR (USD)	69	75	9%
RevPAR (USD)	49	57	16%

Source: Bali Hotel Association and Horwath HTL

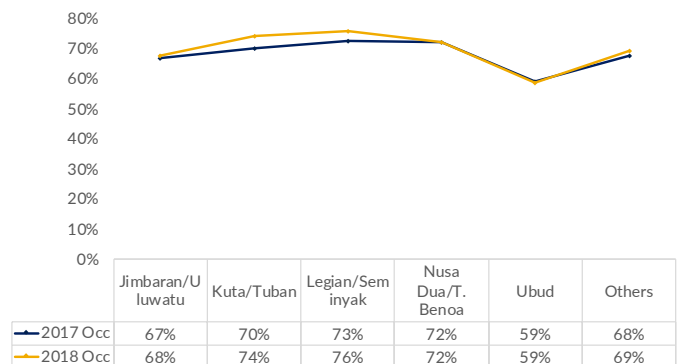
Performance - By Location

Occupancy

Hotels across all locations in Bali maintained occupancy levels in 2018.

Kuta/Tuban and Legian/Seminyak recorded the highest occupancy levels and YOY growth. These two areas are still the most popular locations for tourists to stay, given extensive dining and entertainment offerings in the areas, within walking distance from/to hotels.

Ubud recorded the lowest occupancy level among all the areas in both years, largely due to its location far away from the airport and beach.



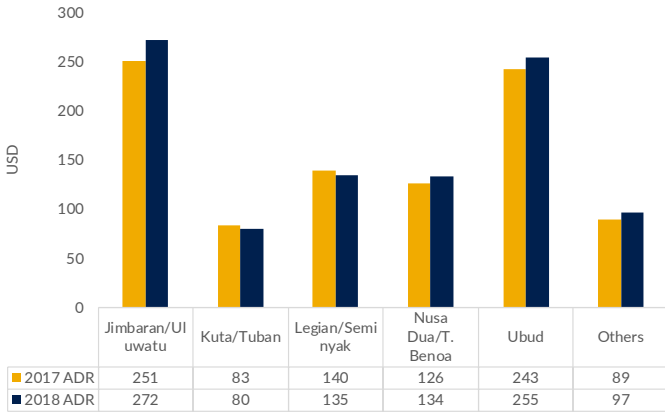
Source: Bali Hotel Association and Horwath HTL



Source: Six Senses Uluwatu, Bali

ADR

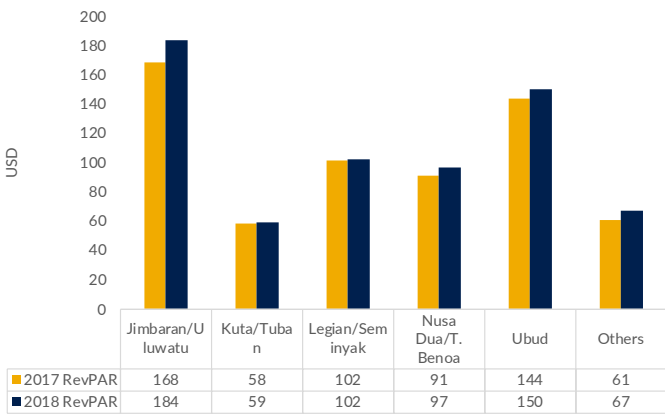
The occupancy growth in Kuta/Tuban and Legian/Seminyak was at the expense of ADR. These two areas both saw declines in ADR by about 4%. All other areas in Bali grew ADR in 2018 with Jimbaran/Uluwatu registering the highest growth of 8%, despite its high ADR base of USD 250 in 2017.



Source: Bali Hotel Association and Horwath HTL

RevPAR

RevPAR was up in all areas in 2018. With strong occupancy performance in occupancy and ADR, Jimbaran/Uluwatu led the market, recording the highest RevPAR of USD 184.



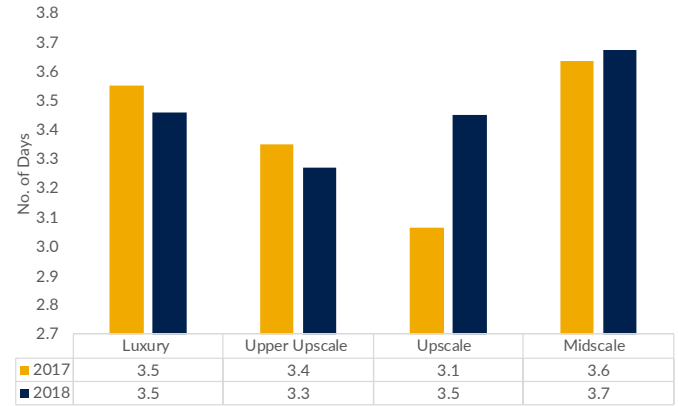
Source: Bali Hotel Association and Horwath HTL



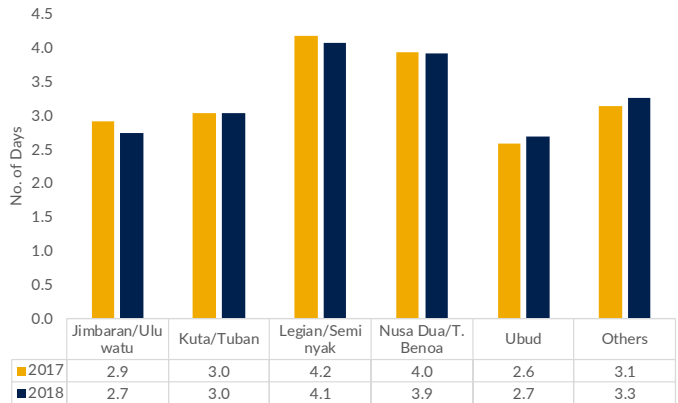
Source: Capella Ubud, Bali

Average Length of Stay (ALOS)

Overall, ALOS stayed at the same level as 2017. Hotels in the Midscale segment maintained the longest ALOS and Legian/Seminyak hotels again recorded the longest ALOS.



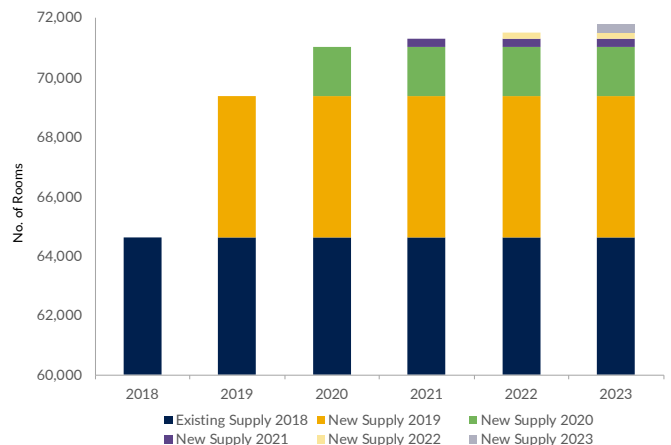
Source: Bali Hotel Association and Horwath HTL



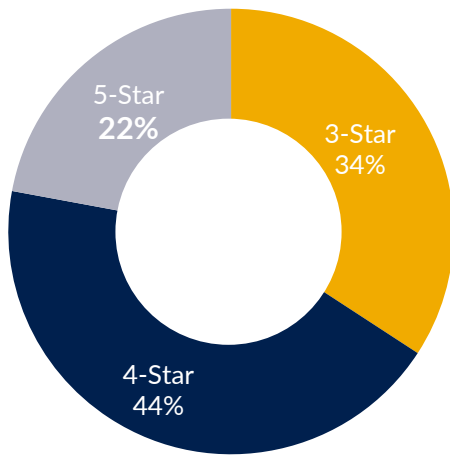
Source: Bali Hotel Association and Horwath HTL

Coming Soon

Within the next 5 years, Bali hotel market is expected to add at least 43 3-star and above hotels, totalling approximately 7,000 rooms, a 11% increase from its current inventory.



The majority of the rooms are of 4-star and 3-star, which is in line with the greater mass-market dynamic.



West Bali and South Bali are still “the hot spots” for new hotels. In Western Bali, new developments are moving towards the north – Canggu and Tabanan areas, as Kuta/ Tuban and Legian/Seminyak areas are already crowded.

Upcoming hotels in South Bali are mostly 3-star and 4-star properties. New hotels in Jimbaran/Uluwatu such as the Ibis Bali Pecatu and Novotel Resort Bali Jimbaran will most likely draw back the area’s high ADR.

In East Bali, Nusa Penida, a relatively undeveloped island south-east of Bali, has become the next darling, a very instagrammable destination alongside Nusa Lembongan. These small islands are experiencing a surge in small hotel and villa developments accommodating the increase in tourists.



East Bali: Gianyar + Karang Asem, Denpasar, Sanur, Candidasa
 North Bali: Singaraja, Pemuteran
 Central Bali: Ubud

South Bali: Nusa Dua, Bukit (Uluwatu) - Pecatu, Tanjung Benoa, Jimbaran
 West Bali: South Kuta Beach (Tuban), Kuta, Legian, Seminyak, Canggu, Tanah Lot, Tabanan



Source: Lavaya Bali

Despite Bali's tourism market recovery, the resort real estate market remains challenged

Along with the growth of tourism over the past decade, Bali's hotel residence sector has risen as more developers are looking to sell hospitality-oriented real estate. Currently, in the market, 74% of the units for sale are in completed hotel projects and the remaining being off-plan or under construction.

In terms of buyers' profile, it is a market largely focused on domestic investors with a combination of investment and holiday use purposes, due to sustained domestic tourism demand.

Foreign investment remains challenged with foreign ownership restrictions being the key barrier to entry. Foreign buyers are mostly from western countries including Australia.

Although mainland Chinese has become the top geographic source market since 2017 with over 1.3 million passenger arrivals, demand for the real estate sector is expected to pick up slowly with the main concern being natural disaster risk.

In the short term, the real estate sector is expected to be stable with the key market feeder concentrating on domestic.

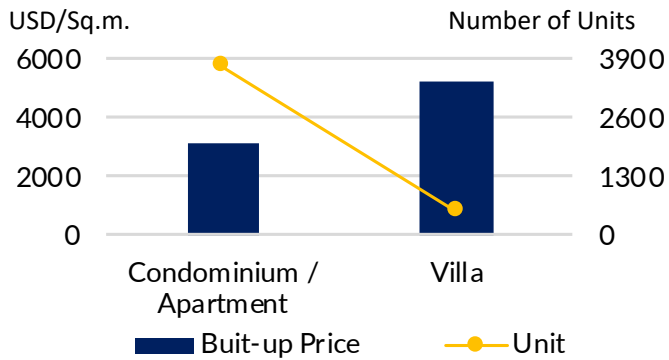
Trends

- While condominiums/apartments are concentrated on midscale to upscale tiers, villa developments are mainly in the upscale to luxury tiers.
- More buyers tend to opt for a property with a rental management program as it is a one-stop solution for property management.
- With the rising number of Asian travellers to Bali, more investors are expected from Asia such as mainland China, the current top source market for Bali.



Source: Harcourts Purba Bali

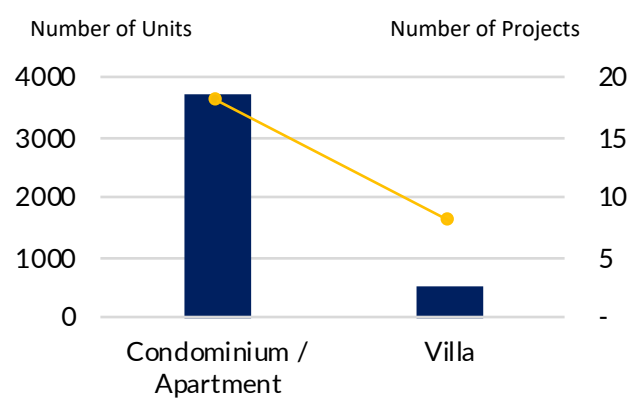
Hotel Branded Residences Pricing



Source: C9 Hotelworks Market Research

As of end 2018, there are a total of 4,295 units for sale in the primary market, with villas accounting for 12% of the total inventory while the remaining being condominiums/ apartments.

Hotel Residences Supply



Source: C9 Hotelworks Market Research

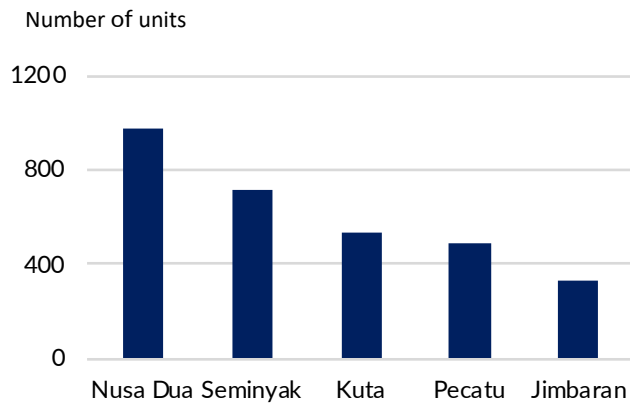
Hotel Residences Pricing by Location





Source: Renaissance Bali Uluwatu

Top 5 Hotel Residences Locations



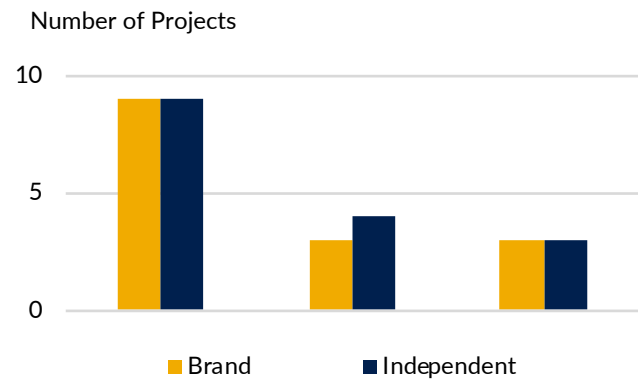
Source: C9 Hotelworks Market Research

While villa developments are more spread out in the key tourism areas of South Bali, majority of the condominiums/ apartments are concentrated in Nusa Dua, Seminyak and Kuta.



Source: Mandarin Oriental, Bali

Oceanfront vs. Off-beach Locations



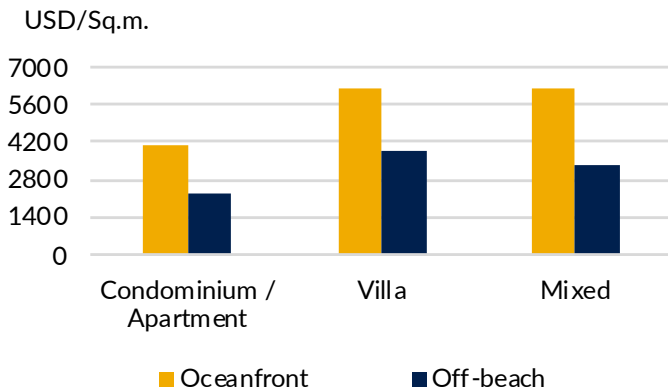
Source: C9 Hotelworks Market Research

Beach locations continue to be main focus for villa development, while condominiums/apartments are generally located in off-beach locations.



Source: Mandarin Oriental, Bali

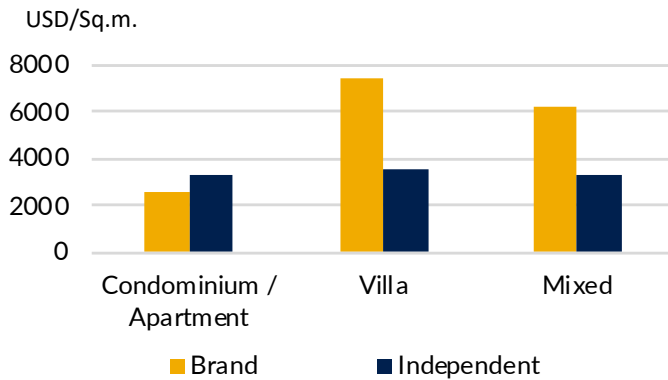
Built-up Sales Price - Oceanfront vs. Off-beach Locations



Source: C9 Hotelworks Market Research

The price for oceanfront properties is often double off-beach properties depending on project positioning.

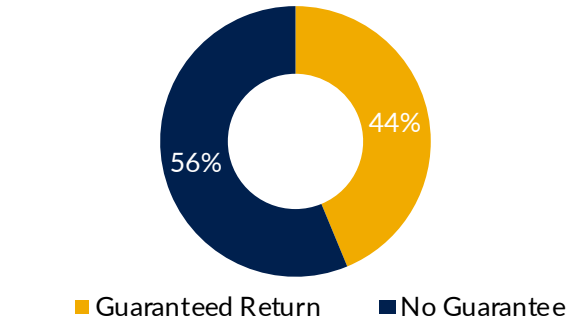
Brand Price Premium



Source: C9 Hotelworks Market Research

Hotel residences with brand affiliation have a 10% to 30% price premium compared to independent properties depending on project characteristics.

Guaranteed Return

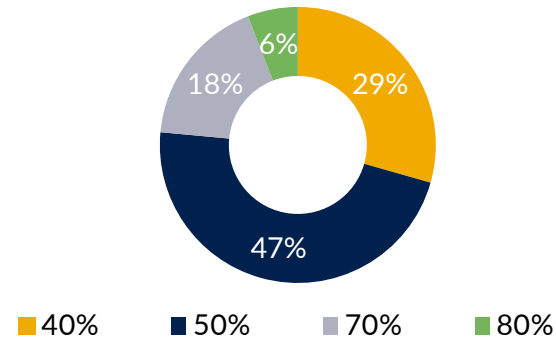


Source: C9 Hotelworks Market Research

- Guaranteed Return: 5 - 10 (%)
- Guaranteed Period: 2 - 10 (years)

Guaranteed returns are a widely-used incentive tool by developers. Currently, 56% of the projects for sale offer a guaranteed return which ranges from 5% to 10%.

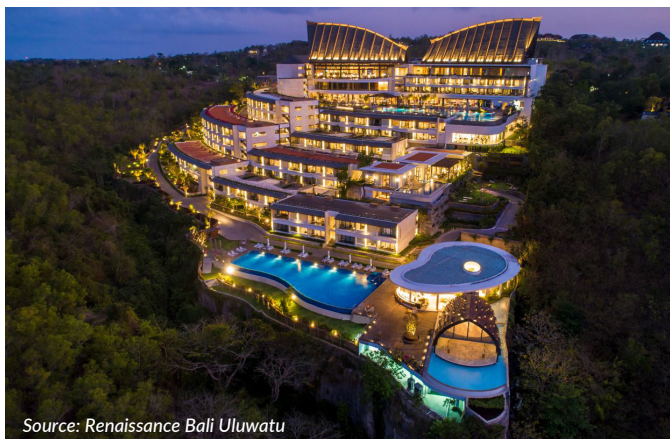
Owner's Revenue Share



Source: C9 Hotelworks Market Research

- Owner's revenue Share: 40 - 80 (%)
- Owner's usage days: 3 - 30 (points/nights)

Management programs provided by developers typically offer 40% to 80% of rental revenue share to owners.



Source: Renaissance Bali Uluwatu



Source: Capella Ubud, Bali

Looking Forward

- A planned new highway connecting Tabanan with the South of Bali could spur future developments to the North, along the west coast.
- The Indonesian government's position on foreign property ownership remains static and unless broader reforms take place, the majority of the transactions will be from the domestic market.
- Key success factors are location, developers' profile, project characteristics and quality of the product, rather than guaranteed return which remains a front-facing part of most offerings.

Conclusion

Bali tourism has had its ups and downs. Although growth in international arrivals has slowed down because of Mt. Agung eruptions and other natural disasters in the country over the past few years, tourism in Bali is gradually recovering and tourists will eventually return.

After all, Bali is a one-of-a-kind destination with rich local culture and vibrant nature, convenient air connectivity from major cities in the region, and many upcoming hotel developments and branded residences.



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With a history spanning over a decade, C9 has worked throughout Asia and in many other locations around the globe from its base in Thailand, delivering independent, strategic advisory services to owners and developer for market studies, feasibility reports, management operator negotiations and asset management.

C9 has a high level of expertise in both hospitality and property sectors, with deep experience producing and analysing research that delivers insight to identify key issues, evaluate complex ones and support clients in achieving solid success.

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