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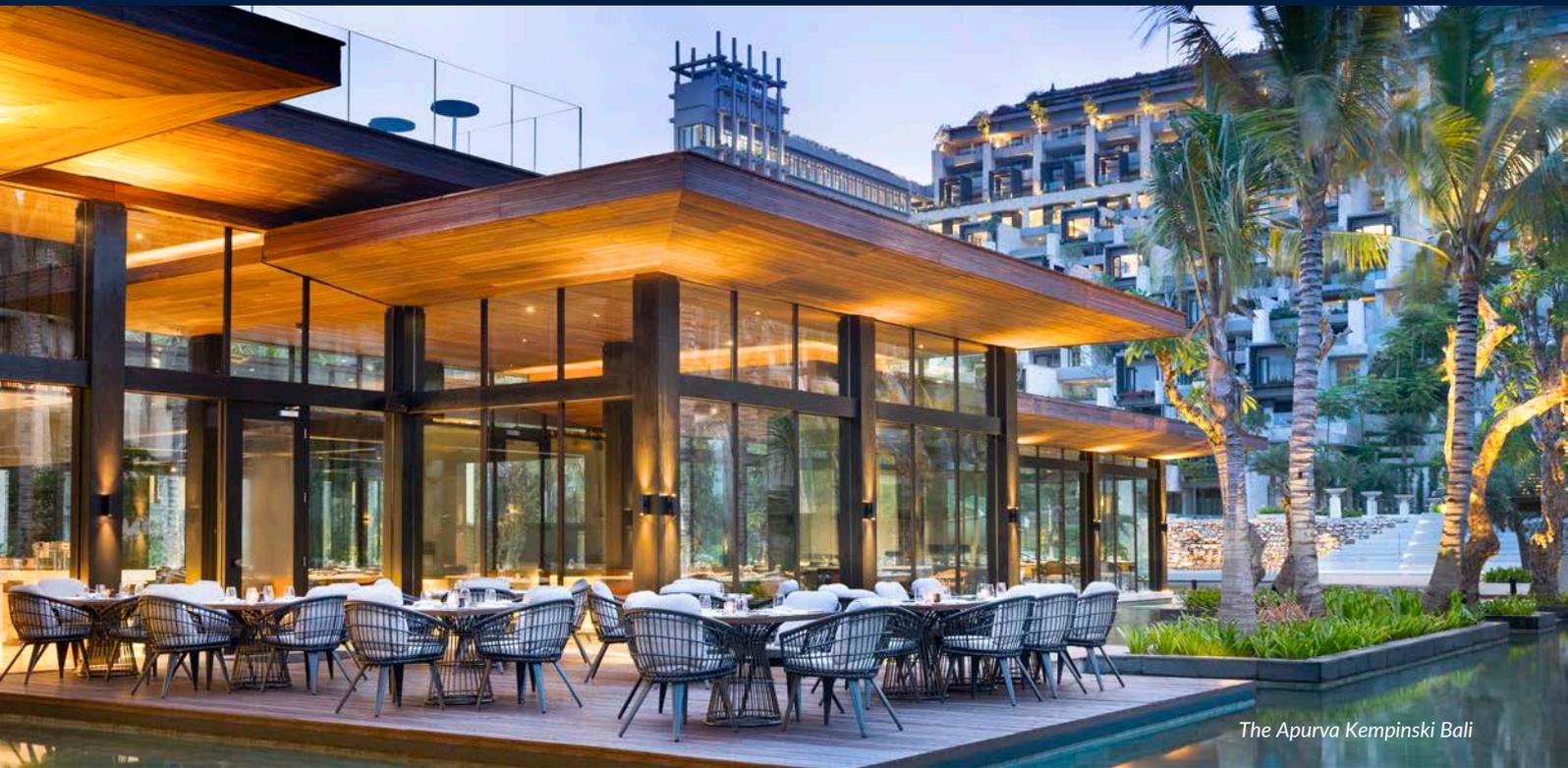


MARKET REPORT

BALI: Hotel and Branded Residences



MARCH 2020



The Apurva Kempinski Bali

Is there a canary in the coalmine?

2019 was another eventful year for the island of Bali. Outbound tourists from China stumbled in 2019, with declines seen across most leading tourism markets in the region, including, but not only, Bali. The ongoing trade tensions between Beijing and Washington D.C., combined with the Hong Kong protests caused Chinese citizens to be more concerned with future economic conditions and more focused on their savings. With less incentive to travel, this led many Chinese citizens not to travel to Bali.

Another issue is the Chinese 'zero-dollar' tourism, which refers to cheap bus tours that do not generate significant revenue or jobs to local economies. After many years without action, the Balinese Provincial Government has started putting efforts into reorganizing Bali's tourism and pursuing stricter consumer protection regulations, including the closure of unlicensed shops and tour operators.

Due to over tourism and environmental concerns, Bali was included as one of 13 destinations on Travel guide Fodor's "no go" list in 2020. Bali faces looming ecological challenges such as trash on the beach, traffic jams in main tourist districts, and freshwater scarcity. Without solving these problems, Bali island has to rein in its tourism growth.

Nearly 6.3 million international visitors came to Bali in 2019, or about 39% of the 16.1 million foreign visitors to Indonesia (↑2% YOY). President Joko Widodo's ambition to change this dynamic by pushing "10 New Balis" is yet to draw significant foreign visitors away from Bali to alternative destinations around Indonesia. The next largest gateways were Jakarta with 2.41m (↓14% YOY) and Batam with 1.94m (↑3% YOY).

There has not been a quiet moment on the "Island of the Gods." Mount Agung's explosive activity continued in 2019, with increasingly frequent and intense explosions from February to May and two explosions in June, which produced substantial ash plumes that clouded the region. No airport closure however limited the effect on tourism arrivals.

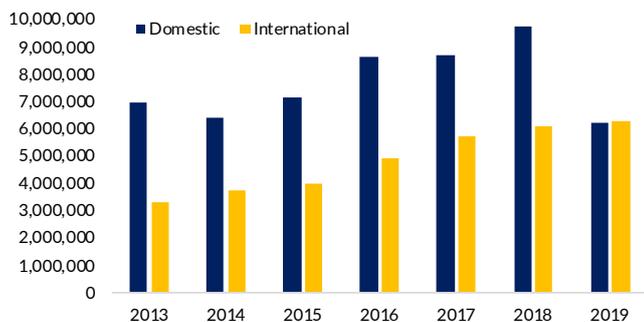


The Tamora Canggu

Bali Visitor Arrivals:

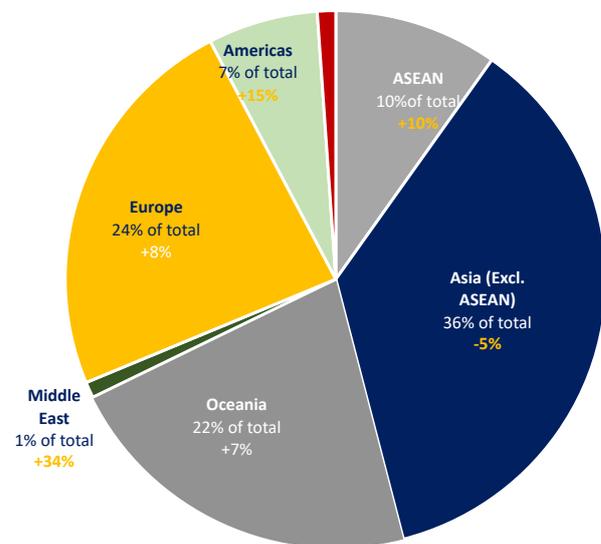
Anaemic Domestic Travel is a Black Swan

According to BPS forecasts (actual's not yet available), the number of domestic tourists to Bali would decrease in 2019 to approximately 6.2 million, a six-year record low & down 36.5% YOY. This is blamed almost entirely on high nation-wide domestic airfares in Indonesia, with the duopoly of Garuda and Lionair forcing prices sky high. Exorbitant domestic airfares were often more expensive than international airfares in 2019, causing travellers to rethink domestic travel and many chose Malaysia, Singapore or Thailand as vacation destinations. Another contributing factor was the 2019 re-election of Pak Jokowi which had a dampening effect on domestic business / MICE tourism in the first few months of the year.



Nationality Mix

2019 saw growth in arrivals from almost all regions except Asia Pacific (Excl. ASEAN) which fell by 5%. That said, Asia Pacific (Excl. ASEAN) held firm to the No. 1 spot, representing 36% of total international arrivals. The subdued visitors from Asia Pacific (Excl. ASEAN) was mainly caused by a slump in visitors from Hong Kong down 88% (although this number is questionable despite being a bad year domestically) and China. China, the largest single source country in 2018, recorded a 13% decrease in 2019, equating to a fall of approximately 176,000 arrivals.





Ombak Residence Bali

Europe was the second-largest source region, accounting for 24 % of the market. Arrivals from Russia grew by 28% due to tri-weekly flights between Moscow and Bali when Aeroflot introduced it in 2018. Other European countries grew moderately, the UK (6%), Germany (5%) and France (6%).

Another important source region was Oceania, generating 22% of total foreign arrivals to Bali in 2019. Australia (+6%) and New Zealand (+18%) were positively impacted by increased flight availability adding 91,000 arrivals.

Strong recovery was found in the Middle East (+34%) and the Americas (+15%), where double-digit growth rates were recorded. Bali is attracting more medium and long haul flights from international markets as airlift is vastly improving through the Middle East, and issues such as terrorism and geopolitical tensions previously hindering the long-haul market have diminished. Arrivals from Saudi Arabia (+59%) and Egypt (+37%) registered strong growth.

Although accounting for only 1% of the market, arrivals from Africa increased by 23%. Arrivals from South Africa and other regions in Africa increased by 19% and 28% respectively.

ASEAN recorded a strong growth of 10% in 2019. The availability of affordable flights, visa exemption policies, and the relatively close proximity to Bali resulted in arrivals from the major ASEAN countries, such as Vietnam (96%, direct flights from HCMC), the Philippines (21%), and Thailand (29%) to record double-digit growth in visitors. On the other hand, other ASEAN countries registered a 11% decrease.

1. Australia
(20% of Total)



6%



2. Mainland China
(19% of Total)



13%



3. India
(6% of Total)



5%



4. The UK
(5% of Total)



6%



5. The US
(4% of Total)



18%



Source: BPS and Horwath HTL



COMO Uma Canggu Bali

The top 5 foreign source countries shifted slightly from previous years, with Australia leading in visitors, followed by China, India, the UK and the US. Japan, ranked fourth in 2018, but arrivals remained flat in 2019 thereby losing its place in the top 5.

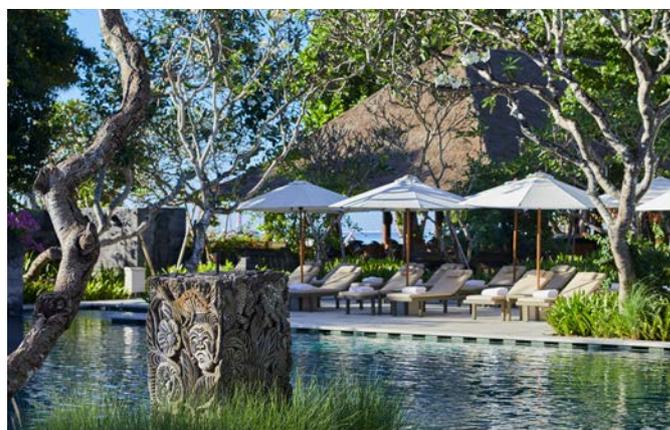
In 2019, for the first time since 2016, Australia surpassed China as the top source market for foreign visitors to Bali, generating one-fifth of the total international arrivals. Australians totalled 1,225,425 arrivals, up by 6% from 2018.

After years of dominating the market with double-digit growth rates, Chinese arrivals to Bali subdued in recent years. Followed by a slight drop of 2% in 2018, visitor arrivals from mainland China continued to decline in 2019 with another 13% hit, mainly because 1) ongoing trade tension between China and the US; 2) the weakening Chinese Yuan during most of 2019; and 3) a crackdown on 'zero dollar' practices. 2020 will be another tough year for this segment due to the devastation of the coronavirus wiping out Chinese tourism arrivals in Q1.

In contrast to Australia and mainland China, visitors from other countries were spread out more evenly, with visitors from India, the United Kingdom and the United States filling out the top five.

Vast potential lies in India. The number of Indian tourists in Bali has boomed, increasing at a Compound Average Growth Rate of 28% since 2010. Tourists from the UK recorded a steady growth of 16,404 (+6%). Meanwhile, the US registered an increase of 41,716 (+18%) arrivals. Over the past 9 years, the US has climbed up the rankings from No.11 in 2010 to No. 5 in 2019.

Korea and Russia are the rising stars. Besides Australia and the US, tourists from Korea and Russia recorded the highest increases in volume of about 70,000 (+49%) and 31,000 (+28%) arrivals, respectively.



Source: Hyatt Regency Bali

Hotel Performance - By Rate Segment

Bali hotels recorded a slight increase in occupancy but unfortunately a slightly larger decrease in ADR (IDR) in 2019 to record falls in RevPAR (IDR). However, the weakening IDR against USD in the first half of the year made RevPAR slightly higher in 2019 vis a vis 2018 in USD.

| | 2018 | 2019 | % Δ |
|---------------------|-----------|-----------|-------|
| Occupancy | 72% | 73% | 0.5% |
| ADR (IDR) | 1,946,000 | 1,917,000 | -1.5% |
| RevPAR (IDR) | 1,407,000 | 1,397,000 | -0.7% |
| ADR (USD) | 136 | 136 | -0.6% |
| RevPAR (USD) | 99 | 99 | 0.2% |

Source: Bali Hotel Association and Horwath HTL

Luxury (>USD 300):

The Luxury segment comprises mostly all-villa resorts with international brand affiliation. Occupancy in this segment grew positively, while ADR declined by 14% in both IDR and USD, resulting in flat RevPAR. Importantly, there was a reclassification of Luxury in 2019 to hotels with ADR >USD 300, down from ADR >USD 350 as historically categorized. The YOY comparisons shown below are apple for apple.

| LUXURY | 2018 | 2019 | % Δ |
|---------------------|-----------|-----------|---------|
| Occupancy | 58% | 67% | 9.0 pt. |
| ADR (IDR) | 7,465,000 | 6,437,000 | -14% |
| RevPAR (IDR) | 4,308,000 | 4,293,000 | 0% |
| ADR (USD) | 526 | 454 | -14% |
| RevPAR (USD) | 304 | 302 | 0% |

Source: Bali Hotel Association and Horwath HTL

Upper Upscale (USD 151 - 299):

Upper Upscale class registered the most significant decline of 9% in RevPAR (USD) among all segments, mainly because the ADR slipped, and IDR depreciated against the USD. It is worth noting that in 2018, hotels that achieved an ADR (USD) of 151- 349 were categorized as Upper Upscale.

| U.UPSCALE | 2018 | 2019 | % Δ |
|---------------------|-----------|-----------|----------|
| Occupancy | 69% | 71% | 1.5 pts. |
| ADR (IDR) | 2,981,000 | 2,609,000 | -12% |
| RevPAR (IDR) | 2,059,000 | 1,841,000 | -11% |
| ADR (USD) | 209 | 187 | -11% |
| RevPAR (USD) | 144 | 132 | -9% |

Source: Bali Hotel Association and Horwath HTL

Upscale (USD 101 – USD 150):

This rate segment saw declines across the board. The 2% decrease in ADR (IDR) in 2019 coupled with effectively flat occupancy, led to a fall in RevPAR (IDR) of 2%. The depreciation in the Rupia, made RevPAR (USD) look slightly better.

| UPSCALE | 2018 | 2019 | % Δ |
|---------------------|-----------|-----------|-------|
| Occupancy | 72% | 72% | -0.1% |
| ADR (IDR) | 1,781,000 | 1,747,000 | -1.9% |
| RevPAR (IDR) | 1,290,000 | 1,263,000 | -2.1% |
| ADR (USD) | 125 | 123 | -1.5% |
| RevPAR (USD) | 91 | 89 | -1.7% |

Source: Bali Hotel Association and Horwath HTL

Midscale (USD 50 – USD 101):

The midscale rate segment also showed a decline in all matrices. A slight decline in occupancy and a 6% decline in ADR (IDR) led to a 7% decline in RevPAR (IDR). As the Balinese government was cracking down on “zero dollar” tourism, the drop in cheap Chinese tour buses primarily affected the lower end of the market. The significant decline in domestic arrivals also shook this rate segment.

| MIDSCALE | 2018 | 2019 | % Δ |
|---------------------|-----------|-----------|-----------|
| Occupancy | 75% | 75% | -0.2 pts. |
| ADR (IDR) | 1,077,000 | 1,007,000 | -6% |
| RevPAR (IDR) | 813,000 | 758,000 | -7% |
| ADR (USD) | 75 | 71 | -5% |
| RevPAR (USD) | 57 | 54 | -6% |

Source: Bali Hotel Association and Horwath HTL



Source: The Umalas Signature



Source: Hyatt Regency Bali



Source: Cocana Oceanside Nusa Dua

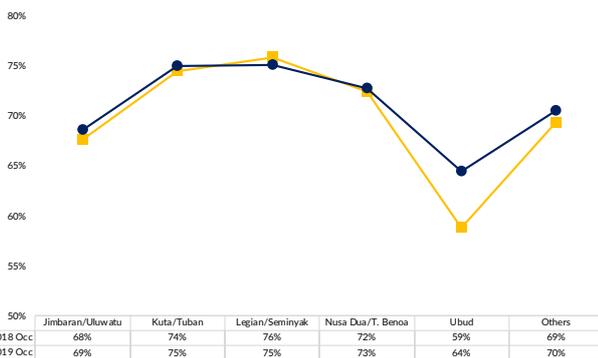
Performance - By Location

Occupancy

Occupancy buoyed in 2019, with increases seen across most, but not all, locations, only Legian/ Seminyak was below its 2018 occupancy level.

Kuta/ Tuban and Legian/ Seminyak recorded the highest occupancy level at 75%. These two areas are still the most popular locations for tourists, given extensive dining and entertainment offerings in the areas, within walking distance from/to hotels.

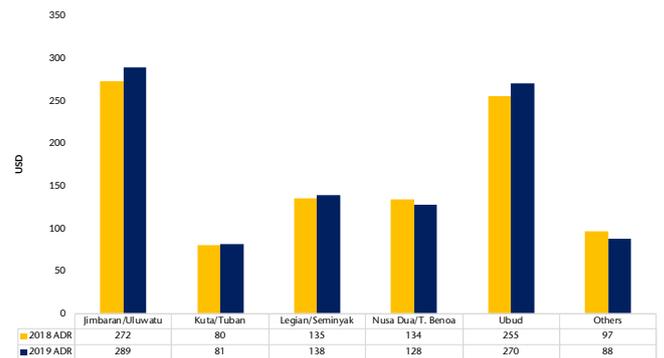
Ubud recorded the lowest occupancy level among all the areas in both years, primarily due to its location far away from the airport and beach. However, Ubud also reported a favourable rebound of 5 basis points.



Source: Bali Hotel Association and Horwath HTL

ADR

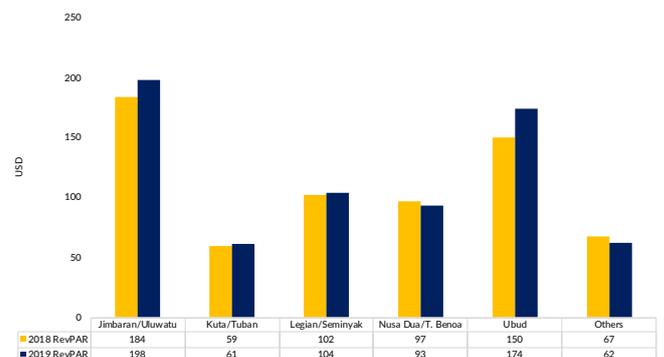
Nusa Dua/ T. Benoa & Others were the only submarkets that recorded ADR (USD) declines in 2019. All other major submarkets in Bali grew ADR in 2019 with Jimbaran/ Uluwatu & Ubud registering the highest growth of 5/6%, despite their high ADR bases of USD 272 & USD 255 in 2018 respectively.



Source: Bali Hotel Association and Horwath HTL

RevPAR

Similar to the ADR pattern, RevPAR was up in most locations in 2019, except for Nusa Dua/ T. Benoa, and Others. With strong performance in occupancy and ADR, Jimbaran/Uluwatu led the market, recording the highest RevPAR of USD 198.



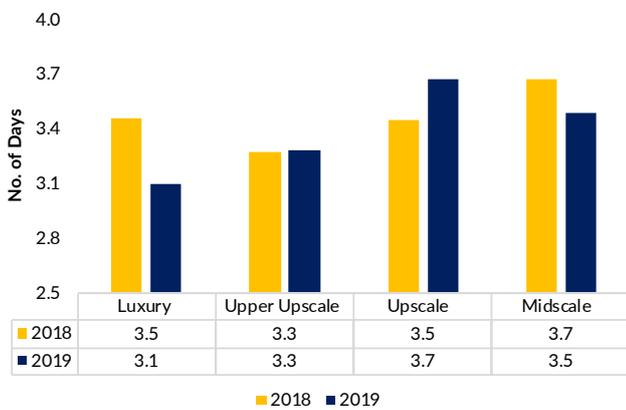
Source: Bali Hotel Association and Horwath HTL



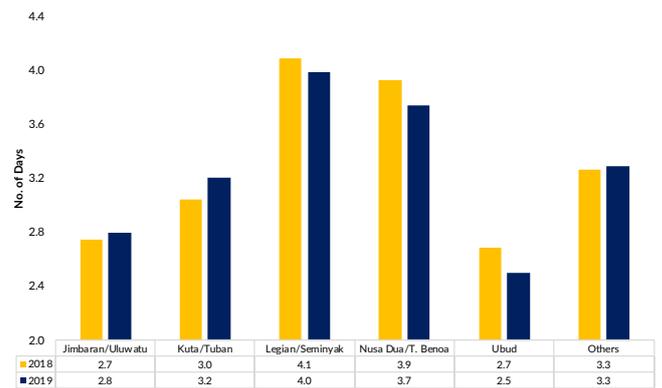
Source: The Apurva Kempinski Bali

Average Length of Stay (ALOS)

Compared to 2018, the Luxury and the Midscale segments showed a shortened ALOS; whereas, the Upper Upscale segment maintained the same ALOS. Upscale segment and Legian/Seminyak hotels again recorded the longest ALOS.



Source: Bali Hotel Association and Horwath HTL



Source: Bali Hotel Association and Horwath HTL



Source: Hyatt Regency Bali



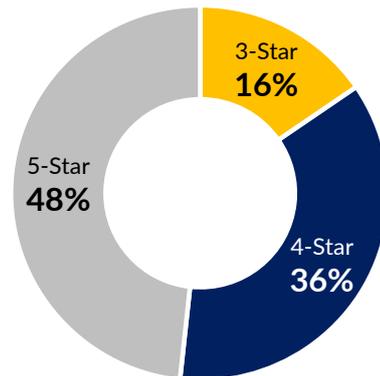
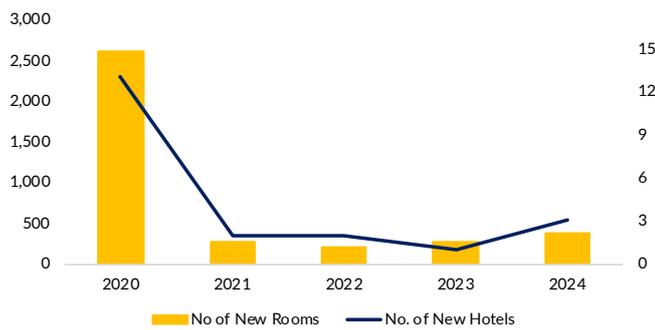
East Bali: Gianyar + Karang Asem, Denpasar, Sanur, Candidasa
North Bali: Singaraja, Pemuteran
Central Bali: Ubud

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

New Developments

Within the next five years, the Bali hotel market is expected to add at least 21 3-star and above hotels, totalling approximately 3,700 rooms. A slew of new rooms is planned to open in 2020, which accounts for 70% of total proposed rooms. That said, many of these hotels are likely to be delayed with less dramatic staggering of hotels likely.

Upcoming hotels in South Bali are mostly 4-star and 5-star properties, and all seven hotels (1,755 rooms) are expected to open in 2020. New hotels are planned in multiple destinations, such as Jimbaran, Nusa Dua, Pecatu and Pandawa.



The majority of the rooms are of 5-star and 4-star quality, which is in line with Bali’s long-term market positioning in contrast to other alternative destinations in Indonesia. It is worth noting that all four 3-star hotels are projected to open in 2020, with three planned in West Bali and one in Central Bali. West Bali and South Bali are still “the hot spots” for new hotels. In Western Bali, new developments are concentrated in Canggu, Seminyak and Tabanan areas, as the Kuta/ Tuban area is already crowded.

Four proposed hotels (509 rooms) are located in Central Bali. While in East Bali, hotel developments spread out to different locations. Currently, there is no hotel in the pipeline in North Bali.

Hotel Residences Update

Hotel branded properties put on hold as Bali's real estate market shifts to rental yield focus

Frankly speaking, Bali real estate remains one of Southeast Asia's unlocked mysteries. Since the disruption by both internal and external factors such as the country's disruptive tax amnesty program that ran from 2016 to through 2017, and succeeding volcanic eruptions, the property sector has yet to find a new normal.

Looking at what sector should be the poster child for the industry, branded hotel residences, the first indications of a market flux are clear. According to our research, there are over 1,600 units in seven projects that are either on hold or have been canceled. This includes brands such as Mandarin Oriental, Jumeirah, ACCOR, and Amari. In a failure to launch syndrome, financial issues are cited as the leading cause to pause.

If you turn back the clock a decade, the branded residences segment was at the top of its game headlined by properties affiliated to Aman, Alila, W, Bvlgari, Banyan Tree, Anantara, and others. At that same juncture, a large critical mass of midscale condo-hotels sprang into the market, capturing domestic investors' real estate appetite lured by promises of guaranteed yields and holiday usage. Roll into 2020, and this sector has somewhat cooled, and domestic 'off-plan' speculative buyers have shifted focus into other products and geographic areas.

One of the fundamental characteristics of Bali that is different from say Phuket, which is Asia's biggest resort real estate critical mass, is the lack of foreign ownership vehicles. Where in Thailand overseas buyers can buy freehold condominium properties, though there are project thresholds, this is not the case in Indonesia. Hence, the regime is leasehold, and terms can vary depending on structure and interpretation by government agencies.

Legacy real estate for foreigners in Bali that started in the 1980's and 90's used either shorter-term leased for land and villas were built or else nominee structures. The tax amnesty by and large put the nail in the coffin of the latter age-old structure on a wide-spread basis. So today, projects often require two types of structures and, in some cases, even segregated products for domestic and international buyers.

Let's fast forward into 2020 and look at compelling trends in Bali's property scene:

- Freehold is by and largely preferred by Indonesian buyers who represent over 50% of transactions. They are typically from Jakarta, Surabaya, and Makassar.
- Speaking about China as you roll back a few years, and it was anticipated to lead the pack with volume buyers. As the China-US trade economic issues rose, the expected volume has not materialized nor have large Chinese developers introduced yield focused entry-level condo hotels as they have across Thailand.
- In pure leasehold projects, these are aimed at overseas buyers who come from Australia, North America, and Europe. Three key international emerging markets are Russia, Japan, and South Korea.
- Locational demand is on the move, Canggu and Berawa becoming expat haven's surrounded by international schools, beach clubs, co-working spaces, and drawing digital nomads.
- While Seminyak, Uluwatu, and Jimbaran all remain attractive depending on buyers' lifestyle preferences.

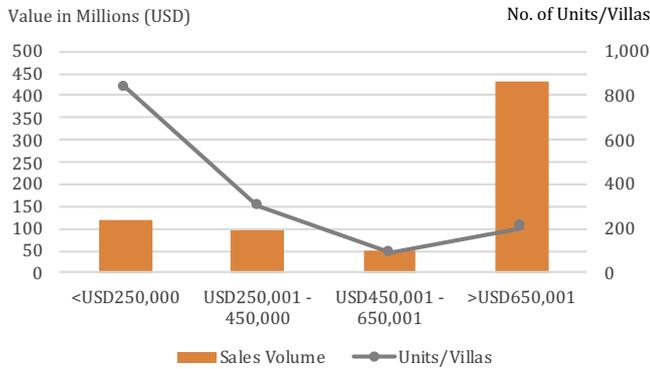
While this is all a lot to take in, there remains potential in Bali's real estate ambitions, but the new trends include smaller entry-level pool villas that are priced in line with shorter lease terms. Next are co-living developments which are lifestyle centric and work on rental, not ownership models. Lastly, we see more upward trajectory in lower but sustainable rental yield properties that work on more traditional real estate fundamentals.

As for the next step forward, the elusive game-changer remains Indonesia's long-delayed reforms on foreign ownership or at least some movement in the condominium sector. Otherwise, the shift to rental yielding properties looks to be tapped by both domestic and foreign developers.

Bill Barnett, Managing Director, C9 Hotelworks

Property Market

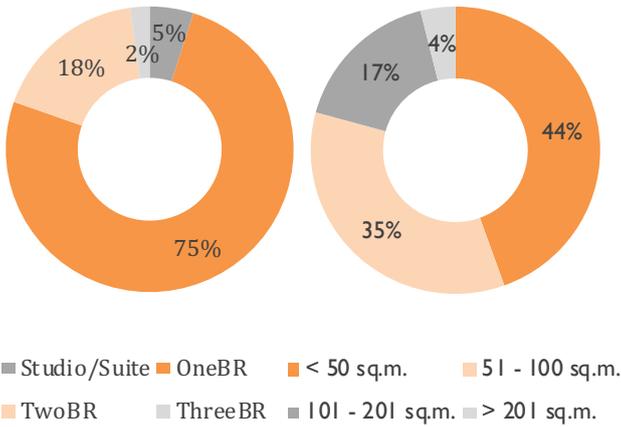
Price Strata and Sales Volume – Condominiums and Villas



Source: C9 Hotelworks Market Research

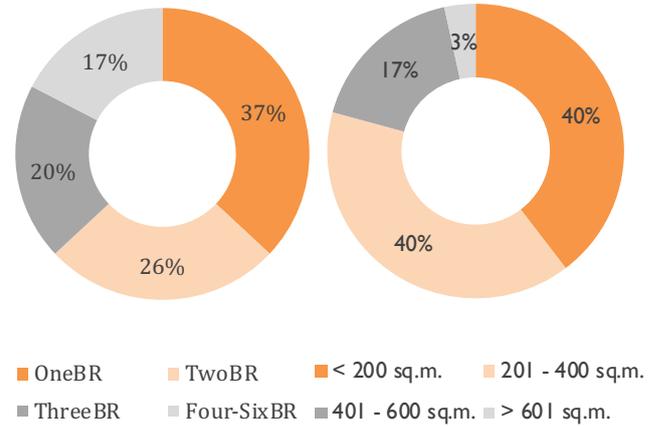
Average built-up sales price per square meter stands at USD3,551 for condominiums and USD3,069 for villas

Condominiums - Average Unit Mix & Area



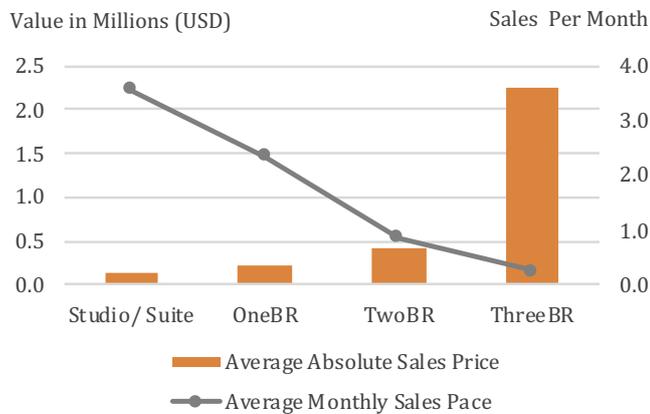
Source: C9 Hotelworks Market Research

Villas - Average Unit Mix & Area



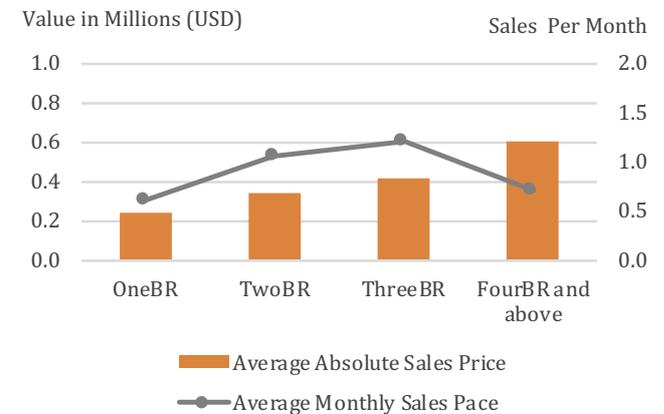
Source: C9 Hotelworks Market Research

Condominiums - Sales Price & Sales Pace



Source: C9 Hotelworks Market Research

Villas - Sales Price & Sales Pace



Source: C9 Hotelworks Market Research



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C9 Hotelworks is a globally awarded hospitality consultancy recognized as Asia's leading advisor on residential and mixed-use developments, with projects and clients across all markets within Asia Pacific.

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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