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# INDONESIA HOTEL WATCH 2014

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# CONTENTS

FOREWORD

INDONESIA OVERVIEW

JAKARTA

SURABAYA

BANDUNG

BALI

BINTAN

BOGOR

LOMBOK

OTHER MARKETS

- MEDAN

- YOGYAKARTA

- MAKASSAR

## FOREWORD



HVS is pleased to release the second edition of the Indonesia Hotel Watch (IHW), a comprehensive report discussing the tourism and hotel industry performance in seven major markets and three other cities of the world's largest archipelago.

Indonesia's tourism industry plays a significant role in the nation's economic progress. In 2013, according to the World Travel and Tourism Council, the direct contribution of this industry to Indonesia's GDP grew by 8.4% over that in 2012; the largest growth recorded by any G20 country in that year. The marked increase in visitation from countries in the ASEAN region, together with the domestic market's rising disposable income levels and the expanding air transport network, have been strong catalysts for growth of tourism in Indonesia.

The future of the hotel and tourism industry in the country looks promising with the government's targeted approach towards destination development involving local stakeholders. While Bali, Jakarta and, more recently, Lombok, continue to be the more popular leisure destinations of the country, there are several other upcoming locations such as Bintan, Flores, Komodo, Yogyakarta and Manado that have the potential to become strongly growing tourist centres going forward. The planned development of such destinations, along with improved infrastructure (including accessibility), destination diversification, and sustained economic progress will present significant opportunities for all stakeholders.

However, such investment decisions must always be subject to exhaustive due diligence and an understanding of the dynamics in the specific markets. At HVS, we have always endeavoured to provide superior market intelligence to our clients and the industry as a whole. With this publication, it is our aim to serve as a partner and advisor to potential investors and existing stakeholders in the Indonesian tourism sector.

I hope you find this report useful and welcome your comments and suggestions.

Thank you

Yours sincerely

A handwritten signature in black ink that reads "Kaushik Vardharajan". The signature is fluid and cursive.

Kaushik Vardharajan  
Partner Managing Director – Asia Pacific  
HVS



# INDONESIA

## INDONESIA

### COUNTRY OVERVIEW

The Republic of Indonesia has approximately 17,508 islands, making the nation the largest archipelago in the world. It is also the 19th largest country globally in terms of land mass, which spans 1,919,317 square kilometres (741,052 square miles). The archipelago lies between the Indian Ocean and the Pacific Ocean, comprising five main islands - Sumatra, Kalimantan, Sulawesi, Irian Jaya and Java/Madura - forming the 31 provinces and three special territories. Of these, eight have been created since 1999, with the latest province, North Kalimantan, being formed in 2012. Running along the equator for 5,000 kilometres, Indonesia is geographically positioned south of Singapore, Malaysia and Brunei.

Indonesia has a population of approximately 254 million people, making it the fourth most populous country in the world. Its geographical distribution, however, is uneven with approximately 60% of the total population living in Java and Bali, the five most populous provinces being West Java, East Java, Central Java, North Sumatra and Banten. Current estimates place Indonesia's population at 366 million by 2050, which will make it the fifth most populous country on earth.

### ECONOMIC UPDATE

The Indonesian economy has grown from strength to strength in recent years. Currently, it ranks as the **16th largest economy in the world**, up from its 28th rank in 2000.

Although economic growth prospects for Indonesia are looking up in the mid-term, the country witnessed several challenges in the past year. Year 2013 saw a moderation in growth of the country's gross domestic product (GDP), which grew at **5.6%** compared to 6.2% in 2012. Furthermore, after fuel-price hikes, resulting from reductions in the government fuel subsidy, **inflation rose to 7%** at the end of the year, marking a sharp increase compared to 4.3% recorded in 2012. Other factors contributing to the high inflation were currency depreciation and a jump in food prices.

Additionally, the **Indonesian** Rupiah had a difficult year in 2013, and similar to other emerging markets in the region, it underwent a decline in value, from IDR9,387 the US Dollar in 2012 to IDR10,429 in 2013. Per the EIU forecast, this trend is expected to continue with the Rupiah envisaged to depreciate further to IDR11,187 to the US Dollar in 2014.

The general outlook for Indonesia's economy is positive, with its GDP expected to grow by 5.4% in 2014. The current account deficit is also anticipated to narrow as the trade balance recovers. Moreover, the country's inflationary levels are forecast to lower to comfortable levels on the back of expected absence of further fuel-price hikes over the course of 2014. However, one of the key areas of focus for Indonesia, going forward, will be to gain further control on its current account balance, which deteriorated from being surplus prior to 2012 to negative in recent times owing to the introduction of fuel subsidies.

The effect of Indonesia's growing economy on its **tourism industry** has been profound. Between 2002 and 2012, the total contribution of travel and tourism toward the nation's GDP grew at a compound annual growth rate (CAGR) of **13.4%**. According to the World Travel and Tourism Council, the direct contribution of travel and tourism to Indonesia's GDP in 2013 was IDR281,632 billion constituting 3.1% of the total GDP, and growing by 8.4% over the previous year; the largest growth recorded by any G20

country in 2013. This is estimated to rise by 8.1% in 2014, growing further by 5.3% per annum, touching IDR510,028 billion by 2024.

The marked increase in visitation from countries in the ASEAN region, coupled with the domestic market's rising disposable income levels and the expanding air transport network, have been strong catalysts for growth of tourism in Indonesia. Rise in international arrivals is expected to continue as the Rupiah's exchange rate against the US Dollar is anticipated to stay attractive for these markets in the short-term. In the mid-term, Indonesia's burgeoning tourism industry may prove to be a valuable source of foreign exchange for the economy, enabling to curb the excessive depreciation of the Rupiah to some extent.

### EIU FORECAST

Economic Indicators	2010	2011	2012	2013	2014E	2015F	2016F
GDP Growth (%)	6.2	6.5	6.2	5.6	5.4	6.1	6.4
Inflation (%)	5.1	5.4	4.3	7.0	7.0	6.2	6.3
Exchange Rate IDR:US\$	9,090	8,770	9,387	10,429	11,187	10,510	10,032
Lending Interest Rate	13.3	12.4	11.8	11.8	13.0	13.5	13.9

Source: Economist Intelligence Unit, June 2014

Despite the fact that Indonesia has experienced commendable economic growth over the years, this growth, is not distributed equally across its **seven economic corridors**, namely Sumatra, Java, Bali, Nusa Tenggara, Sulawesi, Maluku and Papua. The contribution to the country's economy is primarily generated in the western provinces, with more than 60% of the GDP coming from Jakarta, Java and Riau alone.

However, in recent years, economies of a large number of the **eastern provinces** have gained momentum posting record increases. Granted that these regions have a lower base, but double digit growths of over 15% in Maluku and South-East Sulawesi, and 32.8% in West Papua, over the five-year period between 2007 and 2012, are noteworthy. Such growth can predominantly be attributed to the mining industry, agricultural production and other commodity extractive industries, such as wood or rubber, operating in these areas. Having said that, in the short-to-medium term, eastern Indonesia's impressive growth rates are expected to taper off, on the back of dwindling exports and the ban on mineral ore export introduced in March 2014.

### TOP 10 FASTEST GROWING PROVINCES - GDP GROWTH BY PROVINCE (2007 - 2012)

Province	GDP in 2007 (in bn IDR)	GDP in 2012 (in bn IDR)	Average Annual Growth
<i>Fastest Growing Economies</i>			
West-Papua	10,367	42,760	32.8%
Lampung	60,922	144,561	18.9%
West-Sulawesi	6,193	14,408	18.4%
Sulawesi Selatan	69,272	159,427	18.1%
Jambi	32,077	72,654	17.8%
Central Sulawesi	23,219	51,062	17.1%
North Maluku	3,160	6,918	17.0%
Gorontalo	4,761	10,368	16.8%
South-East Sulawesi	17,953	36,601	15.3%
Maluku	5,699	11,469	15.0%
<i>Largest Economies</i>			
DKI Jakarta	566,449	1,103,738	14.3%
East Java	536,982	1,001,721	13.3%
Central Java	526,220	946,861	12.5%
West Java	312,429	556,480	12.2%
Riau	210,003	469,073	17.4%
Indonesia	3,556,334	6,731,535	13.6%

Source: BPS

## TOURISM INVESTMENT

Considering that Indonesia experienced a peak year in 2012 in terms of domestic and foreign direct tourism investment, the levels achieved by the country in 2013 are quite commendable. Going forward, **domestic tourism investment** is expected to continue rising in the near term owing to a robust market created by a rapidly growing middle class population, and the expansion of Indonesia's low-cost carrier segment resulting in travellers having the access to affordable flights.

These statistics (see chart below) are a testament to the investor confidence in the country's tourism market, based on impressive historic economic growth and a stable outlook. Key areas of focus have traditionally been Bali and Jakarta, although Lombok is becoming increasingly popular after the opening its new airport in 2011.

Besides Bali, Jakarta and Lombok, Indonesia has many **other untapped tourist destinations** that barely have any hotels. As a result, the Tourism and Creative Economy Ministry is aiming at the realisation of a better geographical diversification of tourism investment in the country. Improved accessibility and adequate tourism infrastructure are likely to be the key prerequisites to initiate tourism investment in certain areas of Indonesia, with potential investors closely monitoring the progress made by the government in this direction.



Tourism is one of the “pillars” of Indonesia’s economic growth strategies. Forecast for the tourism industry over the next 10 years looks favorable with a predicted annual growth rate of over 4% that continues to be higher than growth rates estimated for other industries in the country.

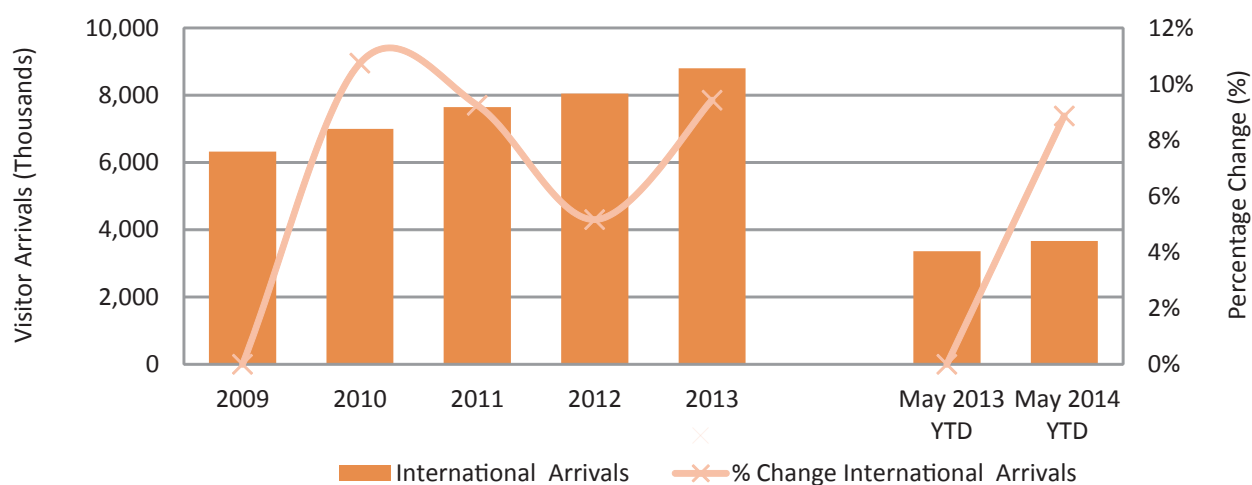
## INTERNATIONAL ARRIVALS

Indonesia's tourism industry has considerable potential given the high cultural diversity among its provinces. Year 2013 has proven to be another record year in terms of international arrivals to Indonesia. The country welcomed a total of **8.8 million international travellers**, which translated to a 9% growth over 2012 levels.

The official visitor arrival target for Indonesia in 2014, as set out by the Ministry of Tourism and Creative Economy, is between 9.3 and 9.5 million. This corresponds to a **6% - 8%** increase over 2013. According to the latest statistics released by Indonesian tourism authorities, international arrivals to Indonesia show no signs of slowing down. Through May 2014 total visitations were recorded at 3,662,872 visitors, an **8.15%** increase over the same period last year, slightly higher than the official estimates.

Apart from the increasing accessibility to the country via an ever-widening network of low-cost carriers, and to a lesser extent, an increasing number of long-haul connections, part of the growing attractiveness of Indonesia as a tourist destination has been attributed to the weakening exchange rate of the Rupiah. **Bali** has been one of the main benefactors of demand growth following the Rupiah's slide, evident from the fact that in 2013, the popular tourist destination received a total of 3.2 million direct international arrivals, far exceeding its target of 2.8 million.

### INTERNATIONAL ARRIVALS (2009 - MAY 2014 YTD)



Source: HVS Research

In the short-term, foreign tourist arrivals are estimated to reach **9.3 million** by the end of 2014 and this number is anticipated to go up to 17.5 million over the medium term.

International arrivals to Indonesia were mainly through Bali's **Ngurah Rai International Airport** and **Jakarta's Soekarno-Hatta International Airport**, both accounting for 62% of all international arrivals to the country. **Juanda Airport** in Surabaya witnessed the strongest growth in international arrivals in 2013 (see table overleaf), recording a near 14% increase compared to 2012 levels.

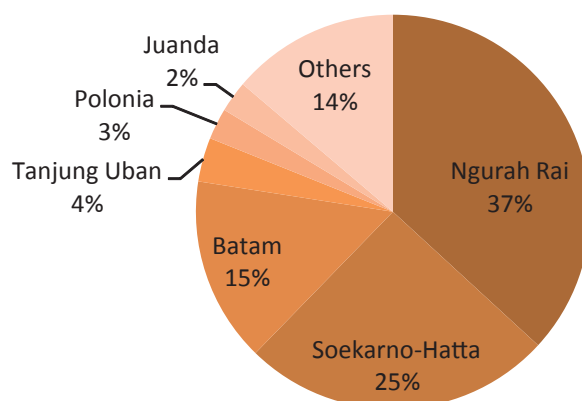
**Lombok Airport**, on the other hand, posted the strongest growth of all airports in Indonesia recording a 138% rise in international visitor arrivals in 2013 - from 17,032 arrivals in 2012 to 40,380 arrivals the following year. In terms of total arrivals, the island surged ahead with a 214.7% growth during the first quarter of 2014.

Ongoing improvements in infrastructure by the government, such as opening of new airports in Lombok or Medan, and the expansion of airports in other areas such as Bali, are envisaged to provide a further impetus to the rise in international arrivals to Indonesia over the medium-to-long term.

### INTERNATIONAL ARRIVALS BY PORT OF ENTRY (2012 - 2013)

Port of Entry	2012	2013	YOY % Change	Market Share 2013 (%)
Ngurah Rai	2,902,125	3,241,889	11.7%	37%
Soekarno-Hatta	2,053,850	2,240,502	9.1%	25%
Batam	1,219,608	1,336,430	9.6%	15%
Tanjung Uban	336,547	318,154	-5.5%	4%
Polonia	205,845	225,550	9.6%	3%
Juanda	197,776	225,041	13.8%	3%
Others	1,128,711	1,214,563	7.6%	14%
<b>Total Indonesia</b>	<b>8,044,462</b>	<b>8,802,129</b>	<b>9.4%</b>	<b>100%</b>

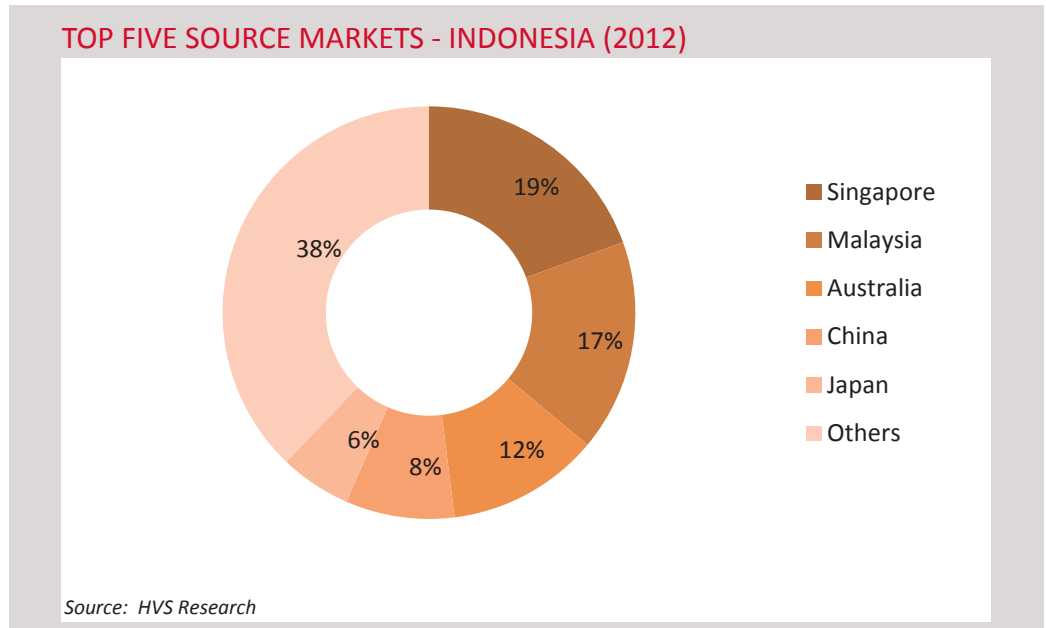
Market Share 2013 (%)



Source: BPS Statistics Indonesia

International arrivals to Indonesia are fairly consistent throughout the year. The **top source markets** for the country have remained the same over the years, with Association of Southeast Asian Nations (ASEAN) accounting for majority of the visitor arrivals. This is largely due to low intra-ASEAN flight fares and the ease of entry between ASEAN states. Of these, Singapore and Malaysia are the top two feeder countries accounting for 19% and 17% of total international arrivals into Indonesia in 2012, respectively. They are followed by the growing markets of Australia ( 12%), China (8%) and Japan (6%). Specifically, **China** has become one of the fastest growing feeder markets for Indonesia, with visitation from the country increasing at a CAGR of 34% between 2002 and 2012. More recently, from 2011 to 2012, the highest growth in visitations were recorded from **Sri Lanka** and **New Zealand** at 52% and 69%, respectively.

Going forward, the Asia Pacific countries are expected to continue to dominate the country's inbound arrivals market with Singapore and Malaysia anticipated to account for more than 4.3 million visitors by 2018. Arrivals from China are also set to increase with Indonesia expanding its range of travel connections to this market.

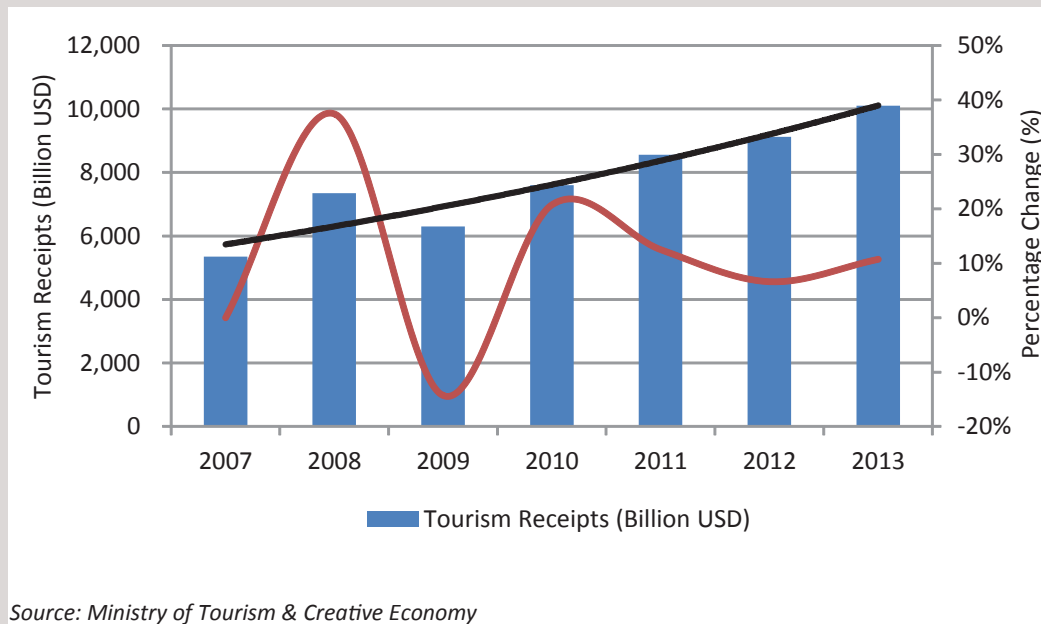


Even though the number of tourist visits to Indonesia has continued to increase over the past few years, **the country lags behind other ASEAN members in sheer absolute number of annual international visits** (see the chart below). In 2013, Malaysia received 25.7 million foreign tourists, Thailand received 26.5 million, and Singapore witnessed 15.6 million inbound international travellers, compared to 8.8 million international arrivals recorded by Indonesia. Bearing in mind that Indonesia is a larger economy compared to the aforementioned nations, it has a lot of catching up to do in terms of international arrivals.



As arrivals in 2013 hit a record high and so did Indonesia's tourism receipts, which touched **US\$10.1 billion**, up 10% from the previous year, making tourism the fourth-largest contributor to the nation's total income behind oil and gas sector, coal industry and palm oil industry. Tourism receipts grew at a CAGR of 11% between 2007 and 2013 with strong growth expected to continue.

### TOURISM RECEIPTS (2007 - 2013)

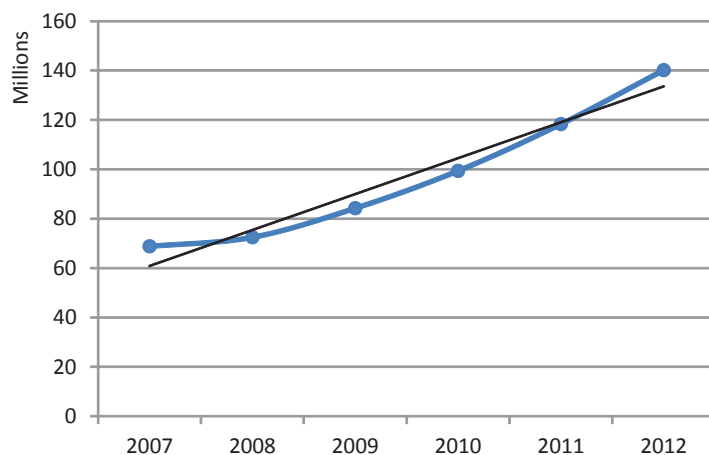


### DOMESTIC TOURISM AND OUTBOUND TRAVEL

The continuous growth of the Indonesian economy is boosting average disposable incomes and allowing more Indonesians to take vacation/leisure trips to holiday destinations or their hometowns. Despite higher fuel and food costs, private consumption continued to grow in 2013. On an average, a domestic tourist was found spending **US\$58.3 (IDR711,000)** per trip, versus a foreign tourist who spent around **US\$1,142** per visit in 2013.

Domestic tourist volumes stood at **252.4 million trips** in 2013 compared to 245 million trips in the previous year and 236 million trips in 2011. The growth in domestic tourism is particularly evident in the increase in the number of domestic flights; over the past five years, passenger movements at Indonesia’s airports have doubled, as shown in the graph below.

### DOMESTIC AIR TRAFFIC - PASSENGER MOVEMENTS (2007 - 2012)



Source: PT (Persero) Angkasa Pura I and II, Ministry of Transportation

Indonesians are increasingly able to afford outbound travel as well. Those with highest propensity to travel outside the country are residents from East Java, Central Java, West Java, Jakarta, North Sumatra, and Bali.

According to a study performed recently by MasterCard, **international outbound leisure trips made by Indonesians are estimated at 6.8 million in 2014**. This is forecast to grow at a higher rate than Indonesia's economy, at approximately 7.5% per annum to 10.6 million outbound trips in 2020. The number of short business trips as well as those over weekends, mainly to countries in close proximity to Indonesia, such as Singapore, Malaysia, and Hong Kong, are expected to increase. Apart from the geographic convenience that these markets pose, short-haul markets are expected to remain the focus of the Indonesian outbound traveller owing to the depreciation of the Rupiah limiting the spending power of Indonesians travelling abroad.

### INFRASTRUCTURE DEVELOPMENT

Indonesia's infrastructure challenges are increasing under the soaring growth of international and domestic demand for air travel. Many of Indonesia's airports are operating at two to three times their designed capacity and are in need of urgent attention and adequate investment. After lacking government funding for years, in addition to land-related disputes hindering the expansion and upgradation of airports, the government has announced plans for **US\$35 billion** towards infrastructure projects in order to deal with the growing demand for air travel from 2014 onwards.

Additionally, economists note that the government has to urgently address problems such as congested ports and its extensively used road network if it is to have any hope of competing for investment with other fast-growing Asian nations.

Regarding the lack of financial resources, the Indonesian government intends to enhance cooperation with the private sector to overcome this issue, through public-private partnerships (PPPs), especially for infrastructure projects. For instance, airport management by the private sector is being considered to address the mounting pressure on the country's existing airports, which is anticipated to rise further, fuelled by open access mandated from 2015 by the ASEAN Open Skies Policy.

A concerted effort is needed to cope with the anticipated growth in air travel. Many domestic airlines have ordered a record number of planes in order to accommodate this increasing demand. Lion Air for example, is adding 48 aircrafts to its fleet in 2014, and has 560 aircrafts on delivery across a 10-year horizon. Garuda aims to operate 350-400 aircrafts by 2025, which is a 100% increase over its current number of planes. Overall, approximately **900 new aircraft** will be introduced into Indonesia's airspace over the next decade.

Works are already underway at a large number of airports, and a significant number of new projects are in the early stages of planning. A new airport in West Java, the **Karawang International Airport**, is being developed to ease the pressure at Jakarta's Soekarno-Hatta International Airport, which is currently operating at more than double its intended capacity of 22 million passengers per year. The airport, around 50 kilometres west of Jakarta, will be developed in several phases, eventually reaching a capacity of 70 million passengers per year. Investors are expected to be approached over the course of 2014.

**Jakarta's Soekarno-Hatta International Airport**, Asia's busiest airport after Beijing Capital International Airport and Tokyo's Haneda, is in need of urgent expansion. With the aim to make the Soekarno-Hatta a world class "Aerotropolis" airport, a new terminal will be added -Terminal 3 -which is anticipated to be completed by the end of 2014. Additionally, another runway, at the cost of IDR4 trillion, is being planned

at the airport and is expected to be completed in 2017. The number of aircraft aprons is also expected to increase from 125 to 174 and additional supporting infrastructure such as new cargo terminals, new bus stations, taxiways and train access will be developed alongside it. Should all the new projects be realised, the annual passenger capacity at Soekarno-Hatta will rise to 90 million with hourly flight capacity increasing to 86.

Also, **Yogyakarta** has long required an additional airport as the existing Adisutjipto International Airport cannot accommodate passenger traffic that grows by 15% each year.

However, a new airport in **Medan**, Sumatra's biggest city, opened in July 2013, and can handle as many as 9 million passengers a year. The old airport was handling eight times its capacity of about one million.

Furthermore, the expansion and renovation of **Ngurah Rai International Airport in Bali**, which has cost IDR3 trillion (US\$262.61 million), is believed to take demand for hotel accommodation on the island to new heights. It is estimated that Ngurah Rai will be able to accommodate 25 million passengers per year through 2025. Meanwhile, the Bali provincial administration is planning to build a second international terminal on the island, in Buleleng Regency in the north. The actual location will be decided in April 2015, while construction on the new terminal is expected to be completed in 2018.

## GOVERNMENT INITIATIVES

Given Indonesia's growth in tourism, the country has identified 88 Strategic Destination clusters and 88 major destinations, of which 16 will be given priority development in the mid-term through the inception of the **Indonesian National Tourism Master Plan (RIPPARNAS)**. Apart from Bali, these destinations include Lombok, Old Batavia, Borobudur Temple, Bromo-Tengger-Semeru National Park, Raja Ampat, Flores-Komodo, among others. The master plan will be expanded to include all the 88 destinations by 2025.

Besides this targeted approach towards destination development, **seven special categories** have been identified in this strategy to promote tourism: culture and heritage; nature and ecotourism; sports; cruise; culinary and shopping; health and wellness and MICE (meeting, incentives, convention and exhibitions).

**MICE Tourism** is perceived by the Tourism and Creative Economy Ministry as a market with huge potential to attract more international visitation. Also, the Ministry has identified a number of cities and destinations (16 in total) deemed to have potential to attract or further develop MICE demand such as Bali, Palembang, Jakarta, Bandung, Balikpapan, Lombok, Makassar, Batam, Bintan, Manado, Medan, Padang, Semarang, Solo, Yogyakarta and Surabaya.

Other initiatives, apart from coordinated promotional efforts, include the formulation of a focused approach towards capacity building in these cities, as well as the coordination of local stakeholders for destination development, such as improving infrastructure.

Additionally, tourism promotional efforts are being geared towards the rapidly emerging source markets such as China and India, while consistently targeting existing well-performing feeder markets such as Korea, Malaysia and Singapore. Moreover, as Western Europe is envisaged to look up again economically, markets such as Germany are becoming more relevant for targeted promotion, especially in light of the reopening of Jakarta-Frankfurt route.

On the whole, Asia continues to be perceived as the key region for growth in international arrivals to Indonesia. The government is targeting close to 10 million arrivals in 2014, with the majority coming from the Asia-Pacific region.

## HOTEL MARKET OVERVIEW

The growth in hotel room supply in Indonesia, as well as the number of hotels in recent years has been very impressive. Between 2009 and 2013, Indonesia witnessed the opening of 538 classified establishments with a cumulative room count of 52,716 rooms, corresponding to a CAGR of approximately 9.5% for both the number of establishments and the number of new rooms during the five-year period. The opening of new hotel developments surged in 2011, when both the number of establishments and rooms grew at approximately 14%, compared to the year before.



The following tables outline the growth in hotel supply in key areas of Indonesia between 2009 and 2013, in addition to providing an overview of the emerging hot spots. The most voluminous markets in terms of existing rooms' supply, **Jakarta** and **Bali**, have posted the slowest growth rates over the last five years (2009-2013), whereas **Java** has seen the strongest growth in terms of absolute number of rooms, with an average annual growth rate of 11% for the western, eastern and central Java markets combined.

A vast majority of the hotel supply growth in recent years can be attributed to the development of budget and economy class hotels. The expanding middle class and growth of Indonesia's aviation industry (and subsequently increasing network) have encouraged more people to travel, bolstering investments in hotels and restaurants by more than 200% since 2011.

### HOTEL SUPPLY GROWTH IN THE FIVE LARGEST HOTEL MARKETS IN INDONESIA (2009 - 2013)

Province	2009	2010	2011	2012	2013	Average Annual Growth (%)
DKI Jakarta						
-rooms	26,179	27,685	28,783	30,135	32,297	5%
-establishments	153	160	162	175	185	5%
Bali						
-rooms	18,684	21,133	22,794	24,215	24,860	7%
-establishments	149	170	199	218	227	11%
West Java						
-rooms	13,719	14,201	16,732	18,643	20,894	11%
-establishments	165	174	199	208	229	9%
Central Java						
-rooms	7,002	7,031	8,736	9,756	11,572	13%
-establishments	114	119	131	139	166	10%
East Java						
-rooms	8,589	8,598	9,311	10,039	12,195	9%
-establishments	84	84	90	98	113	8%

Source: Badan Pusat Statistik

Yogyakarta, Papua and Kalimantan witnessed the maximum number of new hotel openings in the last five years. Specifically in Yogyakarta, the rising number of visitors, supported by a robust economy, is driving the rapid development of new hotels in the budget and mid-range segment proving to be very attractive for investors.

### SUPPLY GROWTH, NUMBER OF HOTELS BY AREA (2009 - 2013)

Province	2009	2010	2011	2012	2013	Average Annual Growth (%)
DI Yogyakarta	34	34	42	52	61	16%
Papua	19	21	23	30	33	15%
Kalimantan	74	77	100	112	122	13%
Kepulauan	63	62	87	93	99	12%
Aceh	14	16	18	22	22	12%
Bali	149	170	199	218	227	11%
Maluku	16	16	22	22	24	11%
Sumatra	132	129	147	174	196	10%
Nusa Tenggara	46	45	52	58	65	9%
Java	363	377	420	445	508	9%
Sulawesi	83	94	94	104	106	6%
DKI Jakarta	153	160	162	175	185	5%
Others	94	105	123	118	130	8%
<b>Indonesia</b>	<b>1,240</b>	<b>1,306</b>	<b>1,489</b>	<b>1,623</b>	<b>1,778</b>	<b>9%</b>

Source: Badan Pusat Statistik

Moreover, in **Kalimantan**, the buoyant economy driven by the timber, oil and natural gas industries has sparked the need for more hotel rooms.

On the back of a surge in demand for low-cost accommodation in Indonesia, new hotel openings are being led by branded international operators such as Accor, Starwood, IHG, Swiss-Belhotel International, and Achipelago International as well as local operators, such as Tauzia Hotel Management, Kagum Hotels and Santika Indonesia Hotels.

**PT Lippo Karawaci Tbk.** has a pipeline of 50 planned openings across luxury, upscale and midscale brands by 2020. On the other hand, **Archipelago Internationa** already operates more than 80 hotels with 12,000 rooms in Indonesia, and is looking to add 70 more over the course of the second half of 2014 and in 2015, to reach a total of more than 22,000 guest rooms. Other domestic operators, such as **Santika Indonesia Hotels, Tauzia Hotel Management** and **Dafam Hotels** will together add 140 new hotels by 2015.

International operators are being equally aggressive. **PT Carlson Panorama Hospitality (CPH)**, a joint venture between the Panorama Group (one of the largest Indonesian integrated groups in the hospitality business) and Carlson Rezidor Hotel Group, has since its inception in March 2013, signed five hotel management agreements targeting openings in markets such as Makassar, Batan, Lampung, Uluwatu and Cengkareng between now and 2017. Moreover, the company is targeting 20 new hotels under the Radisson and Park Inn by Radisson brands in Indonesia over the next seven years.

**Accor** aims at establishing a network of 100 hotels by 2015, while **Premier Inn** has firmly set its eyes on expanding its footprint in the mid-scale segment in Indonesia.

**Best Western** has also announced plans to create a portfolio of 31 hotels with over 6,000 rooms by 2015, whereas the InterContinental Hotels Group will open at least 11 more Holiday Inn Express hotels over the next five years.

## MARKET OUTLOOK

Indonesia's tourism sector holds great potential - both the travel industry as well as the tourism services industry. The country's economic growth, coupled with a fast-growing middle class population, is resulting in an increasing demand for hotels. For the domestic market, key opportunities will be identified mainly in the mid-scale and upscale sector, particularly in areas boasting of strong economic growth with enhanced infrastructure and good accessibility.

Regarding Indonesia's lagging position vis-à-vis regional competitors such as Singapore, Malaysia and Thailand in terms of the number of international arrivals, destination diversification and development, as well as greater direct flight accessibility between key (regional) growth markets and the Indonesian archipelago, are paramount to make the country rise up the ranks. The island of Lombok, for example, has proven that better accessibility attracts a commendable amount of untapped demand from holiday makers seeking new experiences in destinations that are easier to reach. Consequently, a large number of developers and investors have put the island firmly on their radar, with a number of projects already in the early stages of planning and development.

While creating global awareness about Indonesia as a tourist destination in general, and for select destinations in particular (through government sponsored programs) is critical, there are other intrinsic issues that need to be dealt with prior, such as improving the tourism infrastructure and bringing the country's labour pool up to speed with the industry's growth.



# JAKARTA

## JAKARTA

### OVERVIEW

Jakarta, officially recognised as the Special Capital Region of Jakarta, is both the capital as well as the largest city in Indonesia. Situated along the northern coast of the island of West Java, the city covers a land area of approximately 664 square kilometres. Jakarta is made up of six municipalities: South, East, Central, West and North Jakarta, in addition to the Thousand Islands.

As of 2014, the estimated population of these combined areas is about 10.1 million, making it one of the most densely populated cities in the world. Jakarta is also the most populous city in Southeast Asia being the centre of Indonesia's commercial, economical, cultural and political scenes. Alongside four other regions, Jakarta has been granted a special status of having increased autonomy by the central government. Many aspects of the city's governance are decided internally. The city's economy is strongly supported by the services sector, specifically in banking and finance, as well as the manufacturing and trade industries. In 2013, Jakarta accounted for approximately one-fifth of Indonesia's total GDP, making the city the single largest GDP contributing region in the country. The economy in Jakarta now ranks among the world's fastest growing.

As the primary port of entry to Indonesia, Jakarta is served by the **Soekarno-Hatta International Airport** and the **Halim Perdana Kusuma International Airport**. Located about 20 kilometres west of the city, Soekarno-Hatta is the major airport in the region for international and domestic visitors, while the Halim Perdana Kusuma International Airport largely provides aviation support to domestic and military flights. A third point of entry to the city also exists in the form of **Tanjong Priok** port, which is one of Indonesia's busiest harbours.

### ACCESSIBILITY

In addition to being a major hub for government agencies and businesses, Jakarta is a popular destination for domestic tourists. Although, the city plays host to a large number of international visitors, majority of them travel to Jakarta for business purposes or use it as a transit point to travel to other popular Indonesian destinations such as Bali or Lombok.

The **Soekarno-Hatta International Airport** currently handles 44 million passengers a year as opposed to the current airport capacity of 22 million. There are several plans for expansion aimed at increasing the airport's capacity to 90 million by 2015, including the construction of a new terminal and the addition of new runways.

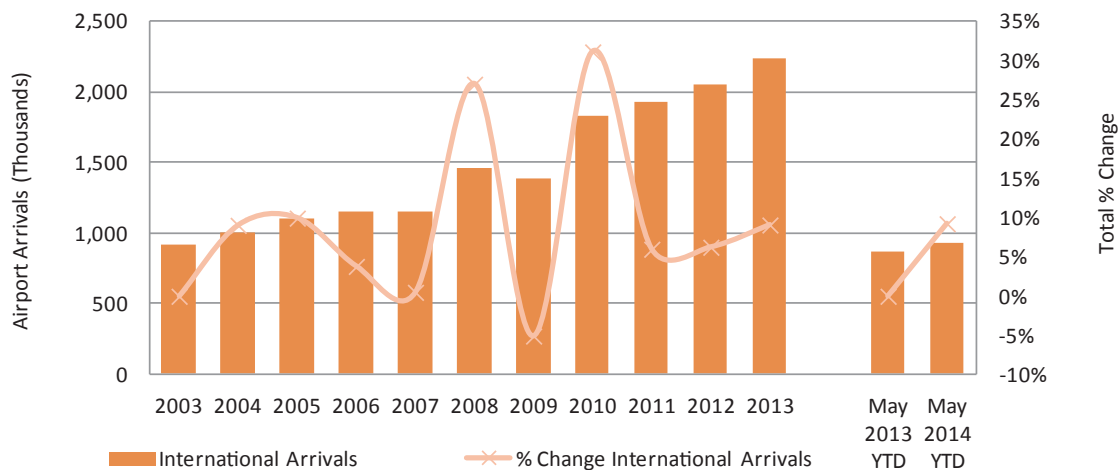
An additional airport in Karawang with an annual capacity of 87 million passengers is in the early stages of planning. Envisaged to open its doors by 2025, the new **Karawang airport** will be located to the East of Jakarta and will ease the load on Soekarno-Hatta International Airport. It will serve the greater Jakarta region besides providing access to regional cities such as Bandung and Bogor. However, date for commencement of construction of this airport is not known at the moment.

In response to Jakarta's frequent and crippling gridlocks, the **Jakarta Mass Rapid Transit (MRT)** system initiative entered planning over 20 years ago. However, it was not until recently, in November 2013, that construction officially broke ground. At a cost of US\$1.4 billion, the above-ground railway will run approximately 27 kilometres from the Hotel Indonesia roundabout in the heart of the city to Lebak Bulus in South Jakarta. The initial stage of the Jakarta MRT is expected to be completed in 2017, while additional extensions in the northern most part of Jakarta and a separate east-west line are currently under discussions.

## TOURISM MARKET OVERVIEW

International arrivals at **Soekarno-Hatta International Airpo** have increased rapidly at a CAGR of 9.3% over the past decade, from **920,000 visitors in 2003** to **2.24 million in 2013**. The arrivals hit a record growth rate of 27% in 2008, after which they declined in 2009 by 5% due to reduced travel during the global financial crisis. However, the market rebounded in 2010 with international arrivals exceeding pre-crisis levels.

### INTERNATIONAL ARRIVALS - SOEKARNO-HATTA INTERNATIONAL AIRPORT (2003 - MAY 2014 YTD)

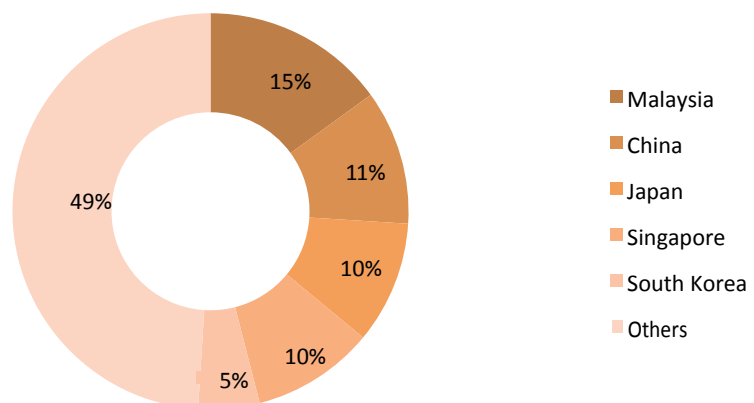


Source: Badan Pusat Statistik

The arrivals crossed the 2 million mark in 2012 for the first time with 2.05 million international visitors. It is anticipated that arrivals in 2014 will exceed that of 2013 by a fair margin, a forecast validated by the year-to-date data; arrivals from January through May 2014 were at 928,000, a **9.2%** growth over the 870,000 visitors to Jakarta during the same period last year.

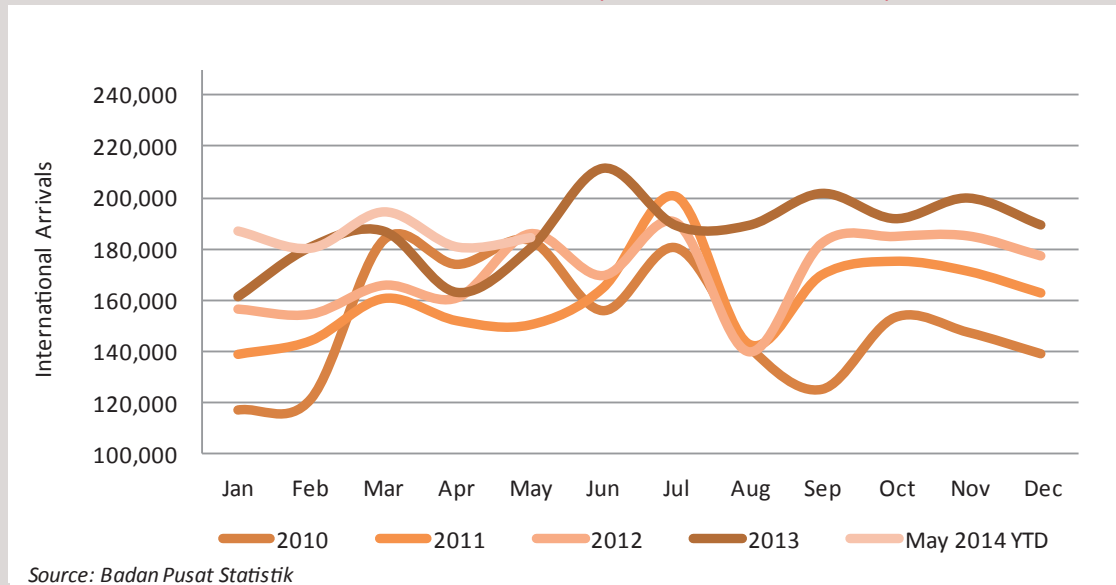
As in the past, the top five feeder markets for Jakarta in 2013 were all Asian countries with particularly strong representation from ASEAN nations such as **Malaysia** and **Singapore** accounting for 15% and 10% of total international arrivals, respectively. Travelers from **China** (11%) and **Japan** (10%) also constituted a significant part of international arrivals to the city. The strongest growing feeder markets for Jakarta in 2013 were Japan and China. Domestic air travel has also received a recent boost following the expansion of domestic carriers such as Lion Air, Indonesian AirAsia and Mandiri Airlines.

### TOP FIVE SOURCE MARKETS TO JAKARTA (2013)



Source: HVS Research

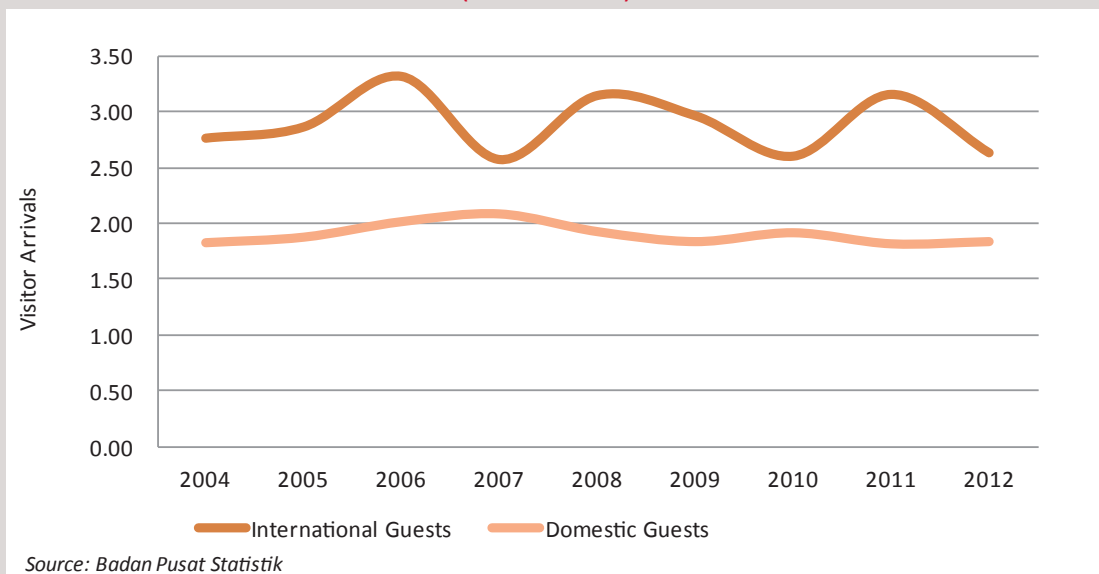
### SEASONALITY OF INTERNATIONAL ARRIVALS - SOEKARNO-HATTA INTERNATIONAL AIRPORT (2010 - MAY 2014 YTD)



Seasonality in Jakarta has remained relatively consistent through recent years with no severe fluctuations. Yearly arrivals in the first half of the year normally exceed that of the latter half, with noticeable drop-offs during the Ramadan period (which at the moment falls in July and August) as well as during the holiday season in December and January.

The **peak season** in Jakarta usually comprises the months preceding Ramadan, with March, and the period from September through December also witnessing high number of arrivals.

### AVERAGE LENGTH OF STAY OF INTERNATIONAL AND DOMESTIC GUESTS IN CLASSIFIED HOTELS IN JAKARTA (2004 - 2012)



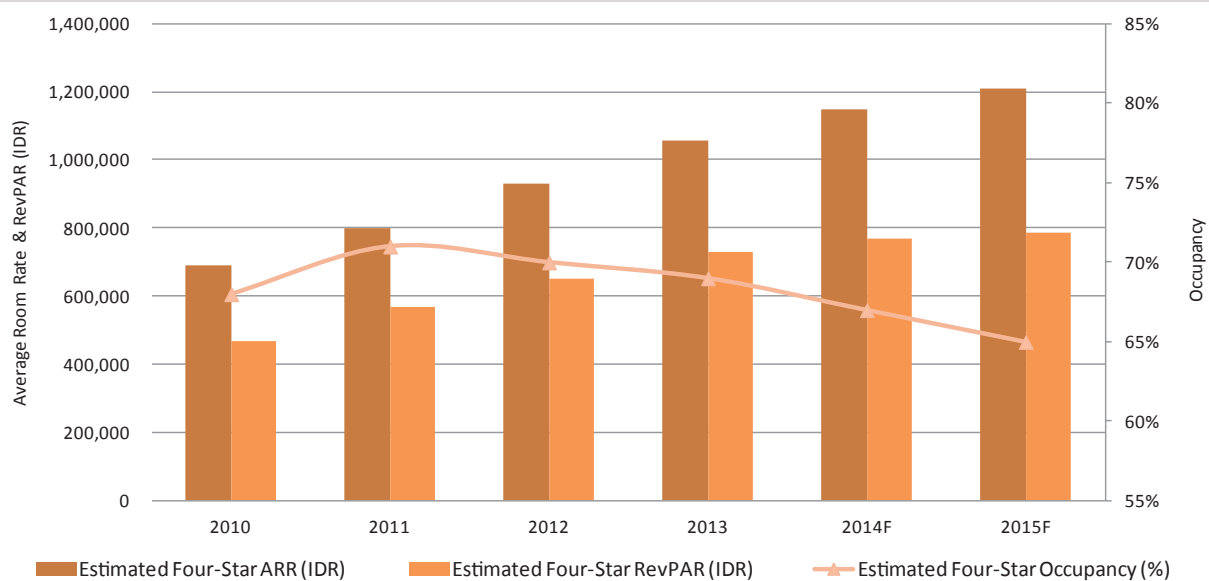
The average length of stay for international guests in classified hotels in Jakarta was **2.9** days in 2012. It fluctuated between 3.3 days to 2.6 days from 2004 to 2012. Average length of stay for domestic guests was to be shorter and more regular than that for international guests, averaging at **1.9** days between 2004 and 2012.

## HOTEL PERFORMANCE OVERVIEW

Jakarta’s hotel industry is one of the most developed and vibrant in Indonesia. As the main commercial, financial and government hub of the country, the market has experienced commendable growth in demand over the past four-to-five years.

Specifically, the **four-star segment** has seen a drastic **15%** year-on-year increase in ARR in 2010 (IDR690,000) through 2013 (IDR1,055,000). The strong growth in these years was a result of the economic recovery of the country post the 2009 global financial crisis, as well as a strong increase in demand from the corporate, government and meeting segments. This ADR growth, coupled with a relatively stable occupancy between **68%** and **71%**, resulted in Jakarta’s hotel market recording healthy RevPAR performance between 2010 and 2013. Moving forward, in light of the large amount of new supply entering the market, we anticipate the average daily rate of the four-star segment of Jakarta’s hotel market to grow by **9%** in 2014 and by only **5%** in 2015. The large amount of new supply is likely to affect the performance of the four star market in the short- to mid-term with dropping occupancy levels and slower room rate growth.

### FOUR-STAR HOTEL MARKET PERFORMANCE (2010 - 2015F)



Source: HVS Research

### GROWTH OUTLOOK FOR FOUR-STAR HOTEL MARKET

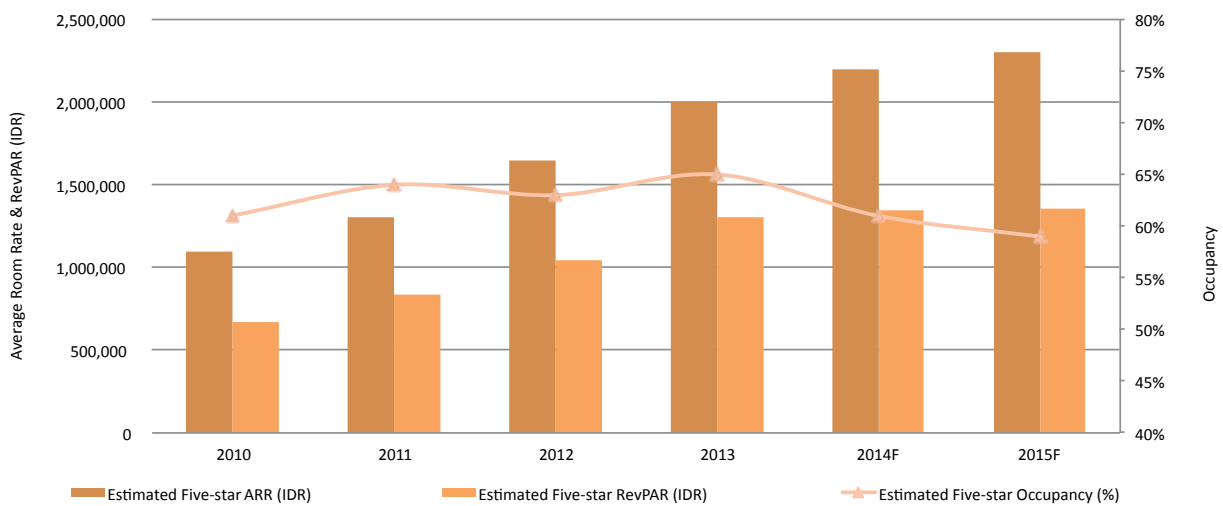
Four-Star Market	Occupancy (%)	ARR (IDR)	RevPAR (IDR)
2014F	↓ -2%	↑ 9%	↑ 6%
2015F	↓ -2%	↑ 5%	↑ 2%

Source: HVS Research

The **five-star market** has shown tremendous recovery after 2009, especially in terms of occupancy, which took just 18 months to return to earlier monitored levels. The average room rate has also picked up strongly from 2012 onwards, aided for a large part by a sliding Indonesian Rupiah, and general market recovery. Furthermore, due to the large number of sell-out periods for hotels in a given year, hoteliers in Jakarta were able to increase rates during these periods.

Going forward, the five-star market's room rate growth is expected to slow down as a result of the significant new supply entering Jakarta in the short-to-medium term. On the other hand, while the forecasted decline in occupancy for 2014 is in part attributed to less travel activity as a result of the presidential elections, occupancy levels are expected to take a further hit from 2015 onwards, when several new hotels open in Jakarta (especially in 2016).

### FIVE-STAR HOTEL MARKET PERFORMANCE (2010 - 2015F)



Source: HVS Research

### GROWTH OUTLOOK FOR FIVE-STAR HOTEL MARKET

Five-Star Market	Occupancy (%)	ARR (IDR)	RevPAR (IDR)
2014F	↓ -4%	↑ 10%	↑ 3%
2015F	↓ -2%	↑ 5%	↑ 1%

Source: HVS Research

## NEW DEVELOPMENTS AND HOTEL SUPPLY

As a result of the rapidly recovering Indonesian economy, hotel development has picked up in the city with multiple projects planned ranging from budget positioning to the luxury end of the market. A fast-growing middle class population in Indonesia is fuelling demand for hotel accommodation alongside a rise in inbound travel to Jakarta. After years of limited RevPAR growth, the city of Jakarta has picked up tremendously from 2010 onwards in terms of both occupancy and average room rate, paving the way for more five-star hotel supply to enter the market.

In the foreseeable future, the four-star and five-star hotel segments are expected to see **22** new hotels with approximately **5,450** rooms being added. This equates to an average of 248 rooms per property. Majority of the new developments will be coming into the market in 2015 and 2016, with a few properties scheduled to debut in 2017 and 2018. The largest new development will be the InterContinental Jakarta Pondok Indah with 470 rooms. A number of other international operators that are expected to open hotel properties in Jakarta include Starwood with Aloft, Sheraton, St. Regis, Westin and W Hotels, and FRHI with Raffles. Marriott is also set to enter the market with hotels under the JW Marriott and Courtyard flags, as is Accor with two Novotels, two Mercuries, and the Sofitel So in the pipeline.

At the two and three-star level, the market is expecting an increase of **5,774** rooms over **28** hotels resulting in an average room count of 206. Majority of the new hotels will be operated under various brands by three major hotel management companies. These are the POP!, Harris and YELLO brands by Tauzia Hotel Management; Ibis and Ibis Styles by Accor; and Holiday Inn and Holiday Inn Express by the InterContinental Hotels Group.

Total hotel market supply is expected to increase by 8%, 15% and 7% in 2014, 2015 and 2016, respectively. While the pipeline for new hotels in Jakarta already appears robust at this point in time, it is also likely that new hotel projects across all market positioning will continue to be announced in the near future. These new hotel projects, however, are likely to enter the market only in 2017 and beyond.

## MARKET OUTLOOK AND DEVELOPMENT OPPORTUNITIES

On the back of Indonesia's rapid economic growth, Jakarta's hotel market is expected to continue to accommodate growing demand from local government bodies, and the domestic and international corporate sector.

With a strong hotel pipeline across all tiers of the market, and existing infrastructure challenges, the Jakarta market is envisaged to see slowing average room rate levels and declining occupancies across all market segments.

Given Jakarta's congested and strained transport network, advancements in infrastructure will need to go hand-in-hand with the rise in room night demand and hotel supply. Additionally, the unprecedented future growth in hotel rooms would necessitate careful assessment of upcoming hotel projects.

## NEW ENTRANTS (FOUR AND FIVE-STAR)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Mercure Jakarta Sabang	170
	Double Tree by Hilton	253
	Raffles Jakarta	180
2015	Aloft Hotel Jakarta Wahid Hasyim	160
	Novotel Tangerang	266
	Courtyard by Marriott Jakarta	312
	Westin Jakarta	256
	Fairmont Senayan Square	371
	Alila Jakarta Pacific Place	TBC
	Sheraton Jakarta Gandiara City	300
2016	St. Regis Jakarta	125
	JW Marriott Jakarta Kemang Village	275
	Mercure Jakarta Matraman	180
	Novotel Jakarta Pantai Indah Kapuk	410
	InterContinental Jakarta Pondok Indah	470
	Hotel Indigo Jakarta Sudirman	200
	JW Marriott West Jakarta St Moritz	340
	W Hotel Jakarta	250
	Langham Hotel Jakarta	200
	Rosewood Jakarta	200
2017	Aloft Hotel Jakarta Kebon Jeruk	140
	Waldorf Astoria Jakarta	181
2018	Sofitel So Jakarta	212
<b>Total Proposed Room Supply (Indicative)</b>		<b>5,451</b>

Source: HVS Research

## NEW ENTRANTS (TWO- AND THREE-STAR)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Ibis Styles Jakarta Mangga Dua Square	215
	Ibis Styles Jakarta International Airport	253
2015	YELLO Hotel Hayam Wuruk Jakarta	418
	Holiday Inn Express Jakarta Cikini	212
	Holiday Inn & Suites Jakarta Gajah Mada	447
	Zest Hotel Airport Cengkareng	196
	POP! Hotel Pasar Baru Jakarta	112
	POP! Hotel Wahid Hasyim Jakarta	150
	Harris Hotel Airport	168
	Ibis Budget Jakarta Daan Mogot	200
	Holiday Inn Express Jakarta Simatupang	200
	Holiday Inn Jakarta Simatupang	250
	Holiday Inn Jakarta Simatupang	236
	YELLO Hotel Airport Jakarta	160
	YELLO Hotel Tendeang Jakarta	108
	Harris Hotel Hayam Wuruk Jakarta	265
	Harris Hotel Cilandak Jakarta	122
	POP! Hotel Thamrin Jakarta	91
	Harris Hotel Gunung Sahari Jakarta	150
	Holiday Inn Express Jakarta International Expo	225
	Ibis Budget Jakarta Airport	138
	Zest Hotel Cirebon	180
2016	Ibis Jakarta Harmoni	210
	Ibis Styles Jakarta Sunter	150
	Ibis Styles Jakarta Pantai Indah Kapuk Sedayu	252
	Ibis Styles Jakarta Pulogadung	246
	Holiday Inn Express Jakarta Palmerah	280
	Ibis Jakarta Kemang	140
<b>Total Proposed Room Supply (Indicative)</b>		<b>5,774</b>

Source: HVS Research



# SURABAYA

## SURABAYA

### OVERVIEW

Surabaya is believed to have derived its name from the words “sura”, meaning shark, and “baya”, meaning crocodile, when both creatures engaged in a mythological battle of epic proportions to determine the stronger of the two. Mythology aside, Surabaya holds deep historical importance by virtue of being the site of the Battle of Surabaya, the turning point in Indonesia’s fight for independence, as well as being the birthplace of the nation’s first President, Sukarno. It is the second-largest city in the country with a population of 3.2 million over a total land area of 1,805 square kilometres.

Due to Surabaya’s advantageous location along the coast of East Java, the city is home to numerous agricultural, industrial and commercial entities. The local port serves as a distribution point for export products produced in Surabaya and the surrounding regions. Principal exports from the city include sugar, tobacco, coffee, and other agricultural goods. Even as most corporate headquarters are situated in Jakarta in West Java, Surabaya is an important business and government hub with many companies, organisations and government agencies having regional offices in the city. As such, there is a strong demand for rooms as well as for facilities accommodating small format meetings and conference groups.

Additionally, Surabaya has a domestic leisure market. The city is a major retail destination for Indonesians with a number of sprawling shopping complexes. Cultural and leisure demand generators are also available, albeit outside the city centre areas. In fact, Surabaya’s Mount Bromo region has been recently featured at the top of the Indonesian tourism ministries’ development list. Furthermore, Surabaya functions as a regional and international transport hub for other tourist destinations in East Java.

### ACCESSIBILITY

Surabaya has undergone a wave of new developments in recent years. In particular, due to the rapid growth of business and industry in and around the city, air traffic at **Juanda International Airport** has exceeded the maximum yearly capacity by two fold as of 2010. Surabaya is now the second busiest airport in Indonesia with **17.7 million** passengers transiting in 2013. In order to accommodate the dramatic increase in arrivals, the **Juanda International Airport** underwent a renovation and expansion with a new terminal opening in early 2014. Further expansion, although required urgently, has proven to be challenging due to land acquisition issues. A large portion of the land required for additional runways and terminals belongs to the local navy and transfer of ownership has been marred by legal and operational roadblocks.

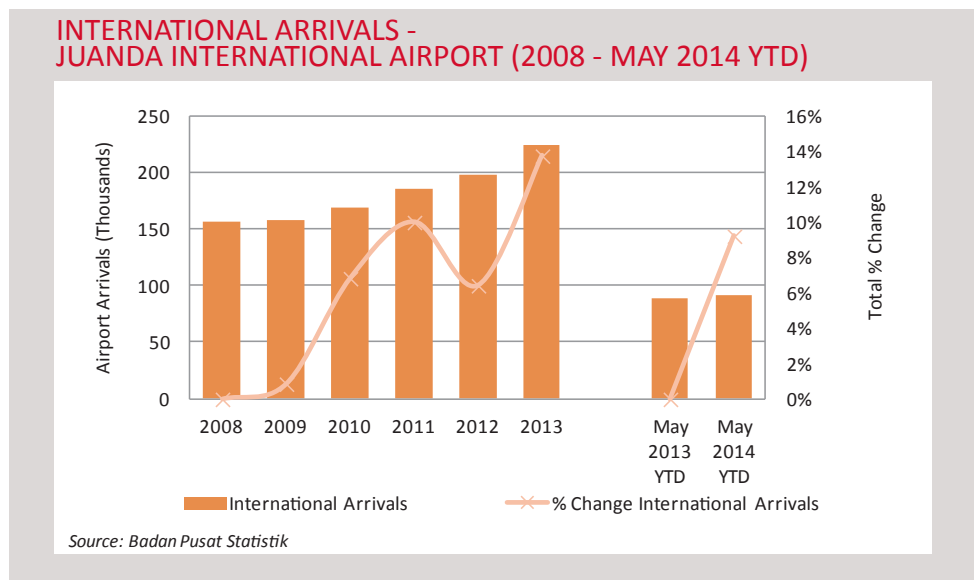
Surabaya’s **Tanjung Perak Port** faces a similar problem. Like the city’s airport, it has been overloaded owing to the dramatic growth in exports from the region. Tanjung Perak is now the second busiest trading port in Indonesia and continues to grow at a rapid pace. As part of the Master Plan for Acceleration and Expansion of Indonesia Economic Development 2011 – 2025 (MP3EI), the port is top on the priority list. The plan highlights several measures to increase the port’s capacity by expanding the

port areas, harbour pond dredging as well as building new container terminals. Some of these expansion plans are due to be completed in 2014 with others anticipated to be implemented over the next five years. In addition to this, a highway will be built between the **Suramadu Bridge**, which connects Surabaya and Madura Island, and **Madura International Seaport-City** in order to alleviate the over congestion problem at Tanjung Perak.

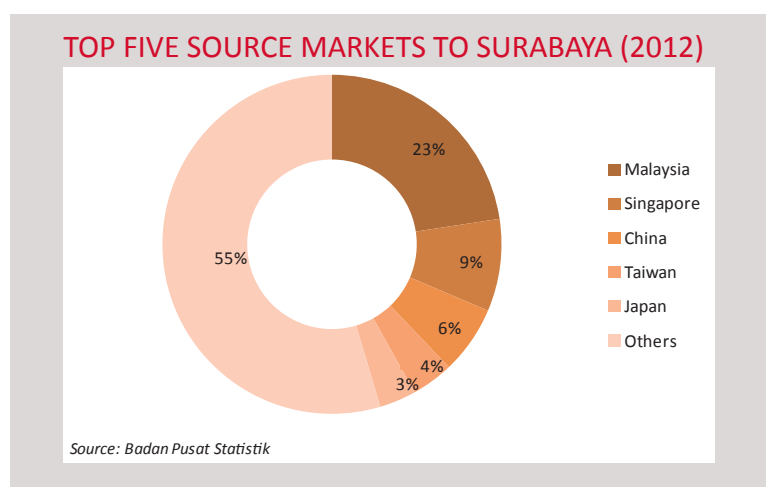
Alongside the seaport expansion, the MP3EI also outlines further developments for two inner-city railways in Surabaya in addition to wide scale improvements of existing highways and toll roads both within, and those branching out from the city.

### TOURISM MARKET OVERVIEW

On the back of strong economic development, international arrivals to Surabaya, via Juanda International Airport, have grown steadily over the past five years. International arrivals in 2008 were registered at around 156,700 and this has inflated to approximately 225,000 as of 2013, a CAGR of **7.5%**. May 2014 YTD data has shown a moderate increase of 3.5% with 91,600 arrivals as opposed to 88,500 arrivals during the same period last year.

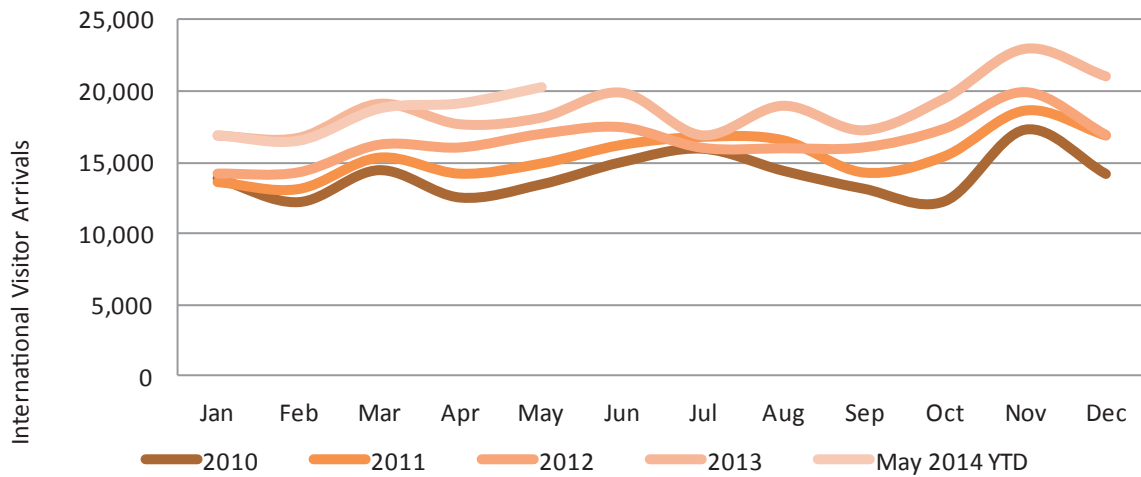


Source countries for international arrivals to Surabaya are quite varied with direct flights being offered from several international destinations such as Singapore, Malaysia, Hong Kong, Taiwan and Saudi Arabia. In 2012, the single largest contribution towards total arrivals was from **Malaysia** at **23%**, followed by **Singapore** at **9%**. The strong level of arrivals from these two nations was driven by the availability of direct air connections across several carriers.



International arrivals to Surabaya have remained largely constant through recent years with no severe year-on-year fluctuations. Generally, international arrivals remain consistent throughout the year with slight dips noted in February and September/October, and peaks observed in March and November.

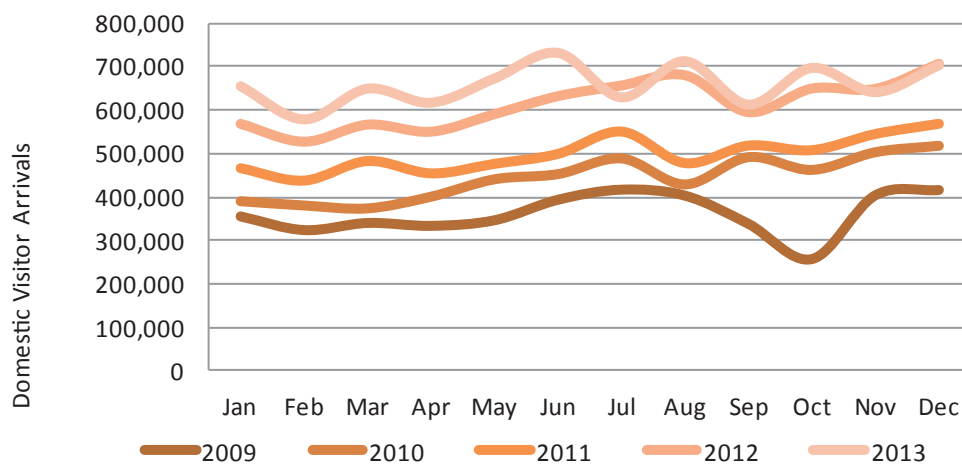
### SEASONALITY OF INTERNATIONAL ARRIVALS – JUANDA INTERNATIONAL AIRPORT (2010 - MAY 2014 YTD)



Source: Badan Pusat Statistik

Domestic visitation, on the other hand, has experienced a stronger growth rate than international arrivals. Number of domestic visitors arriving via the Juanda International Airport grew at an average yearly rate of **16%** during 2009 (4.32 million visitors) to 2013 (7.91 million visitors). The strong increase in domestic arrivals is due to the rapid growth in Surabaya’s businesses and economy, as well as the city’s growing reputation as an emerging leisure destination. Seasonality patterns indicate that arrivals at the beginning of the year are typically the lowest, gradually building up towards the end of the year. Additionally, the fasting month of Ramadan, typically in July or August, records a significant dip in domestic arrivals, rapidly recovering in the following month.

### SEASONALITY OF DOMESTIC ARRIVALS – JUANDA INTERNATIONAL AIRPORT (2009- 2013)



Source: Badan Pusat Statistik

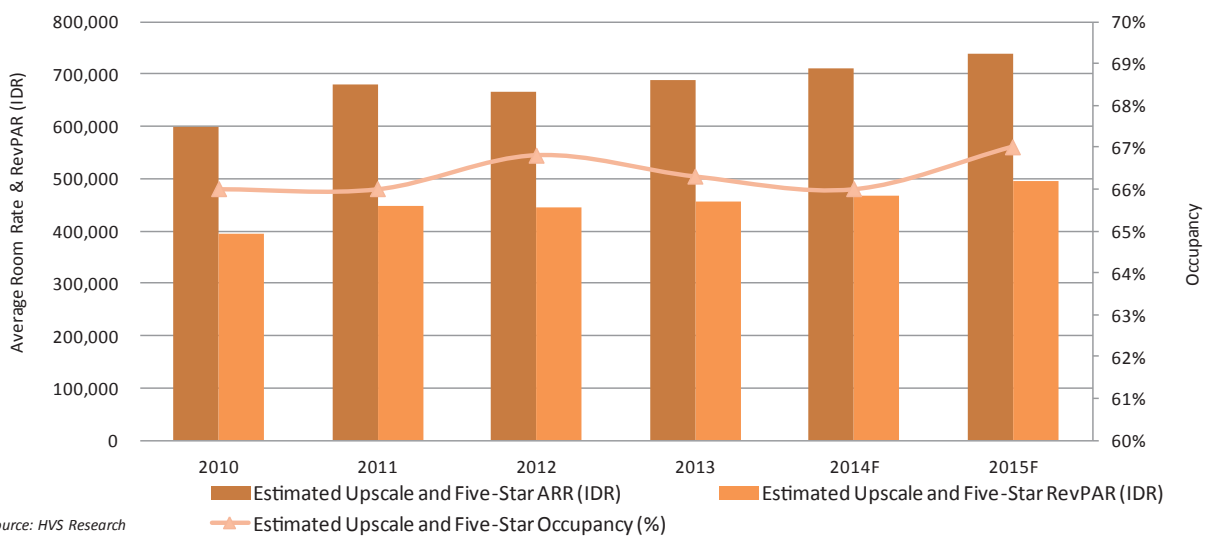
## HOTEL PERFORMANCE OVERVIEW

Surabaya’s hotel market is mostly driven by **individual business** and **corporate** demand during the weekdays. Over the weekends, this dynamically changes to leisure demand travelling to Surabaya mainly for shopping. Despite the fact that the city is not as established a **MICE** market as Jakarta or Bali, limited demand from meeting groups is present within Surabaya. We believe that the rapidly improving infrastructure and economic growth will inflate future levels of MICE demand in the city.

Surabaya’s hotel market, particularly the upscale and five-star segment, has registered healthy performance levels in recent years. The **average room rate** in this market has grown consistently at 6% per annum from IDR593,000 in 2010 to IDR700,000 in 2013. Despite this strong growth rate, the **marketwide occupancy** has remained stable throughout this period. Average occupancy for the upscale and five-star segment ranged from 66% in 2010 to 67% in 2012, dropping slightly again to 66% in 2013.

Going forward, owing to the limited new supply in the upscale and five-star segment, we anticipate the occupancy to marginally improve or maintain 2013 levels over the next couple of years, whereas the average room rate is projected to record slight improvements during the same period.

### UPSCALE AND FIVE-STAR HOTEL MARKET PERFORMANCE (2010 - 2015F)



### GROWTH OUTLOOK FOR UPSCALE AND FIVE-STAR MARKET

Upscale and Five-Star Market	Occupancy (%)	ARR (IDR)	RevPAR (IDR)
2014F	0%	↑ 3%	↑ 2%
2015F	↑ 1%	↑ 4%	↑ 6%

Source: HVS Research

## NEW DEVELOPMENTS & HOTEL SUPPLY

Going forward, a majority of the new hotels are being developed by domestic hotel chains operating in Indonesia in the budget and economy segments. Demand for this type of accommodation has grown tremendously in the past three-to-five years. A total of **21 branded** hotels are expected to enter the market in 2014 through 2016, corresponding to an addition of 3,900 rooms.

The surge in new hotels at this market level is reflective of the increasing demand for room nights by the growing middle class in the country, characterised by rising disposable incomes and consumer spending, coupled with the availability of affordable air travel. In particular, Indonesia-based Tauzia Hotel Management is set to dominate the pipeline in Surabaya with **1,484 rooms**, almost half of the total new supply. Most of Tauzia's new developments will be flagged under the POP! and YELLO brands, with several others under the Harris brand.

At the higher end of the market, a few upscale properties such as the Grand Aston, Swiss-Belhotel, Novotel and Swiss-Belinn are expected to open over the next two-to-three years. Combined, these new hotels represent approximately 25% of total new supply expected to enter Surabaya until 2016.

Validating the strong growth of business demand in the city and the increasing trend of long-stay corporate travellers, the Ascott Group will expand within the market with two serviced apartments under the Citadines and Ascott brands.

### NEW ENTRANTS

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Grand Aston Tunjungan Hotel & Convention Center	320
	Tune Hotel Surabaya	156
	Harris Skyline	262
	POP! Hotel Gubeng Surabaya	162
	Ascott Waterplace Surabaya	181
	YELLO Hotel Embong Sawo Surabaya	160
	YELLO Hotel Jemur Sari Surabaya	150
	Harris Hotel Gubeng Surabaya	160
	Swiss-Belhotel Darmo Surabaya	239
	2015	Holiday Inn Express Surabaya Atria
Zest Hotel Jemur Sari Surabaya		130
POP! Hotel Diponegoro Surabaya		120
POP! Hotel Ambengan Surabaya		120
POP! Hotel Pasar Atom Surabaya		150
Citadines Marvell Surabaya		276
Harris Hotel Karang Menjangan Surabaya		100
POP! Hotel Karang Menjangan Surabaya		100
Novotel Surabaya Rungkut		245
Ibis Budget Surabaya Darmo		150
2016	Swiss-Belinn Tunjungan	190
	Four Points by Sheraton Surabaya	300
<b>Total Proposed Room Supply (Indicative)</b>		<b>3,911</b>

Source: HVS Research

## MARKET OUTLOOK & DEVELOPMENT OPPORTUNITIES

The acceleration of Surabaya's economic growth, mostly due to the rapidly expanding industrial and business sectors, is set to transform the city's hotel landscape in the near future. Improved connectivity via the airport, ports and major highways will continue to result in increased demand for accommodation. We anticipate majority of short-term future demand to be for budget to mid-scale accommodation in Surabaya, evident in the pipeline of future developments.

A temporary demand and supply imbalance could occur when the proposed supply hits the market. However, due to the city's impressive demand growth for budget/mid-scale accommodation, such imbalances are expected to iron out in the mid-term.

The hotel development opportunities in Surabaya in the short- to mid-term will most likely be identified in the budget to mid-scale sectors, and to a lesser extent, the upscale market. Despite the presence of international five-star hotel brands in the city, opportunities for luxury hotels will remain limited as long as rate levels in the market are growing marginally.



BANDUNG

## BANDUNG

### OVERVIEW

Also known as the Paris of Java, Bandung is the provincial capital of the West Java province. With a population of approximately 2.58 million inhabitants over an area of 2,216 square kilometres, Bandung is Indonesia's third-largest city by population and the second-largest metropolitan city by surface area. Located relatively high above sea-level, Bandung enjoys a cooler and more moderate climate year-round in comparison to other major Indonesian cities.

Since Indonesia's independence in 1945, Bandung has expanded rapidly, transforming from a small town into a thriving metropolis. During the Dutch colonial period, the city was full of tea plantations and served as a popular resort getaway for plantation owners. The perception of Bandung as a leisure destination continues to this day with many residents from Jakarta and West Java journeying out to the city over the weekends to enjoy the more hospitable climate as well as the many natural tourist attractions. Besides being a cultural and historic centre, Bandung is also home to several fashion factory outlets, which are popular with domestic travellers as well as international visitors from Malaysia and Singapore.

Bandung's main economic drivers are tourism, manufacturing, textiles, agriculture, retail and technology industries. The city is also one of the most popular education destinations in Indonesia with over 50 higher education institutes based there. While a portion of Bandung's visitors still arrive through Jakarta, which is a two-hour drive away, the city has its own international airport, the Husein Sastranegara International Airport.

### ACCESSIBILITY

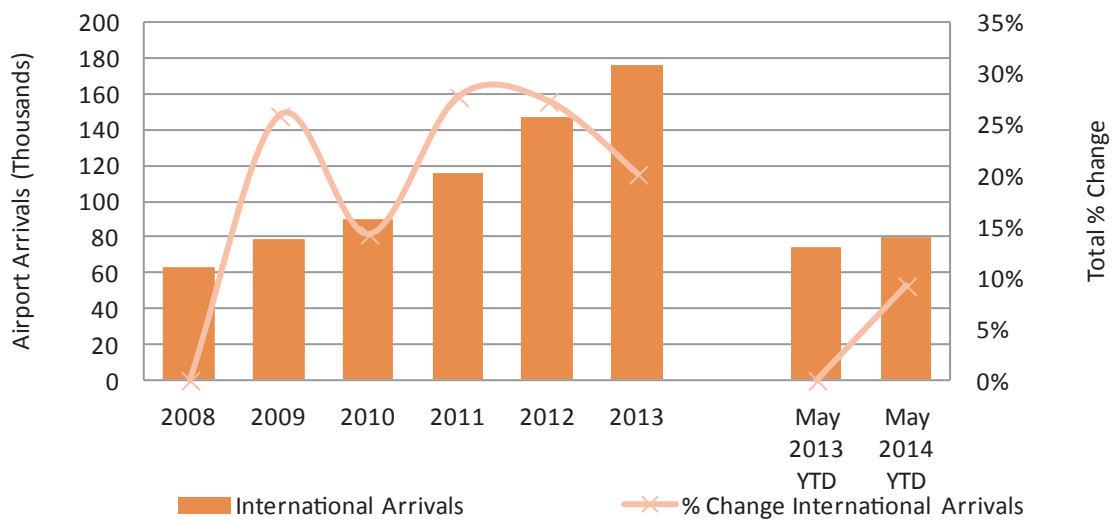
While not particularly new, one of the most significant developments in the region was the construction of the **Cipularang Toll Road** in 2005. This toll road was constructed with an aim to reduce the travel time between Jakarta and Bandung. Prior to its construction, commuters from Jakarta had to access Bandung via Puncak in the south. The toll road effectively reduced the travel time between the two cities by more than half to just two hours.

Additionally, in order to improve the accessibility to Bandung, the **Husein Sastranegara International Airport** is expected to undergo several rounds of expansion. The planned addition of a new terminal will increase passenger capacity of the airport to a combined total of three million passengers per year. Moreover, talks are underway to completely replace the Husein Sastranegara International Airport with a newer and much larger airport in Majalengka Regency, around 90 kilometres east of Bandung. The new airport, which has been temporarily dubbed the **Bandung Majalengka International Airport**, will serve Bandung and the Cirebon areas in addition to taking some pressure off Jakarta's Soekarno-Hatta International Airport. Despite 1,800 hectares of land having already been cleared to build the airport, the construction plans at Majalengka have been stalled owing to issues related to acquisition of additional parcels of land required for the complete project.

## TOURISM MARKET OVERVIEW

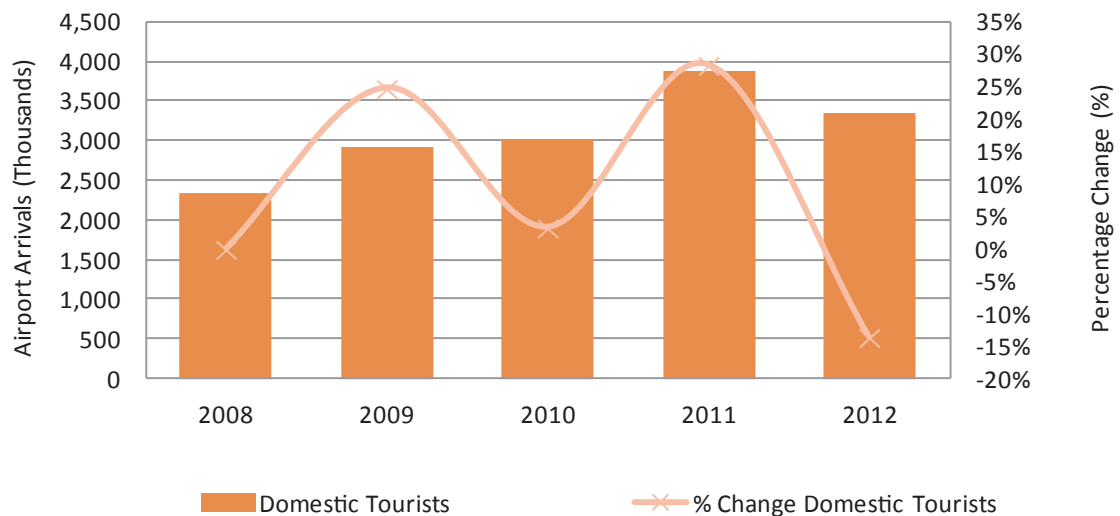
International arrivals at Husein Sastranegara International Airport have been growing at a healthy pace recording a CAGR of **22.9%** from 2008 to 2013. International arrivals in 2013 were registered at 176,300, a **20.2%** increase over the previous year. May 2014 YTD statistics reveal that Bandung will witness growth in international arrivals this year with inbound passengers increasing by 9.2% from 74,400 in 2013 to 80,400 in 2014. On the other hand, **total domesti** visitors to Bandung have grown at an average rate of 9.3% per year from 2008 to 2012, although 2012 recorded 3.35 million domestic visitors, a 14% drop from the year before.

### INTERNATIONAL ARRIVALS - HUSEIN SASTRANEGARA INTERNATIONAL AIRPORT (2008 - MAY 2014 YTD)



Source: Badan Pusat Statistik

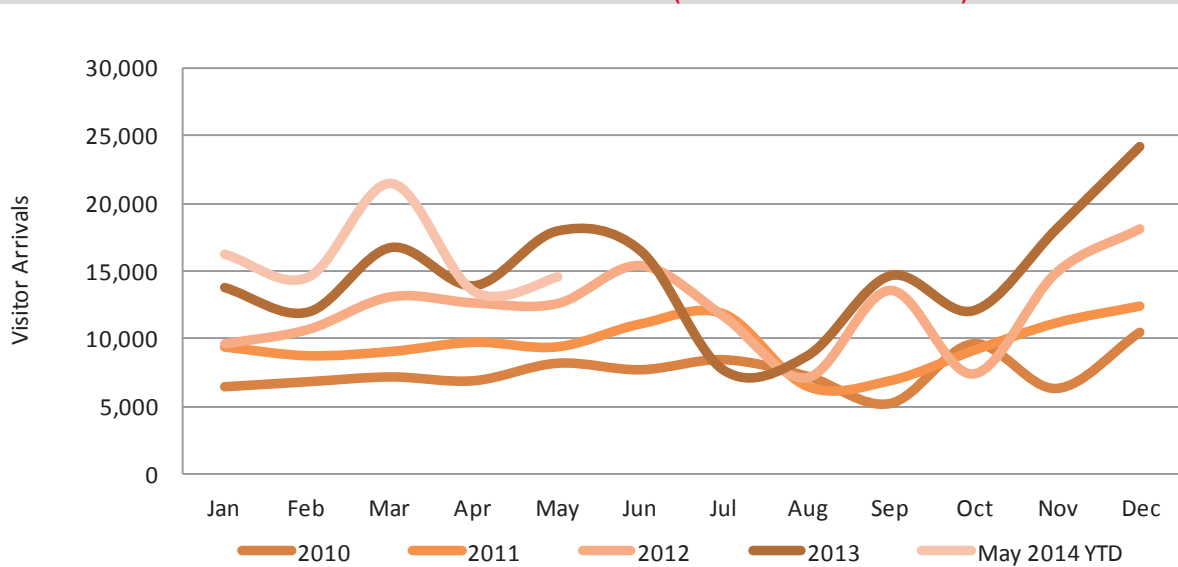
### BANDUNG CITY - DOMESTIC TOURIST VISITS (2008 - 2012)



Source: Badan Pusat Statistik

As Bandung is heavily reliant on domestic travel, the city experiences some amount of seasonality with the Ramadan month marking the lean period. **Peak demand** tends to manifest in the months immediately prior to Ramadan (typically May and June), as well as towards the end of the year, in December. The seasonality of international visitation also tends to shadow this pattern as a large portion of the international arrivals come from Malaysia, predominantly a Muslim country.

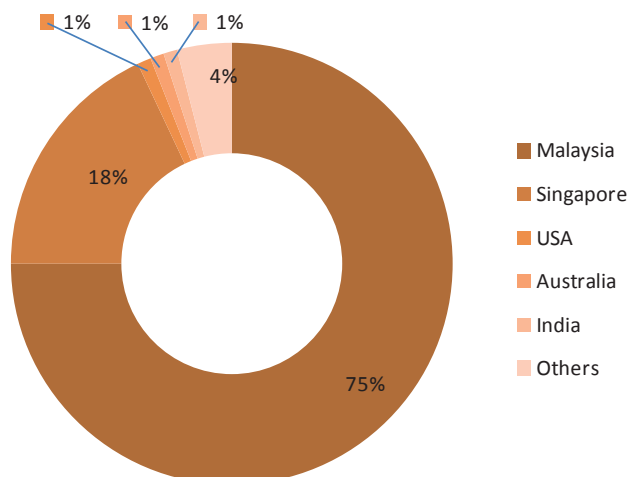
**SEASONALITY OF INTERNATIONAL ARRIVALS - HUSEIN SASTRANEGARA INTERNATIONAL AIRPORT (2010 - MAY 2014 YTD)**



Source: Badan Pusat Statistik

Bandung's international feeder market primarily comprises ASEAN countries that have direct air connectivity to the city, namely **Malaysia** and **Singapore**. In 2013, three quarters of the total foreign arrivals in Bandung were from Malaysia while another 18% was from Singapore. International visitors from the United States, India and Australia, accounted for 1% of the total arrivals each, with the balance 4% corresponding to all other countries.

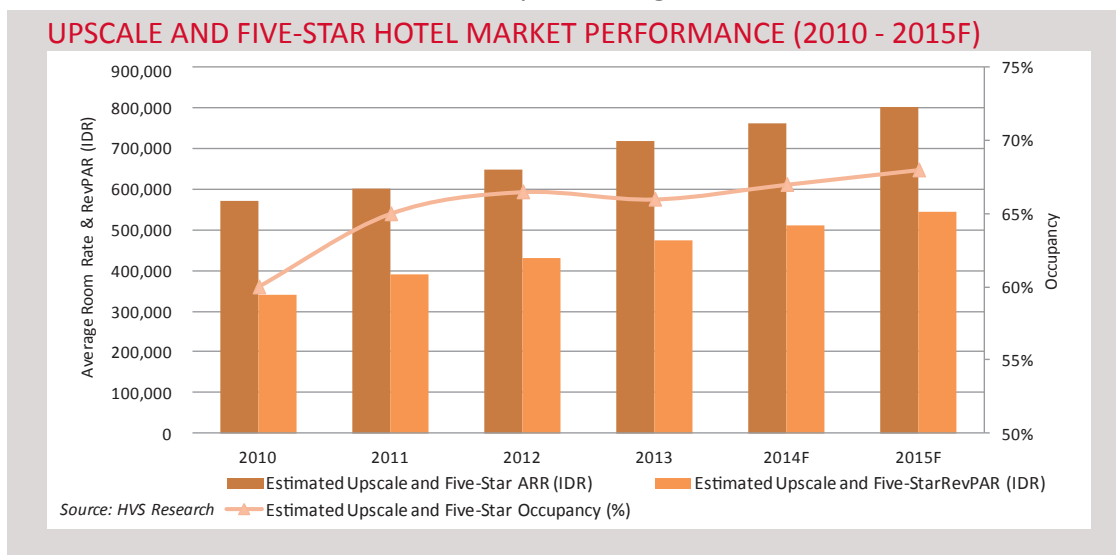
**TOP FIVE SOURCE MARKETS TO BANDUNG (2013)**



Source: HVS Research

## HOTEL PERFORMANCE OVERVIEW

Majority of Bandung’s hotel market is composed of mid-tier hotels with several upscale hotels scattered throughout the city. Many of the city’s hotels are heritage sites from the Dutch eras being preserved as national landmarks. Over the past several years, the Bandung hotel market has performed well with admirable increases in RevPAR across positioning.



Bandung’s main hotel market segments are **Domestic Business and MICE**, with over 90% of this demand stemming from Jakarta. Business demand is generated by the many factories and industrial sites situated in and around the city, while MICE demand stems from both corporate as well as government sectors operating in Bandung. Although there are many upcoming meeting areas surrounding Jakarta, such as Bogor and Sentul, Bandung remains popular due its relatively optimal location from Jakarta offering easy accessibility, yet providing a sense of a getaway. Despite the steady increase in hotel supply during this period, existing hotels have managed to maintain healthy levels of occupancy while still growing at a commendable pace from 2010 to 2013. The upscale and five-star hotels in Bandung, for example, have seen average occupancy increase from **60%** in 2010 to **66%** in 2013, with the average room rate growing by 8% annually during the same period. Consequently, the marketwide **RevPAR** increased at the rate of 12% year-on-year between 2010 and 2013. Such remarkable performance was evident not only in the upscale and five-star segment, but across all market positioning. Strong economic growth, rising demand from the MICE and government segments, and the improvement in accessibility from Jakarta have been identified as the main drivers of this performance. With rapid economic growth continuing in Java and the increasing reputation of Bandung as a leisure, business and meeting destination, the city’s hotel market is slated to record favourable performance in the short-to-medium term.

However, going forward, in light of the considerable amount of new supply entering the market, occupancy growth for the upscale and five-star hotels is expected to be muted, while average rate for the segment is anticipated to grow moderately in 2014 and 2015 (in comparison to the previous years), picking up pace thereafter.

### GROWTH OUTLOOK FOR UPSCALE AND FIVE-STAR HOTEL MARKET

Upscale and Five-Star Market	Occupancy (%)	ARR (IDR)	RevPAR (IDR)
2014F	↑ 1%	↑ 6%	↑ 8%
2015F	↑ 1%	↑ 5%	↑ 7%

Source: HVS Research

## NEW DEVELOPMENTS AND HOTEL SUPPLY

Bandung is experiencing healthy growth in hotel performance owing to rising demand from the international and domestic markets, generating investor interest.

There are several hotels anticipated to open in the city over the next three years, adding approximately **2,100 rooms** across 11 major branded hotels. These include budget as well as upscale hotels catering to the weekend leisure market plus meeting groups.

Accor's pipeline includes a total of 903 rooms under the Ibis, Mercure and Pullman brands, roughly accounting for 43% of the total new supply. InterContinental Hotels Group ranks second, with two upcoming hotels: the InterContinental Bandung Dago Pakar and Crowne Plaza Bandung. The other branded hotels represented in the city's supply pipeline include Best Western and Louvre Hotels (with their Golden Tulip brand).

## MARKET OUTLOOK AND DEVELOPMENT OPPORTUNITIES

Similar to other major cities in Indonesia, Bandung is experiencing robust economic growth fuelled by strong performance of its tourism, manufacturing and industrial sectors. This, alongside the economic development in the neighbouring Jakarta, in particular, and Java in general, is driving a strong hotel market in the city. While there are several

upcoming meeting destinations around Bandung, such as Sentul, Bogor and Puncak, the city remains popular among corporate firms and government institutions in Jakarta owing to its location and improved accessibility. Additionally, Bandung's diverse attractions provide the city a unique edge as a leisure and meeting destination over other locations.

While the city already has a substantial base of existing room inventory with both international and domestic hotel chains represented, the marketwide occupancy and average room rate have experienced significant growth in recent years. As domestic leisure, business and meeting demand continue to surge, in addition to the rise in international arrivals, Bandung will require more rooms to cater to this demand in the medium-to-long term. The new supply entering the market over the course of 2014 and beyond is not likely to create an oversupply situation, although it may result in marketwide occupancy remaining stable and average rate growing at a moderate pace till 2016.

Going forward, we believe that the market can absorb more hotels across all positioning, specifically targeting the meeting and leisure segments.

### NEW ENTRANTS

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Panghegar Dago Resort & Spa	170
	Ibis Styles Bandung Braga	192
	InterContinental Bandung Dago Pakar	223
	Mercure Bandung Setiabudi	202
2015	Crowne Plaza Bandung	266
	Ibis Bandung Pasteur	150
	Zest Hotel Bandung	195
	Ibis Budget Bandung Jalan Asia Afrika	159
	Best Western La Grande Condotel Bandung	200
2016	Pullman Bandung City Centre	200
	Golden Tulip Hotel Bandung	120
<b>Total Proposed Room Supply (Indicative)</b>		<b>2,077</b>

Source: HVS Research

# BALI

## BALI

### OVERVIEW

The Island of Bali is one of Indonesia's 34 provinces and is located amongst the Lesser Sunda Islands, between Java to the West and Lombok to the East. The capital city of Bali is Denpasar, which is situated in the southern part of the island. Bali is home to approximately 4.2 million inhabitants and covers a total area of 5,780 square kilometres making it one of the most densely populated provinces in Indonesia. The fact that it is one of the very few regions in the country where the primary religion is Hinduism, makes it stand out from the rest of the destinations. Traditionally, Bali's economy was primarily driven by the agriculture industry. However, after a wave of tourism infrastructure development throughout the 2000s, tourism is now the single largest industry in terms of income, significantly contributing toward making Bali one of the wealthiest regions in Indonesia. The island is the most visited destination by international tourists in the country, and is replete with leisure, cultural and natural demand generators. The predominantly Hindu island has long been the focal point of tourism in Indonesia, and is likely to remain one of the more popular destinations in the country.

While Bali is accessible by boat from neighbouring islands, almost all of Bali's visitors enter through Ngurah Rai International Airport. The airport, the third busiest in Indonesia, is approximately 2.5 kilometres south of the major tourist area of Kuta. It is also in close proximity to major tourist destinations such as Nusa Dua, Seminyak and Legian. **Ngurah Rai International Airport** hosts a range of international and domestic airliners.

### ACCESSIBILITY

The Ngurah Rai International Airport recently opened a new international terminal in September 2013, which is projected to increase the total passenger capacity of the airport from 17 million to 25 million a year. While the terminal is already open, it has yet to reach full operational capacity. Additionally, a new domestic terminal is scheduled to open in 2014, increasing the capacity of the airport considerably. However, in anticipation of large growth in arrivals, there have been talks to build a new airport in the northern part of Bali, although no firm plans or commitments have been formally announced as yet.

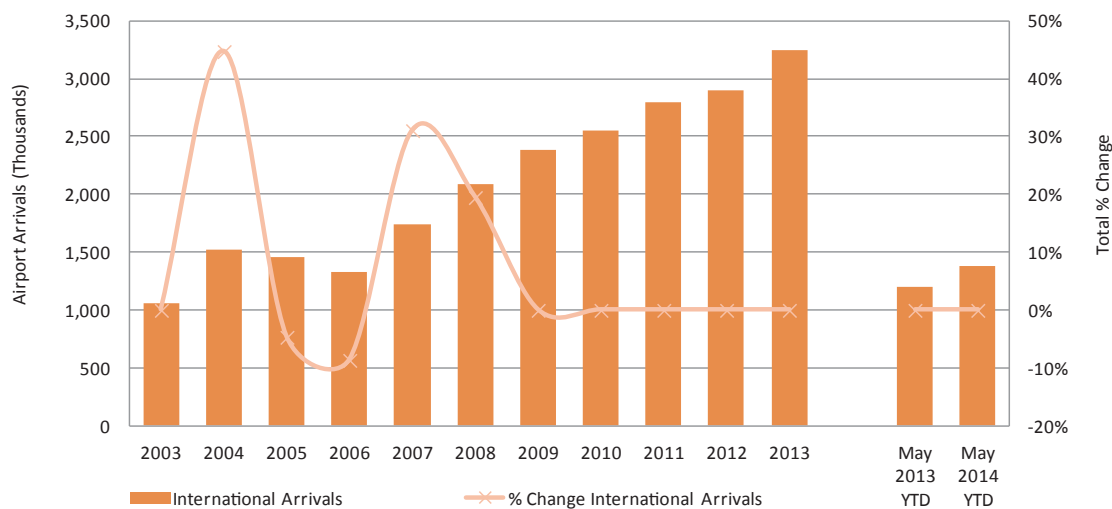
As cruise and maritime tourism is increasing in popularity in Indonesia, Bali's **Benoa port** is undergoing a wave of developments. New improvements planned for the port include an expansion of the current wharf, deepening of the yacht basin and renovations of the cruise terminal. These upgrades are anticipated to be completed in 2015 at a cost of US\$62.2 million.

Additionally, several large-scale infrastructure projects have been completed in the recent past in Bali. The first of these, the **Benoa-Nusa Dua toll road**, stretches from Benoa Harbour to Ngurah Rai International Airport, reducing travel time between Sanur and Nusa Dua from an hour to just over ten minutes, noticeably alleviating traffic jams in the area. Secondly, the **Simpang Siur** underpass was opened this year at the Dewa Ruci intersection in southern Bali. The intersection is a major chokepoint between the airport, Sanur, Seminyak, Ubud and Nusa Dua, and is often the location of major traffic congestions. The underpass aims to provide uninhibited traffic flow in the area.

## TOURISM MARKET OVERVIEW

As one of Indonesia’s most appealing tourist destinations, Bali’s tourism arrivals have enjoyed continuous growth over the last 10 years. This period saw international arrivals surge from approximately **1.05 million** visitors in 2003 to **3.24 million** visitors in 2013; a compound annual growth rate (CAGR) of 11.9% making Bali one of Indonesia’s fastest growing tourism markets. The Year 2013 was the first time international visitor arrivals surpassed the three million visitor mark, and 2014 seems to be on course to bettering this performance. Arrivals through May 2014 were registered at 1.38 million, a full **15%** higher than the same period last year, which saw approximately 1.20 million visitors to Bali.

**INTERNATIONAL ARRIVALS - NGURAH RAI INTERNATIONAL AIRPORT (2003 - MAY 2014 YTD)**

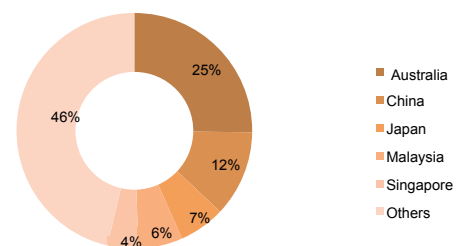


Source: Badan Pusat Statistik

Despite the remarkable rise in international visitation, domestic arrivals in Bali often surpass international arrivals. Domestic demand in Bali encompasses both leisure and MICE demand from a variety of regions in Indonesia. In 2012, domestic arrivals were slightly over 6 million, more than twice the number of international arrivals. In 2011, a similar pattern was monitored with 5.68 million domestic arrivals, as compared to 2.79 million international arrivals. The domestic arrivals market doubled in the five years between 2008 and 2012 accounting for a significant **20.3% CAGR**.

**Australia** has traditionally been the strongest feeder market for international arrivals to Bali. This is supported by both the proximity of Bali to Australia, as well as the generally favourable currency exchange rates between the Australian Dollar and Indonesian Rupiah. However, rise in demand from the Australian market has been tapering off in recent years, with arrivals growing only by 3% from 2012 to 2013. The top growing international feeder market in 2013 was **Taiwan** with **27%** increase in arrivals. This was followed closely by the traditionally strong markets of **China, Singapore** and **Malaysia** with 22%, 18% and 17% increase in arrivals from the year before.

**TOP FIVE SOURCE MARKETS TO BALI (2013)**

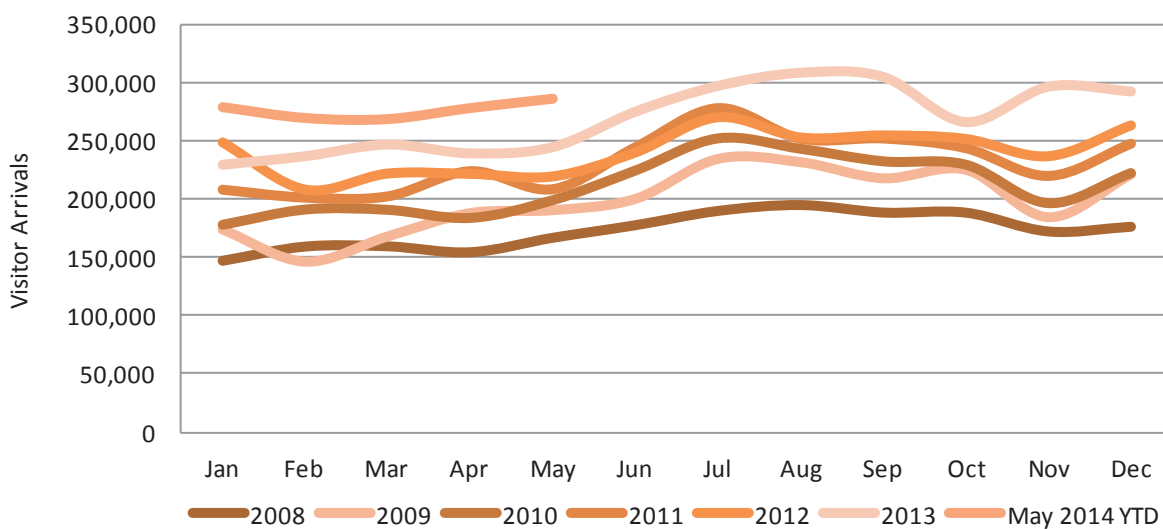


Source: Badan Pusat Statistik

Peak months in Bali are typically from November to January, and then again in June and July; this coincides with the year-end holidays and the summer season, respectively. March through May, as well as August through October are the shoulder months. The low season in Bali is in the months of February and November, which either precede or follow the shoulder months.

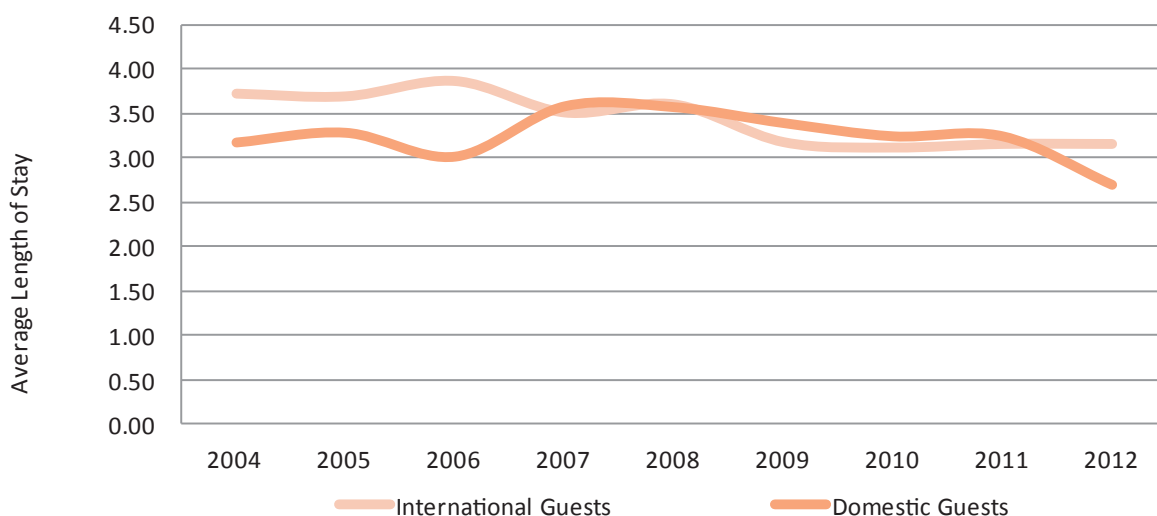
The average length of stay for international guests in classified hotels in Bali was 3.2 days in 2012, recording a gradual decline from 3.7 days registered in 2004. Average length of stay of domestic guests has also slowly reduced from **3.2 days** in 2004 to **2.7 days** in 2012.

**SEASONALITY OF INTERNATIONAL ARRIVALS -  
NGURAH RAI INTERNATIONAL AIRPORT (2008 - MAY 2014 YTD)**



Source: Badan Pusat Statistik

**AVERAGE LENGTH OF STAY OF INTERNATIONAL AND  
DOMESTIC GUESTS IN CLASSIFIED HOTELS IN BALI (2004 - 2012)**



Source: Badan Pusat Statistik

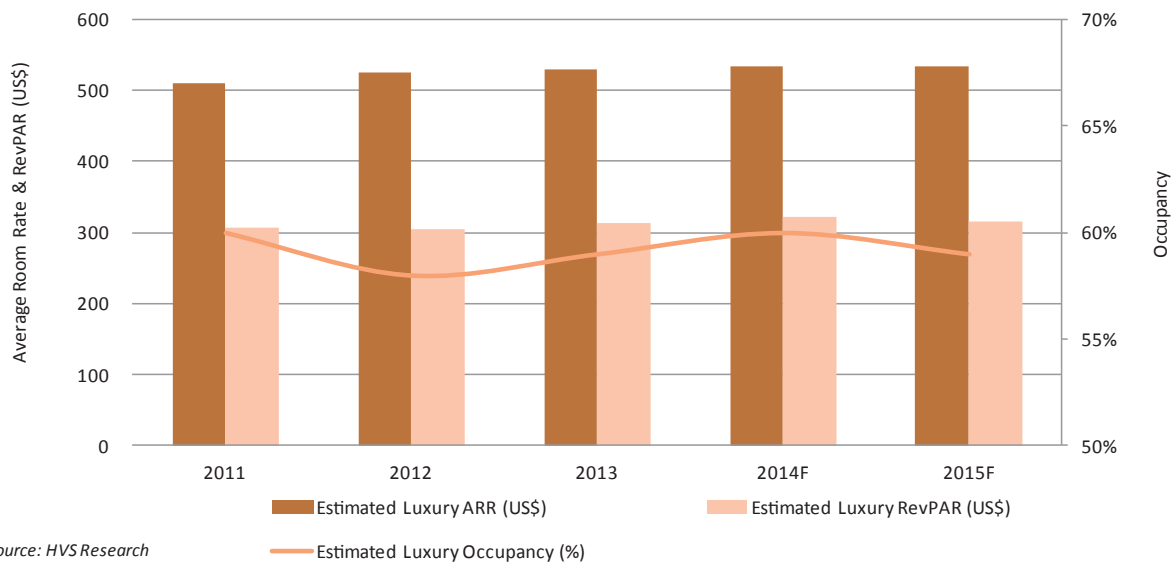
## HOTEL PERFORMANCE OVERVIEW

Bali is often cited as the epicenter of Indonesian tourism on both domestic and international fronts. The main drivers for hotel demand in Bali are the flourishing international tourism market, as well as domestic MICE and leisure segments. However, in recent times oversupply of hotel rooms has hindered occupancy growth on the island.

**Luxury hotels** in Bali, for instance, saw occupancy drop from **60%** to **59%** from 2011 to 2013 owing to new supply entering this section of the market. Average room rate grew marginally from **US\$510** in 2011 to **US\$530** in 2013 at an annual average growth rate of 2%. Factoring in the drop in occupancy and the increase in rate, the RevPAR for the luxury market in Bali increased at a marginal rate of just 1% per year between 2011 and 2013.

Going forward, Bali will witness a large amount of new supply expected to enter the market from 2014 onwards. However, demand growth is unlikely to follow suit over the next few years, and it appears inevitable that both occupancy and room rate growth will be adversely affected. At the luxury level, the market is expected to record an occupancy of 60% in 2014 with the average rate recording a marginal increase that year. Thereafter, the market is anticipated to face near stagnancy in 2015, achieving occupancy of 59% while maintaining a near similar average rate as in 2014. As the number of new entrants is expected to slow down after 2016, the market is projected to recover slowly, witnessing gradual increases in room rates and occupancy thereafter.

### LUXURY HOTEL MARKET PERFORMANCE (2011 - 2015F)



### GROWTH OUTLOOK FOR LUXURY HOTEL MARKET

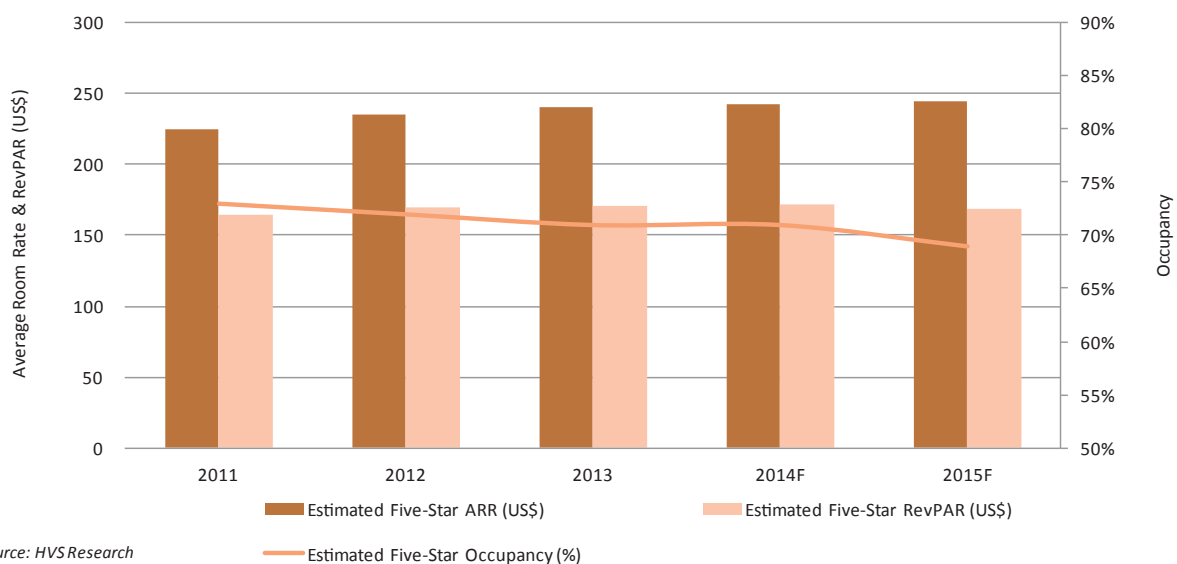
Luxury Market	Occupancy (%)	ARR (US\$)	RevPAR (US\$)
2014F	↑ 1%	↑ 1%	↑ 3%
2015F	↓ -1%	0%	↓ -2%

Source: HVS Research

Historically, the **five-star market**, excluding the high end luxury hotels, in Bali has fared well, with year-on-year occupancy and room rate growth until 2012. However, due to the influx of new supply, this market has seen negligible RevPAR growth in 2013. Occupancy in the five-star market declined consistently from **73%** to **72%**, and then to **71%** each consecutive year between 2011 and 2013, respectively. Average rate, in contrast, experienced growth, increasing from **US\$225** in 2011 to **US\$240** in 2013.

It is expected that with the island's impressive supply pipeline in the five-star segment, RevPAR performances will come under further pressure in 2014 and 2015. Occupancy is expected to remain stagnant in 2014 and decrease by two percentage points in 2015. On the other hand, average room rate for this category is expected to increase marginally by 1% a year to US\$242 and US\$244 in 2014 and 2015, respectively. The new supply in the market is envisaged to put pressure on average room rate growth, particularly in the wholesale segment, where competition is expected to rise (Nusa Dua and Bukit areas).

### FIVE-STAR HOTEL MARKET PERFORMANCE (2011 - 2015F)



### GROWTH OUTLOOK FOR FIVE-STAR HOTEL MARKET

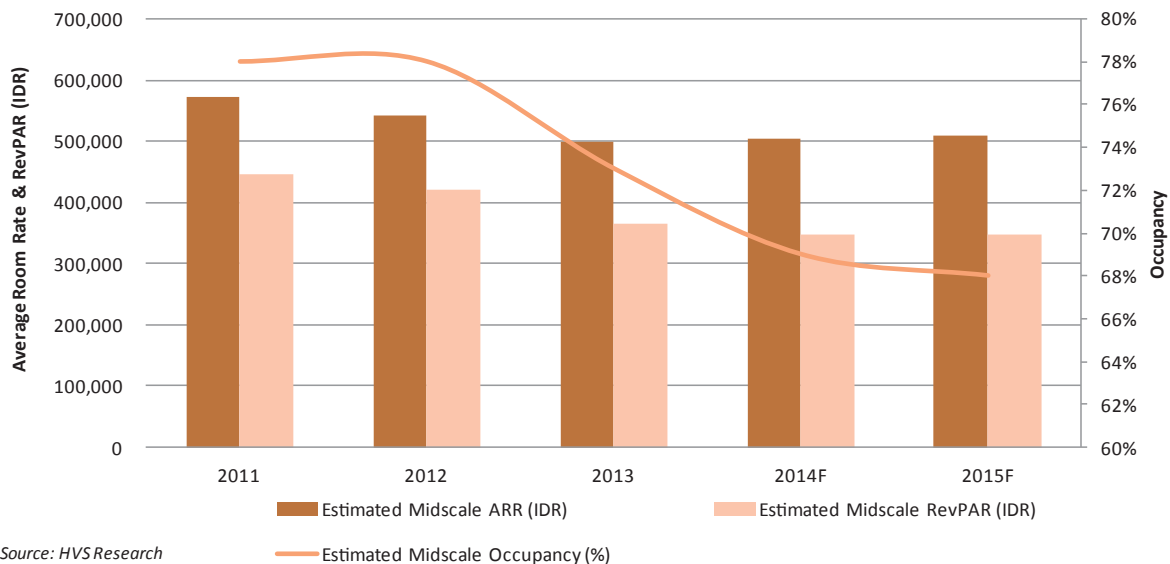
Five-Star Market	Occupancy (%)	ARR (US\$)	RevPAR (US\$)
2014F	0%	↑ 1%	↑ 1%
2015F	↓ -2%	↑ 1%	↓ -2%

Source: HVS Research

The **mid-scale hotel segment** has seen the most rapid decline in performance over the last three years from 2011 to 2013. While occupancy was relatively consistent in 2011 and 2012 at **78%**, it dropped to approximately 73% in 2013. Average room rate also declined throughout the period from IDR572,000 in 2011 to **IDR500,000** in 2013. The decline in both occupancy and rate was a direct result of the large amount of new supply that entered the mid-scale market in 2013.

With additional supply anticipated to enter this section of the hotel market, marketwide occupancy is expected to fall further to **69%** and **68%** in 2014 and 2015, respectively. Meanwhile the average room rate is projected to experience very limited growth during this period. The mid-scale hotel market in Bali is experiencing an oversupply situation, which is unlikely to change in the short term. However, in the mid-term, as fewer rooms enter the market, and as demand for affordable accommodation in Bali continues to rise, it is expected that the market will rebound to previous levels of healthy performance.

### MID-SCALE HOTEL MARKET PERFORMANCE (2011 - 2015F)



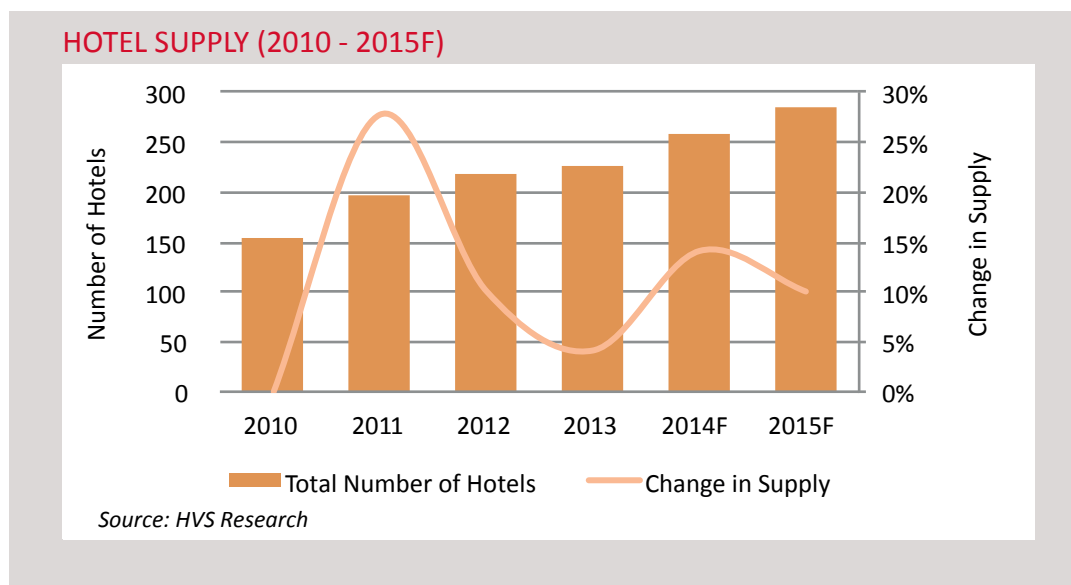
### GROWTH OUTLOOK FOR MID-SCALE HOTEL MARKET

Midscale Market	Occupancy (%)	ARR (IDR)	RevPAR (IDR)
2014F	↓ -4%	↑ 1%	↓ -5%
2015F	↓ -1%	↑ 1%	0%

Source: HVS Research

## NEW DEVELOPMENTS AND HOTEL SUPPLY

The hotel supply in Bali has increased to a great extent over the past several years. In 2010, there were a total of 155 star-rated hotels on the island, and this grew by 28% to 198 hotels in 2011. The rapid increase in hotel supply is not centered on a specific location in Bali, but is all across the island. Majority of the growth is witnessed in high-tourist traffic areas such as **Kuta, Nusa Dua, Legian** and **Ubud**.



The wave of expansion is supported not only by international hotel management chains, but domestic chains and independent developers as well. Proposed hotels cover a wide range of service and market positioning levels. Hotel supply is expected to increase by **14%** in 2014 to approximately 260 hotels, **10%** in 2015 to 290 hotels and by **5%** in 2016 to 300 hotels.

Almost two-thirds of the new supply is expected to enter the market at the upscale, upper upscale and luxury levels with **5,900** rooms across 31 new hotels. At these levels, a wide range of hotel brands and management companies are represented, with Accor, Hyatt, Starwood, Marriott, FRHI and InterContinental opening several hotels within a time span of three years.

At the mid-scale and economy level, 17 new hotels will come into the market with a total room count of **2,730** rooms. Tauzia Hotel Management dominates the supply pipeline at this level, with eight new hotels being developed, branded under the YELLO, POP! and Harris brands. Following suit is Accor with four new hotels under the Ibis and Ibis Styles brands.

The new hotel developments are not exclusive to a single area or zone, but encompass multiple destinations within Bali. Upcoming locations such as **Badung** are seeing numerous developments, as are traditional tourists' hotspots such as **Seminyak, Jimbaran** and **Kuta**.

## NEW ENTRANTS (UPSCALE AND LUXURY)

Anticipated Opening	Proposed Hotel	Location	No. of Rooms (Est.)
2014	Ramada Hotel & Suites Sakala	Tanjung Benoa	241
	Courtyard by Marriott Bali Seminyak	Seminyak	300
	Centara Grand Nusa Dua Resort & Villas	Nusa Dua	82
	Westin Ubud Resort & Spa	Ubud	100
	Alila Seminyak	Seminyak	72
	Hilton Garden Inn Bali Ngurah Rai	Kuta	292
	Ritz Carlton Bali	Tanjung Benoa	313
	Novotel Bali Ngurah Rai Airport	Denpasar	188
	Renaissance Bali Uluwatu Resort & Spa	Uluwatu	207
2015	Ritz Carlton Reserve Ubud Bali	Ubud	60
	Luxury Collection The Sarasvati	Seminyak	64
	Mercure Bali Legian	Kuta	299
	Amari Pecatu Bali	Uluwatu	435
	Hotel Indigo Bali Seminyak	Seminyak	280
	Mercure Bali Jimbaran	Jimbaran	220
	Movenpick Resort & Spa Jimbaran Bay	Jimbaran	270
	The Chedi Nusa Dua	Nusa Dua	100
	Jumeirah Bali	Jimbaran	110
2016	Aloft Hotel Bali Ubud	Ubud	138
	Aloft Hotel Bali Sanur	Sanur	100
	Andaz Bali	Sanur	144
	MGallery Awahita Retreat	Ubud	70
	Mercure Bali Echo Beach	Badung	138
	Fairmont Bali	Bukit Peninsula	170
	Raffles Bali	Bukit Peninsula	80
	Mandarin Oriental Bali	Bukit Peninsula	121
	Novotel Bali Semintak	Seminyak	294
	InterContinental Bali Canggu Resort	Kuta	170
	Hilton Garden Inn Bali Kuta	Kuta	125
	Shangri-La Nusa Dua	Nusa Dua	310
	ParkRoyal Pecatu Bali	Kuta	445
<b>Total Proposed Room Supply (Indicative)</b>			<b>5,938</b>

Source: HVS Research

**NEW ENTRANTS (MID-SCALE AND BUDGET)**

<b>Anticipated Opening</b>	<b>Proposed Hotel</b>	<b>Locatio</b>	<b>No. of Rooms (Est.)</b>
2014	YELLO Hotel Benoa Bali	Tanjung Benoa	300
	Fairfield Inn Bali Legian	Legian	82
2015	YELLO Hotel 99 Echo Beach	Canggu	124
	POP! Hotel Dewi Sri Bali	Kuta	136
	POP! Hotel Singaraja Bali	Singaraja	120
	Harris Hotel Seminyak	Seminyak	220
	Premier Inn Denpasar Bali	Denpasar	80
	Harris Hotel Sanur Bali	Sanur	80
	Quincy Boutique Hotel Bali	Jimbaran	200
	POP! Hotel Drupadi Seminyak Bali	Seminyak	120
	Harris Resort Benoa Bali	Tanjung Benoa	180
	Harris Resort Beach Cove Jimbaran Bali	Jimbaran	300
2016	Ibis Styles Bali Jimbaran	Jimbaran	150
	Holiday Inn Express Baruna Bali	Tuban	200
	Ibis Styles Bali Petitenget	Seminyak	148
	Ibis Bali Legian	Legian	110
	Ibis Styles Bali Airport	Kuta	180
Total Proposed Room Supply (Indicative)			2,730

Source: HVS Research

**MARKET OUTLOOK AND DEVELOPMENT OPPORTUNITIES**

Bali has long enjoyed the benefit of growing demand from domestic and regional markets across all segments. However, the overwhelming new supply expected to enter the market across all positioning over the next few years is likely to result in subdued RevPAR growth levels in the short to mid-term. In the long-term with the continuing rise in demand, the island's hotel market is expected to recover.

Having said that, as Bali's hotel market develops at such a rapid pace, the current improvements to infrastructure and the limited landing capacity of the airport may seem rather inadequate to serve the increasing demand. It is, thereby, essential that these infrastructure-related problems are reviewed regularly and addressed in order to sustain Bali's growth as a premier tourist destination.

Additionally, as land availability becomes scarcer (particularly beach front parcels in the more populated areas of the island), and as land prices soar in these areas, new hotel developments will in all probability succeed only if they offer a highly-differentiated product and experience compared to other hotels/resorts in the region.

# BINTAN

## BINTAN

### OVERVIEW

Bintan Island, largest of the 3,200 islands in the Riau Archipelago, is part of the Riau Islands province of Indonesia. Located about 48 kilometres southeast of Singapore, the island lies at an average of 10 metres above sea-level. Bintan is spread over approximately 2,400 square kilometres with its capital Tanjung Pinang, located in the southwest of the island. Bintan has a population of roughly 300,000 people.

Together with Batam Island, Bintan comes under the Sijori Growth Triangle agreement between Singapore, Johor of Malaysia and Riau of Indonesia, which is aimed at creating an attractive tourism destination for investors. As a result of the agreement, there are now three major developed areas in Bintan, namely the Bintan Industrial Estate in the Lobam region, the Bintan Beach International Resort (BBIR) region and the island's capital Tanjung Pinang. The main drivers of Bintan's economy are tourism and other industries.

### ACCESSIBILITY

Bintan is easily accessible via sea ferry to and from Singapore and Batam. The ferry ride from Tanah Merah Ferry Terminal in Singapore to Bintan's **Bandar Bentan Telani Ferry Terminal (BBTFT)** is less than one hour. Though Bintan has several other ports, tourists usually arrive via the BBTFT as it is closest to Bintan Resorts, situated within the Special Economic Zone. The Bintan Lagoon Resort is the only resort having an exclusive ferry line and terminal. **Tanjung Pinang terminal** is commonly used by visitors coming from other parts of Indonesia or those going to the capital. Bintan features a domestic airport in Kijang, known as **Raja Haji Fisabilillah (RHF) Airport** with limited connections to domestic destinations, including Jakarta. A new international airport is coming up at **Bintan Industrial Estate** in the Lobam region, a 35-minute drive from Bintan Resorts. This is expected to greatly enhance accessibility to the island for regional travelers who at the moment need to travel via Singapore.

The ongoing new resort supply coupled with the construction of the new international airport, and regional economic growth, have resulted in renewed tourism development interest in Bintan.

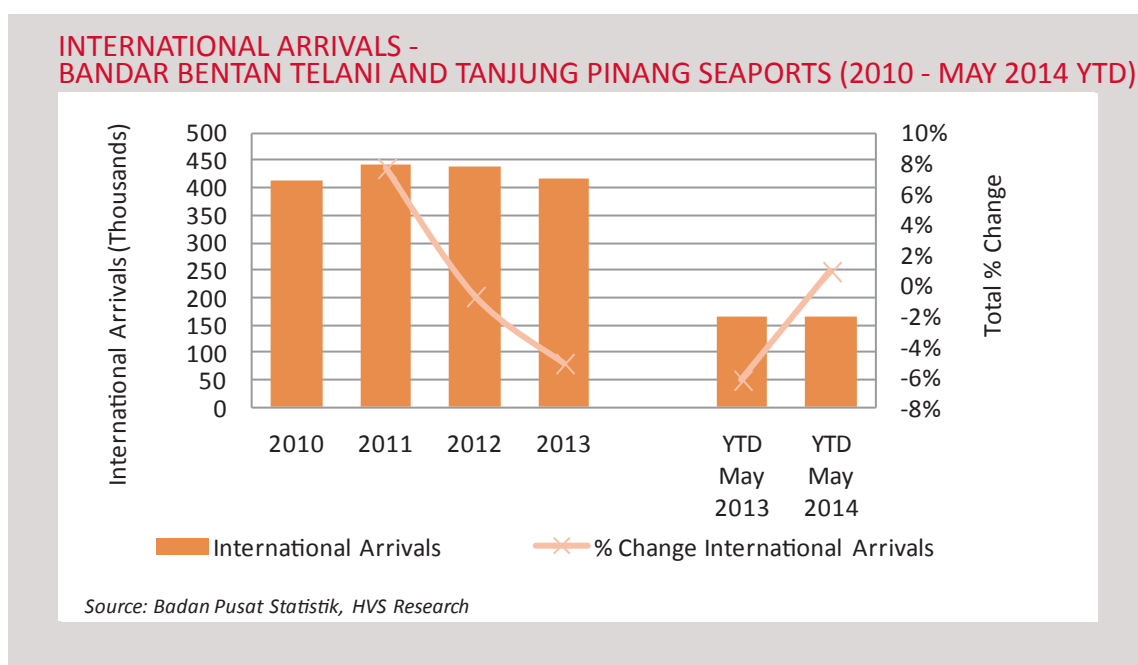
**International Airport:** The ground breaking ceremony was held in May 2012 and, previously, the airport was to start operating in 2015; although construction is progressing, the airport is not expected to be ready for operation until 2016. Built on a 294-hectare plot of land, the airport will feature one terminal and a 2.5 kilometre runway, serving domestic and international flights, as well as private planes. The development of the airport is being led by Gallant Ventures, Bintan's master developer based in Singapore, at an estimated cost of approximately S\$100 million. Garuda Indonesia, Indonesia's national carrier, and Gallant Venture have committed to the development of Bintan Island into a tourism and aviation hub.

## TOURISM MARKET OVERVIEW

The Indonesia Tourism Board is promoting Bintan to become the largest tourist destination in the country, after Bali.

International arrivals at both Bandar Bentan Telani and Tanjung Pinang seaports have been nearly steady, hovering at around 400,000, over the past five years, with a slight slowdown witnessed since 2011.

Plans for the new airport at Lobam industrial area are underway. The new airport, with a capacity of 3.5 million passengers per year, together with an adjoining ferry terminal having seamless connectivity to Batam Island and Singapore, are expected to increase the tourist arrivals in Bintan.



The total arrivals by ferry to Bintan are split between Bandar Bentan Telani (**75%**) and Tanjung Pinang (**25%**). In 2013, 417,747 tourists visited Bintan by ferry, with majority originating from **Singapore, South Korea and Japan**.

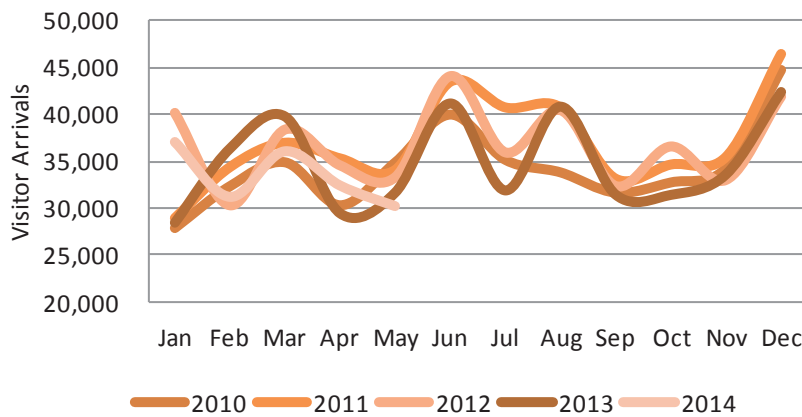
Cumulatively, from January to May 2014, total arrivals by ferry were recorded as 167,012, a slight increase compared to **165,505** registered during the same period in 2013.

Domestic tourists generally arrive in Bintan by airplane via the RHF Airport. In 2012, the Indonesia Ministry of Transportation recorded **144,884** arrivals at RHF Airport.

In the past three years the Bintan market has witnessed a very gradual slowdown in arrivals due to several setbacks. These include the lack of introduction of new hospitality players and attractions in the area; and ongoing competition faced by the island with other destinations in Indonesia that benefit from direct low-cost air connectivity to Singapore, which is Bintan's main feeder market.

International arrivals to Bintan are expected to increase significantly with the opening of the new international airport, which will be located 35 minutes away from most of Bintan's resorts situated to the north of the island.

**SEASONALITY OF INTERNATIONAL ARRIVALS - BANDAR BENTAN TELANI AND TANJUNG PINANG SEAPORTS (2010 - MAY 2014 YTD)**

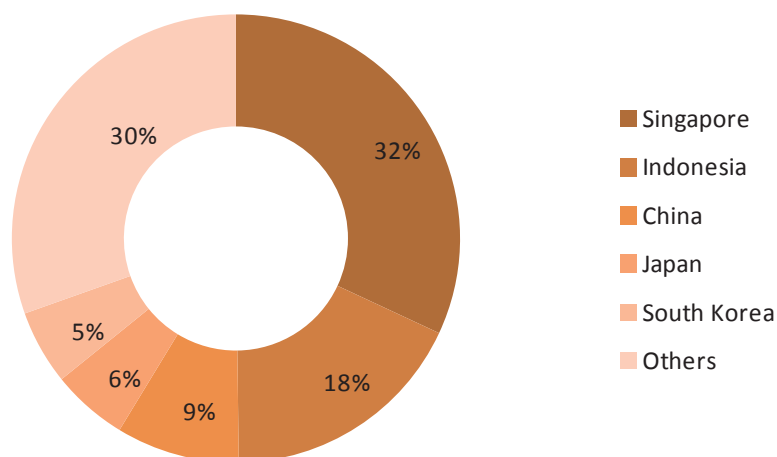


Source: Badan Pusat Statistik

Seasonality in Bintan follows a typical resort’s demand pattern influenced by public holidays, summer holidays and other periods of high leisure demand. For Bintan, these are closely related to Singapore’s public and school holidays due to the latter’s proximity to the island. Bintan is the closest ‘long weekend getaway’ destination for Singapore. The island’s hotel market, therefore, has a pronounced weekend/weekday demand pattern, with weekends largely witnessing tourists arriving from Singapore.

As the main international point of entry to Bintan is via ferry from Singapore, the country is the top feeder market for this Indonesian island. The top five origin nations of visitors to Bintan are from the Asia Pacific region: Singapore **32%**; Indonesia **18%**; China **9%**; followed by Japan **6%**; and South Korea **5%**. In recent years, the island has begun to attract a wider range of visitors from other countries, indicative of the tourism potential of this destination. With the new airport expected to enhance transport to the island, further diversification in feeder markets for Bintan is expected in the medium-to-long term.

**TOP FIVE SOURCE MARKETS TO BINTAN (2013)**



Source: HVS Research

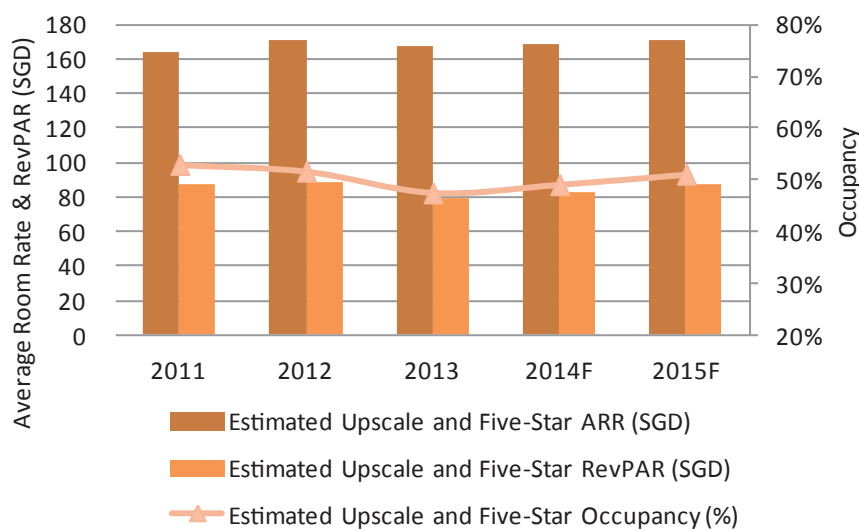
## HOTEL PERFORMANCE OVERVIEW

In terms of occupancy and average room rate performance, Bintan witnessed steady historical growth until 2011. Driven by a growing regional economy, coupled with a strong rise in discretionary spending, Bintan’s hotels have been able to tap the increasing leisure demand, as well as demand from a growing MICE sector.

In 2012, the hotel supply in Bintan experienced a modest growth in average room rate (**4%**) and RevPAR (**2%**). However, 2013 recorded a slight decline in RevPAR (**2%**) caused by lower occupancy, shorter lengths of stay and decreasing number of arrivals.

The short-to-medium term performance of Bintan’s hotel market is anticipated to be favourable as a result of the extensive marketing efforts undertaken by the island’s proposed developments, as well as increasing sales and marketing activities undertaken by the existing resorts. **Year 2014** is projected to record modest occupancy increases of 2% points, with average room rate anticipated to grow by approximately 1%.

### UPSCALE AND FIVE-STAR HOTEL MARKET PERFORMANCE (2011 - 2015F)



Source: HVS Research

### GROWTH OUTLOOK FOR UPSCALE AND FIVE-STAR HOTEL MARKET

Upscale and Five-Star Market	Occupancy (%)	ARR (SGD)	RevPAR (SGD)
2014F	↑ 2%	↑ 1%	↑ 4%
2015F	↑ 2%	↑ 1%	↑ 5%

Source: HVS Research

## NEW DEVELOPMENTS AND HOTEL SUPPLY

Bintan's hotel and villa market, which comprises approximately 1,260 keys in the upscale and mid-scale segments, is represented by brands such as Angsana Resort, Banyan Tree Bintan, Bintan Lagoon Resort, Club Med Bintan and Nirwana Gardens. Bintan has not seen any significant new supply enter the market in recent years. However, this is set to change as the planning and construction of large integrated resort developments are envisaged in the short-to-medium term.

Regional economic growth has resulted in increased demand for meeting space in Bintan for events and conferences. Historically, resorts in Bintan offered attractively-priced group accommodation during weekdays in an effort to grow the MICE market. However, the demand from this segment has outpaced supply of conference space in recent years. Resultantly, there is heightened competition among existing resorts with the appropriate facilities to capture the growing MICE demand. Nonetheless, Bintan remains ill-equipped to tap the full potential of this segment. The following hotels, among others, are planned to open in the near term on the island: Swiss-Belhotel Lagoi Bay in 2015 with 218 keys; The Sanchaya, a luxury all-villa resort with 30 keys, in 2014; and the Alila Villas Bintan, another all-villa resort with 52-keys scheduled to open in 2015. The integrated master plans are projected to add another 700 keys to Bintan's hotel market.

Accounting for the existing supply of rooms on the island, the pipeline of new hotels indicates a growth of approximately 50% by 2017.

### NEW ENTRANTS (UPSCALE AND FIVE-STAR)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	The Sanchaya	30
	Bintan Treasure Bay	40
2015	Alila Villas Bintan	52
	Swiss-Belhotel Grand Lagoi	218
	Pantai Indah Collections	139
	Quincy Boutique Hotel Bintan Island	200
<b>Total Proposed Room Supply (Indicative)</b>		<b>679</b>

Source: HVS Research

**Treasure Bay, Pesona Lagoi Bintan:** The Malaysian property developer, Landmark Berhad, is planning to develop a Water Resort City on a 338-hectare site. The site is located within Bintan's Special Economic Zone. Adjacent to the Bintan Telani International Ferry Terminal, this massive development is divided into five phases with a development timeline spanning 16 to 17 years. It will comprise of mid-scale, upscale and luxury resorts, serviced villas and residences, a dedicated multi-modal transportation terminal, a marina, as well as amenities for entertainment, retail, night-life and, food and beverage outlets.

Treasure Bay development is expected to attract a wide target market of holiday makers, as well as capture the region's growing MICE demand. The five-star resort will be called Treasure Bay.

**Lagoi Bay:** Lagoi Bay is a prime tropical beach resort development spread over 1,300 hectares, situated between the Banyan Tree Bintan and Club Med Bintan Island. It is an integrated tourism development with a number of parcels still available for sale, and several others under development. It will feature resorts, retail facilities, food and beverage outlets, residential development, a golf course, and extended leisure infrastructure. One of its key components will be the Lagoi Bay Village, which will feature the highest concentration of commercial, recreational and leisure activities in Bintan. It will be the hub of Lagoi Bay, and is expected to be a destination within Bintan similar to Patong in Phuket, or Kuta in Bali.

Numerous resorts are already under development, such as Alila Villas Bintan, Swiss-Belhotel Grand Lagoi and The Sanchaya, which is a member of Small Luxury Hotels of the World. Furthermore, residential and condominium developments are already under construction.

**Bintan Hideout:** Bintan Hideout by Epikurean, featuring 50 hotel villas, in addition to another 18 residential villas being planned, promises to be one of the most unique developments in Bintan. The privately located villas will offer peace, tranquility, stunning views and luxurious experiences in contemporary Asian style.

**Bintan North Star:** The majority of resorts and hotels in Bintan are concentrated on the northern side of the island. Further to the east of these developments, PT PMA Bintan North Star Resorts has planned 55 hectares of tourism areas. Bintan North Star will consist of hotels, villas and apartments, featuring an 872-metre stretch of sandy beach within the Free Trade Zone. At the moment, the project is under the master planning stage involving land clearance and infrastructure development. To complement the project, a new ferry terminal will be constructed just 6.3 kilometres away.

## MARKET OUTLOOK AND DEVELOPMENT OPPORTUNITIES

In recent years, the Bintan market has endured a number of setbacks, some of which are owing to of the typical cyclical nature of resort destinations. The advent of low-cost airlines and direct connectivity to other destinations within Indonesia has led to a decline in visitation from Bintan's primary feeder market - Singapore. Several changes in visa regulations to Indonesia in recent years have also had an adverse impact. Additionally, the absence of new resorts within Bintan has resulted in a decline in the destination's attractiveness compared to other island locations in Southeast Asia, augmented by the relatively poor accessibility to Bintan from other international locations, leaving Singapore.

However, in anticipation of several new integrated resorts and development projects, as well as strong regional economic growth and the potential of tourism demand from emerging markets such as India and China, the investment community is optimistic about the island's future. Furthermore, Bintan's new airport will give the island an opportunity to compete for its own domestic leisure segment. Improved accessibility and adequate facilities to capture the growing MICE demand will allow the island's hotel market to effectively target a wide range of demand segments.

Over the years, visitor arrivals to Bintan have been nearly stable, which is likely to trend positively in the future.

With the aggressive marketing of Lagoi Bay, Treasure Bay and other integrated resort developments, Bintan's visibility is anticipated to improve. The new supply of internationally branded resorts and boutique hotels will further increase the attractiveness of Bintan as a tourist destination. Moreover, the new residential developments in Bintan with marinas, entertainment facilities and retail enclaves will complement its resorts going forward.



# BOGOR

## BOGOR

### OVERVIEW

Bogor is a city on the island of Java, situated in West Java province approximately 60 kilometres south of Indonesia's capital, Jakarta. Bogor has had a long and rich history, serving as the capital city of the historical Sunda Kingdom during the middle-ages before being appointed as the summer-residence and administrative centre of the Governor-General of the Dutch East Indies. The city also hosts several historical and culturally important sites such as the Presidential Palace and the Botanical Gardens, one of the oldest and largest in the world.

Bogor covers an area of approximately 119 square kilometres and has an estimated population of one million as of 2014. However, majority of the city's population resides in the central part of Bogor. Here, several hundred thousand people live in a small area of only 20 square kilometres making it one of the most densely populated places in the world. The geographical boundaries of Bogor also encompass the satellite cities of Sentul, Puncak and Ciawi.

Bogor is also a popular leisure destination for residents in Jakarta. Leisure demand generators including cultural and heritage sites alongside modern water parks and theme parks attract visitors during weekends and public holidays. Business travellers also form a significant part of visitation to Bogor due to the presence of numerous industrial and commercial estates in the city's direct catchment area.

Bogor also serves as a popular alternate meeting destination for Jakarta-based government and corporate demand. Weekday demand in the city is almost exclusively composed of these meeting groups that see Bogor as an attractive off-site leisure-oriented meeting venue. These meeting groups encompass a wide variety of government ministries and corporate entities in the banking, manufacturing, commodities, ICT and trade industries.

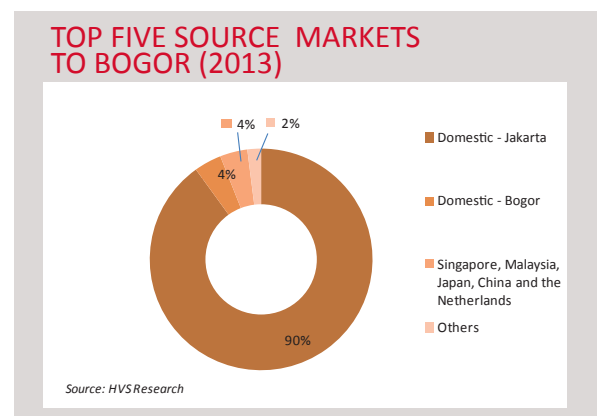
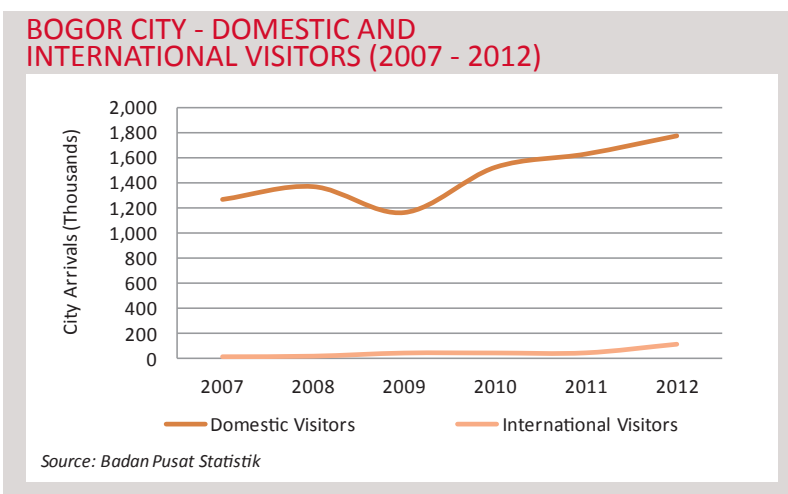
### ACCESSIBILITY

The city of Bogor is not served directly by its own international or domestic airport. It is instead served by the **Soekarno-Hatta International Airport** in Jakarta, which is approximately a 90-minute drive during good traffic conditions. However, as mentioned earlier, a vast majority of the visitors to Bogor are from Jakarta itself.

Primary access to Bogor from Jakarta is offered by the **Jagorawi Toll Road**, the first toll road in Indonesia. Completed in 1973, the toll road links Jakarta to Bogor and Ciawi, and hence the name Jagorawi, an acronym of the three areas it serves. The Jagorawi Toll Road was supposed to be extended, and subdivided into four additional sections. These extensions were to link Ciawi - Cigombong - Cibadak - West-Sukabumi - East-Sukabumi. However, due to problems surrounding land ownership and acquisition rights, the project has been delayed and is at a standstill since 2013.

## TOURISM MARKET OVERVIEW

Visitation to Bogor is predominantly domestic. While the number of domestic visitors have traditionally eclipsed that of international visitors, the gap is narrowing, although slowly. In 2007, domestic visitors accounted for **99%** of the total visitation to the city, however, in 2012, the share stood at **94%**. The growth in domestic visitors to Bogor has been consistent in recent historical years with the exception of 2009 during the global financial crisis. Domestic visitors increased from approximately **1.27 million in 2007 to 1.78 million in 2012**, corresponding to a 7% compound annual growth rate (CAGR) for the period. On the other hand, international visitation levels rose from 13,700 in 2007 to 111,000 in 2012, translating to a staggering 52% CAGR over the five-year period, primarily due to the strong industrialisation in Bogor, in particular, and in Java to a lesser extent.



Travellers from **Jakarta** and its outskirts represent 90% of the total arrivals in Bogor. This is followed by internal domestic visitation from Bogor city and the Bogor regency itself, at 4%. As far as international feeder markets are concerned, **Singapore, Japan, China** and the **Netherlands** are the largest individual source markets contributing a combined total of 4% of the arrivals to the city, whereas international arrivals from all other countries constitute the remaining 2%. While Bogor has seen an increase in international arrivals over the past couple of years, we foresee the market to continue being driven by domestic demand in the short-to-medium term.

The strong increase in **domestic visitation** is primarily due to the rise in meeting demand over the past few years as well as the establishment of newer and better tourist attractions in the area. This coupled with new hotel supply, has improved the market's product offering, enabling Bogor to cater to the growing MICE market with adequate facilities and attractive rates, in addition to drawing leisure demand from Jakarta. **International visitation**, on the other hand, has been mainly boosted by the establishment of new business and industrial growth in the city's immediate area. The single key driver to Bogor's impressive growth for hotel demand can be identified as its great **accessibility**. As opposed to other leisure and meeting destinations in Indonesia, such as Bali, Bogor is situated within driving distance from Jakarta (closer than other similar and comparable locations such as Bandung) resulting in travellers from the capital city saving both on time, as well as air fare.

## HOTEL PERFORMANCE OVERVIEW

The Bogor hotel market has enjoyed consistently high occupancy and average rate performance over the last few years despite the addition of new supply. Such performance has been generally driven by the weekday government and corporate meeting demand alongside weekend domestic leisure demand.

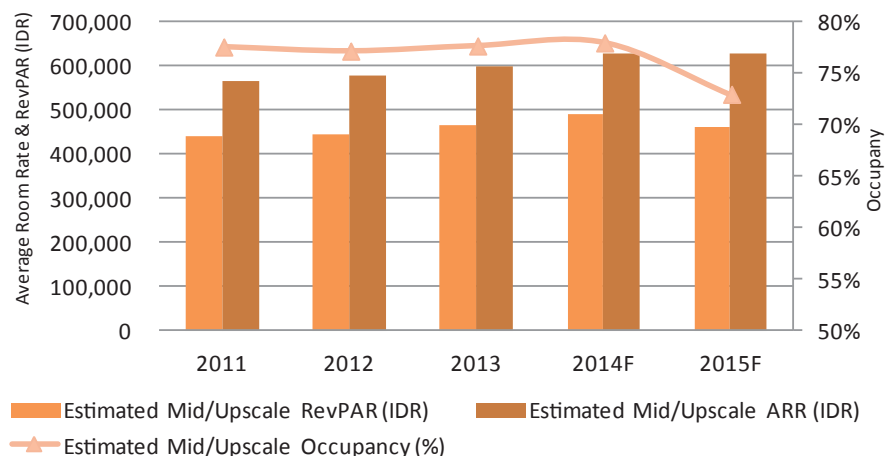
Demand in Bogor has kept pace with an increase in supply signaling unaccommodated demand. The **occupancy of mid-scale and upscale hotels** in the city has managed to remain consistently in the high 70s - occupancy in 2011, 2012 and 2013 was 77.6%, 77.2% and 77.7%, respectively - despite the growth in new hotel supply, which increased by 67% and 30% in 2012 and 2013, respectively. Additionally, **ADR of mid-scale and upscale hotels** increased by 3% annually from IDR568,000 in 2011 to IDR601,000 in 2013.

However, with the exponential increase in new hotels expected in 2014 through 2016, it is unlikely that the corresponding growth in demand will be able to maintain previous levels of occupancy in the market. As a result, marketwide occupancy is expected to drop once this new supply becomes operational. Average daily rate levels are expected to pick up slightly in 2014 touching IDR629,000. However, due to the large influx of new supply in 2015, rate growth for that year is forecast to be negligible, if any. As a result of declining occupancy levels and stagnant rates, the overall mid-scale and upscale market **RevPAR** is likely to fall from IDR467,000 in 2013 to IDR460,000 in 2015.

The ongoing popularity of the market is encouraging developers and investors to roll-out additional hotels and resorts well beyond 2015, further diversifying demand and supply for the mid-term, with signed projects in place up to 2017.

Total hotel supply is expected to increase significantly in 2014, 2015 and 2016 at the rate of 31%, 41% and 33%, respectively. The forecasted average annual growth rate from 2011 to 2016 is 40%.

**MID-SCALE AND UPSCALE HOTEL MARKET PERFORMANCE (2011 - 2015F)**



Source: HVS Research

**GROWTH OUTLOOK FOR UPSCALE AND FIVE-STAR MARKET**

Mid-scale and Upscale Market	Occupancy (%)	ARR (IDR)	RevPAR (IDR)
2014F	0%	↑ 5%	↑ 5%
2015F	↓ -5%	↑ 5%	↓ -6%

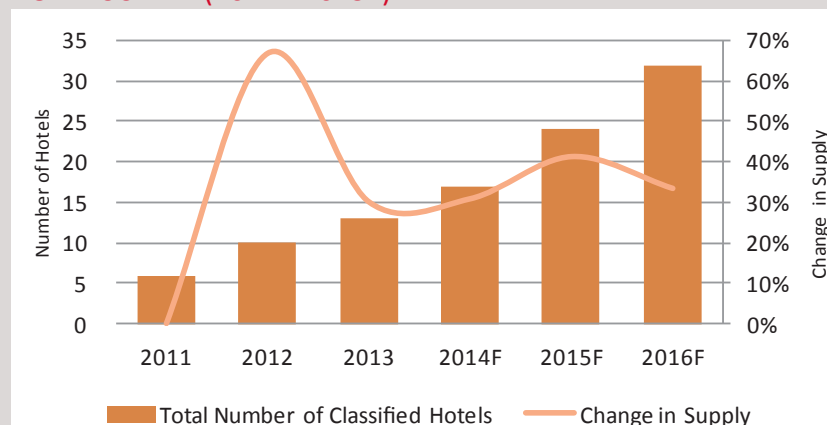
Source: HVS Research

## NEW DEVELOPMENTS AND HOTEL SUPPLY

Hotel development in Bogor has, in recent times, seen a boom largely in response to increased meeting and leisure demand from the key catchment area of Jakarta, and the fact that the city’s hotel market has basically operated at capacity for the last three to four years. In 2011, there were six classified hotels and this is expected to increase to 17 by the end of 2014. This number is set to nearly double to 32 by 2016, representative of a 40% CAGR in the number of hotels over the six-year period from 2011 to 2016. The largest influx of new hotels is likely to be in 2016 with supply starting to taper off 2017 onwards.

The majority of the new hotels that are coming on stream have a mid-scale, upper mid-scale or upscale positioning that are expected to add approximately **3,000** rooms to area’s current supply. Many international brands such as InterContinental Hotels Group, Best Western, Hyatt, Louvre Hotels Group and Pan Pacific, are looking to manage properties in the region over the next few years. Several home grown chains will be represented in the new supply as well. Archipelago will be adding another Aston property alongside the Alana, while Harris will be expanding into Puncak in the near future.

### HOTEL SUPPLY (2011 - 2015F)



Source: HVS Research

### NEW ENTRANTS (MID-SCALE AND UPSCALE)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Harris Puncak Bogor	138
	Best Western Bogor Icon	287
2015	Aston Sentul Resort and Conference Centre	220
	Holiday Inn Express Bogor	170
	Ibis Bogor	120
	Swiss-Belhotel Pakuan Suites & Residences	180
	Novotel Resort Sentul City	230
2016	ParkRoyal Rainbow Hills Bogor	225
	The Alana Sentul City	271
	Royal Tulip Gunung Geulis Bogor	200
	Golden Tulip Essential Sentul	150
	Harper Puncak Gate Bogor	303
2017	Pullman Vimala Hills	250
	Hyatt Regency Sentul	225
<b>Total Proposed Room Supply (Indicative)</b>		<b>2,969</b>

Source: HVS Research

## MARKET OUTLOOK AND DEVELOPMENT OPPORTUNITIES

Bogor is increasingly becoming an important meeting, business and leisure destination for individuals and organisations based in Jakarta. Traditionally, the changes in demand for hotel products in Bogor have followed the change in hotel supply. Whilst the market demand is expected to continue recording healthy growth, we anticipate that there may be a temporary demand and supply imbalance on the back of many hotel openings between 2015 and 2017.

However, we consider the market fundamentals to be favourable and expect the city's hotel market to recover in the long term in view of the increasing demand for quality meeting facilities and leisure retreats that Bogor and its immediate surroundings offer. With healthy levels of economic growth forecasted in Jakarta and Indonesia as a whole, Bogor is in line to benefit heavily from this. As the public and private entities in Jakarta begin to see a heightened atmosphere for stability and progress, there will be a continuous demand for new and improved meeting facilities, for which Bogor is an ideal destination. Additionally, with rising investor confidence and disposable incomes, both business and leisure demand is anticipated to grow exponentially.

Bogor's unique selling point is its proximity to Jakarta, a fundamental trait that provides it an intrinsic competitive advantage over other destinations in the region. Consequently, Bogor's hotel market will remain robust in the short-to-medium term, and the region will continue to be an attractive site for hotel investments across a variety of market positioning.



# LOMBOK

## LOMBOK

### OVERVIEW

Lombok is one of the two major islands that make up the West Nusa Tenggara province of Indonesia. It is part of the Lesser Sunda Islands chain, located to the east of Bali and to the west of Sumbawa, the other main island in the province of West Nusa Tenggara. The land area of Lombok measures approximately 4,739 square kilometres and has a population of about 3.2 million. The island is divided into four regencies: West Lombok, North Lombok, Central Lombok and East Lombok.

Strategically located near the tourism epicenters, Bali and Komodo Island, Lombok is a rising tourism destination in Indonesia. The island possesses a wealth of attractive characteristics that are favourable for the development of tourism such as the island's distinctive cultural mosaic, which is a blend of the main Sasak culture alongside Balinese, Javanese and other minority cultures. Additionally, the beautiful natural landscapes and settings, especially the famous Mount Rinjani and its long stretches of pristine beaches have tremendous potential to be developed for special-interest tourism activities, such as diving, rafting, rock-climbing and caving.

Tourism is an important source of income for Lombok. While most of the tourism activity is currently centered on the township of Senggigi, many unexplored and underdeveloped sites around the island remain untapped. Some of the major areas slated for development include the south and southwest of Lombok. The southern part of the island, in particular, is seeing a surge in development interest, further to the relocation of the international airport from Mataram to this place.

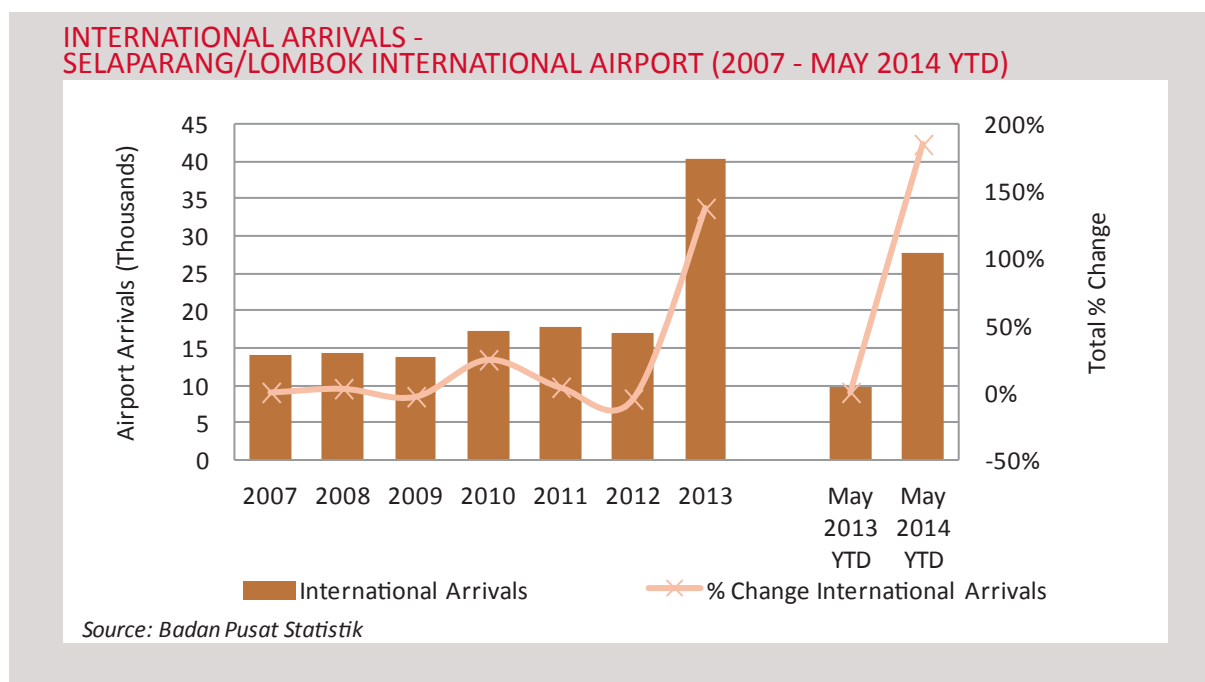
### ACCESSIBILITY

Lombok is currently undergoing a wave of resort development activity and the new **Lombok International Airport** that opened in October 2011, can be considered as the primary driver of this development. The new airport was constructed to replace the old Selaparang Airport, and in doing so has effectively increased the annual passenger capacity from 850,000 to three million. The Lombok International Airport boasts of a modern arrival terminal and has facilities that are able to cater to the largest of aircrafts. Its opening will help facilitate the growth of tourism on the island.

## TOURISM MARKET OVERVIEW

International arrivals to Lombok have remained fairly consistent prior to 2013. Years 2010, 2011 and 2012 registered 17,300, 17,900 and 17,000 international arrivals, respectively. Moreover, even during the global financial crisis in 2009, Lombok experienced only a marginal decline (3%) in international arrivals unlike other parts of Indonesia.

However, 2013 witnessed the island achieving a milestone of sorts in terms of international visitors; arrivals stood at approximately 40,400, corresponding to an astounding **137%** growth from the year before.



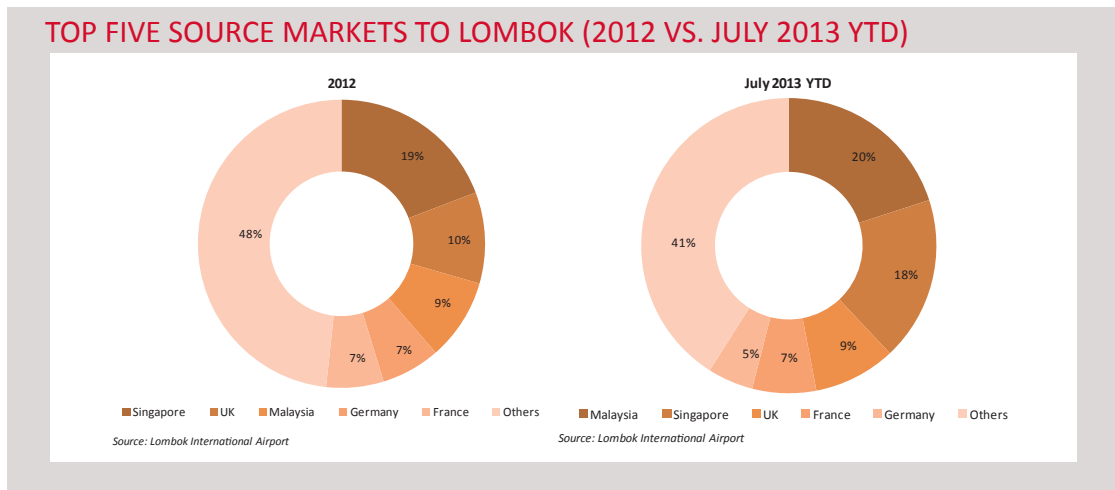
The unprecedented level of growth is attributable to the island's increasing popularity as an alternative leisure destination to Bali, as well as the increasing availability of flights to Lombok from both domestic and international destinations. At present, the Lombok International Airport serves six **domestic airlines**, which includes Garuda Indonesia, Lion Air, Merpati Air, Trans Nusa Air, Wings Air and Citilink Indonesia. These domestic airlines travel to/from seven different cities within Indonesia, including Jakarta, Denpasar and Surabaya, accounting for about 224 inbound flights to Lombok per week.

Among international carriers, Silk Air and Air Asia are already flying to/from Lombok, apart from a Siberian charter called Nordwind Airlines, and Jetstar, which operates four flights per week from Perth. However, it should be noted that Jetstar airways, which runs the only direct flights between Australia and Lombok, has announced that it will be halting all services between the two destinations from October 2014, due to a lack of demand for the route. This severing of a direct Australian connection may have an adverse impact on the future arrivals, particularly from the Australian feeder market.

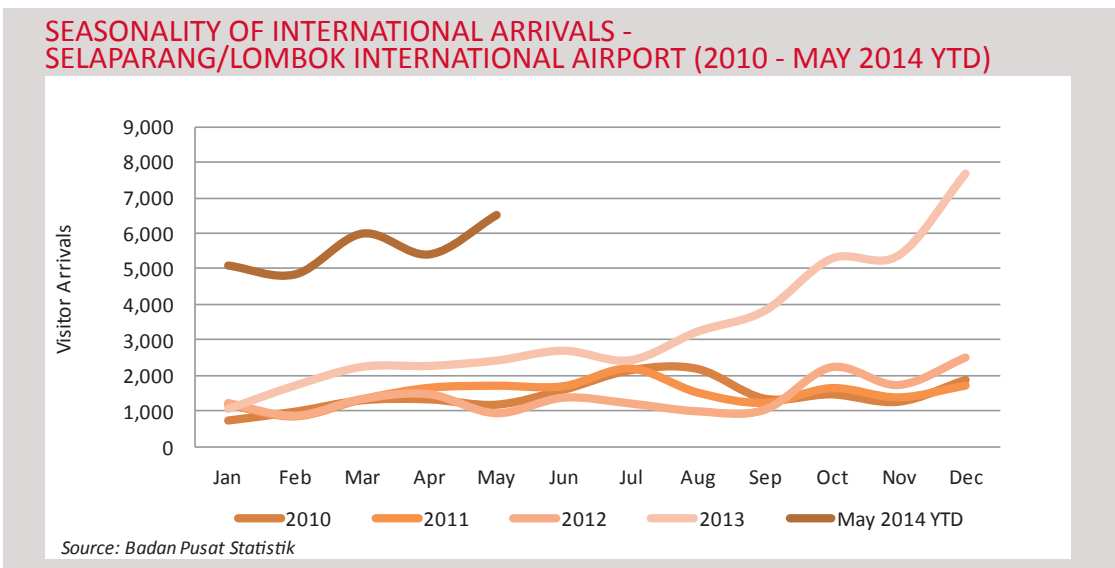
However, if year-to-date (YTD) arrivals up to May 2014 are any indication, the current year is set to surpass the arrival numbers recorded in 2013. **Till May 2014, 27,900 arrivals have been registered;** nearly three times the recorded number of arrivals (9,800) during the same period last year. This highlights the rapidly increasing appeal of Lombok as an international tourist destination.

Based on past trends, it can be concluded that the top few international feeder markets for Lombok are typically countries with direct flight access to the island. Per the July 2013 YTD data, the top feeder market for Lombok was **Malaysia** contributing 20% of the total arrivals, followed closely by **Singapore** at 18%, and the **United Kingdom** accounting for 9% of all arrivals. While the top three countries remained the same, the contribution ranking changed from 2012, when the order was Singapore (19%), the UK (10%), followed by Malaysia (9%).

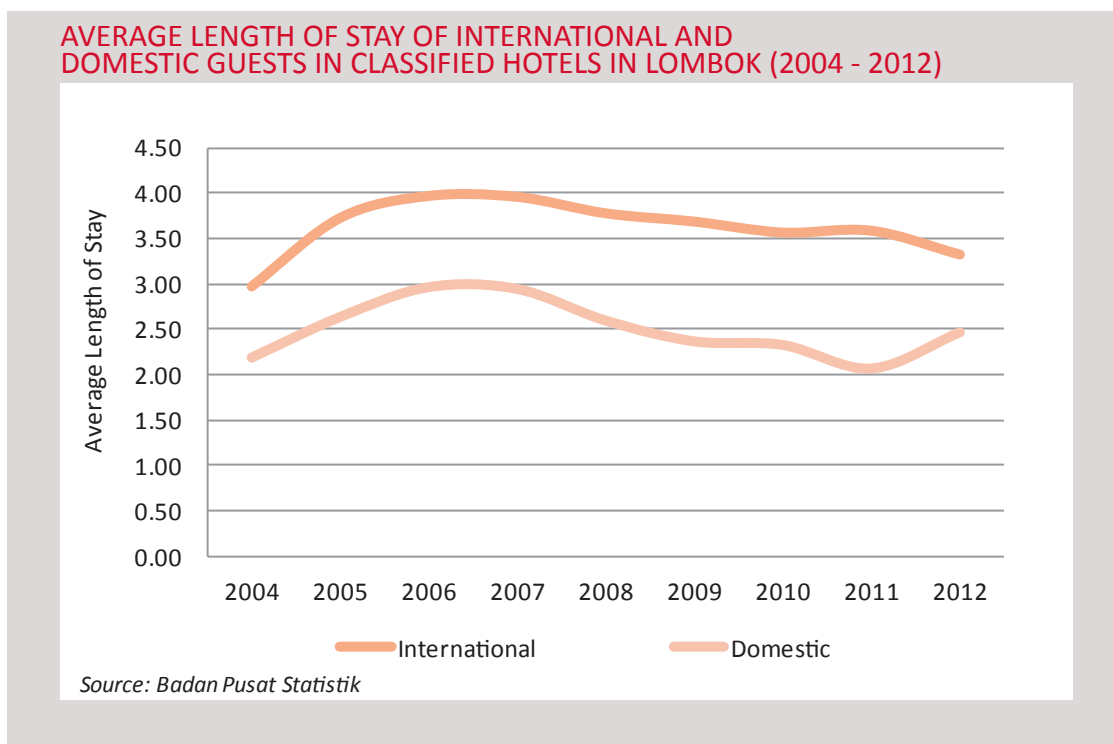
The rapid growth of Malaysia as a feeder market is largely owing to the increasing number of flights between the two destinations as well as the increasing popularity of the island among leisure travellers. Moving forward, low-cost carrier Tiger Airways is expected to operate three weekly flights between Singapore and Lombok. The addition of this new flight route is likely to bring in more international tourists from Singapore, especially budget travellers. Furthermore, it is also gathered that Cathay Pacific is considering introducing direct flights between Hong Kong and Lombok. This could potentially connect the island to other medium-haul markets outside of the Southeast Asian region, particularly the massive China market.



According to our discussions with the local hotel operators in Lombok, July, August, September and late December usually witness more arrivals than other months. This peak period coincides with the dry monsoon season, which lasts from May to August, and the festive period in the last two weeks of December. On the other hand, a slight decline in visitor arrivals is usually observed during the wet monsoon season, in late January and February, as well as during Ramadan.



The following chart depicts the average length of stay of visitors at three- to five-star hotels (mid-scale to luxury) in the West Nusa Tenggara region. The scope of the data covers the volume of visitor arrivals at star-rated hotels for the whole of West Nusa Tenggara, owing to the lack of tourism data that specifically captures the Lombok market. Nonetheless, as most of the star-rated hotels in the province are concentrated in Lombok, the data should offer a fairly accurate representation of the nature of visitation to the island.



During the period between 2007 and 2012, the average length of stay for international visitors remained fairly constant, whereas the average length of stay for domestic visitors underwent more noticeable fluctuations.

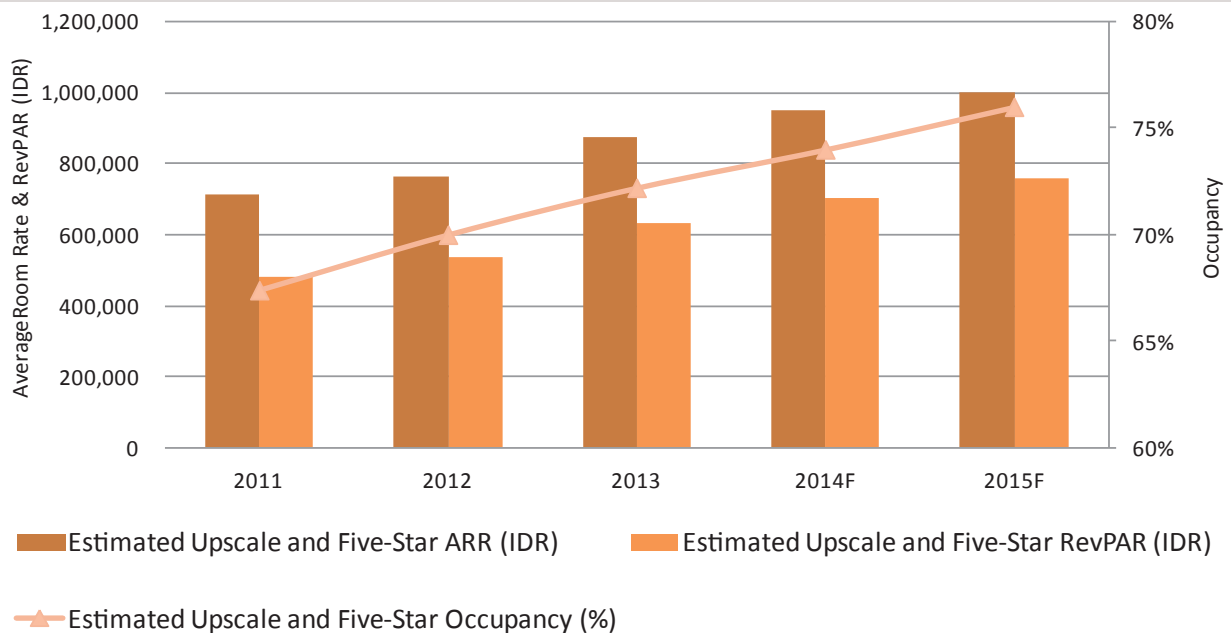
On the whole, the average length of stay at three- to five-star hotels for international visitors in the West Nusa Tenggara region is found to be generally longer than domestic visitors. In 2012, international visitors typically stayed for **3.50** days. In comparison, domestic visitors only stayed for an average of **2.94** days over the same period.

## HOTEL PERFORMANCE OVERVIEW

Lombok’s hotel and resort market currently comprises of approximately 47 hotel establishments, with the internationally branded segment comprising mainly upscale or luxury properties. Supply in Lombok has been generally increasing but majority of these hotels are domestically branded or have owner-operator models. There have been no significant additions to supply in the resort segment recently; however this is expected to substantially change in the mid-term.

At present, the **average occupancies** for most of the hotels and resorts in the market are around the mid-70s. Since 2011, occupancy has been steadily increasing following the increase in international arrivals and absence of new hotel supply. While we expect arrivals in Lombok to continue increasing over the next couple of years, seasonality characteristics may put a cap on occupancy growth. Nonetheless, we do anticipate continuous rise in average room rate for the market.

### UPSCALE AND FIVE-STAR HOTEL MARKET PERFORMANCE (2011 - 2015F)



Source: HVS Research

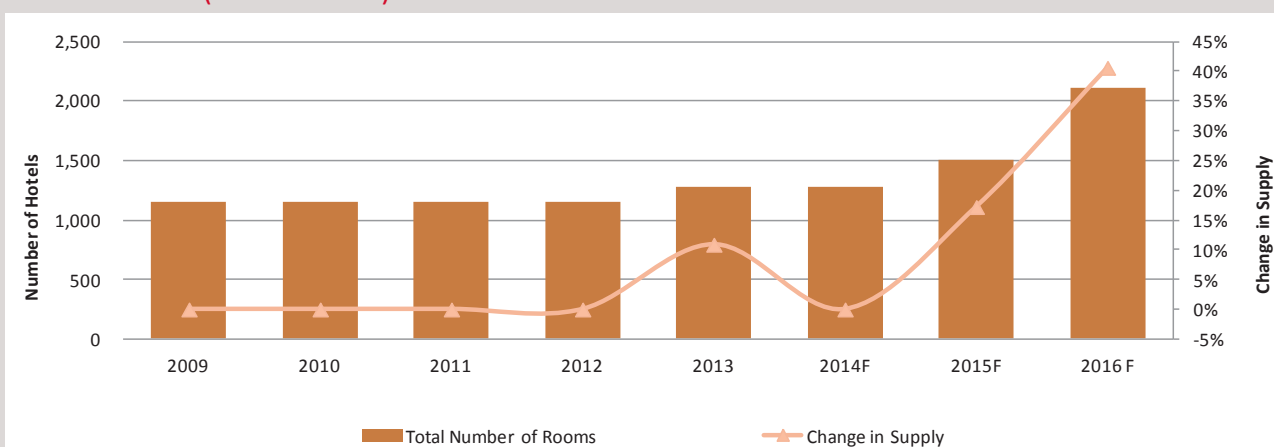
### GROWTH OUTLOOK FOR UPSCALE AND FIVE-STAR HOTEL MARKET

Upscale and Luxury Market	Occupancy (%)	ARR (IDR)	RevPAR (IDR)
2014F	↑ 2%	↑ 9%	↑ 11%
2015F	↑ 2%	↑ 5%	↑ 8%

Source: HVS Research

Average rates have been increasing at a strong pace in recent years. The marketwide ADR increased by **7%** from 2011 to 2012, and rose once again by **18%** from IDR765,000 in 2012 to IDR900,000 in 2013. This high level of rate growth is expected to continue through 2014 and 2015, as demand for good quality resort products in Lombok continue to rise. As a destination, Lombok holds a lot of potential for both high occupancy and rate growth, similar to high-end resort locations in neighboring Bali. In 2014, occupancy is estimated to increase by two percentage points to 74%, while ADR is expected to rise by 9% to approximately IDR950,000. Going forward, 2015 is anticipated to record slightly lower growth rates than the previous year due to new supply entering the market. Occupancy is expected to grow by two percentage points to 76% and ADR is likely to increase by 5% to IDR1 million.

### HOTEL SUPPLY (2009 - 2016F)



Source: HVS Research

### NEW DEVELOPMENTS AND HOTEL SUPPLY

Total hotel supply is expected to increase substantially in 2015 and 2016 at the rate of 17% and 41%, respectively. As there are many expected projects and rumored supply beyond 2016, it is likely that the market will see a swift and rapid rise in new developments after this period.

While there is much ado about hotel developments in Lombok, the majority of these projects can still be considered speculative or in the very early planning stages. However, there are two major masterplan developments, the **Sundancer Resort** and the **Mandalika Bay** project that will add significant amount of rooms into the market when the later phases of these developments are realised. Following the opening of the Lombok International Airport, the previously delayed **Sundancer Resort** project in Sekotong resumed construction. The Sundancer development will be rolled out in six stages and will offer a mix of hotel, residential and commercial developments spread across 49.5 hectares.

Another major project is the **Mandalika Resort Development**, which is a sprawling 1,175-hectare development to the south of Lombok governed by the Bali Tourism Development Corporation, the same company which successfully operates the Nusa Dua hotel complex. Plans for this integrated resort development include five luxury resorts and hotels, theme parks, a marina, golf courses, and a convention centre, all surrounded by a nature conservation zone.

As of now, 1,082 rooms across upscale and luxury positioning are in the pipeline, which will be introduced into the market over the next few years leading up to 2017.

However, this number could undergo an upward revision as and when more information is available. Considering the duration of planning and construction, it is expected that majority of the new supply will enter the market in 2016 and beyond, and Lombok's room supply will in all likelihood double over the next six to seven years. Presently, there is a speculative supply of three new resorts slated to enter the market in early 2018. These three resorts would potentially offer an additional 300 rooms. However, as they are rumored developments, they have been excluded from the analysis.

#### NEW ENTRANTS (UPSCALE AND LUXURY)

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2015	Sundancer Resort & Spa	146
	Royal Kamuela Lombok	75
2016	Renaissance Resort & Spa Lombok Gili Trawangan	200
	Aston Condotel Senggigi	411
2017	Club Med Mandalika	250
<b>Total Proposed Room Supply (Total)</b>		<b>1,082</b>

Source: HVS Research

#### MARKET OUTLOOK AND DEVELOPMENT OPPORTUNITIES

The tourism sector in Indonesia continues to expand, as evident from the constant year-on-year growth in international tourist arrivals over the past few years. In particular, there is a growing interest in emerging resort destinations, with many market players and travellers taking note of their massive potential.

Specifically, in the case of Lombok, the central and provincial governments are actively promoting the destination, alongside the neighbouring island of Sumbawa, as Indonesia's next big tourism hot spot.

Moving forward, new growth areas in the south coast of Lombok will witness the largest waves of tourism-related development, with the impending completion of the Sundancer Resort and the early phases of the Mandalika Resort, plus many other pristine sites earmarked for development within convenient proximity of the airport.

Buoyed by the opening of the new airport and the sustained growth in tourist arrivals, Lombok is poised to enter the next phase of development, building on its growing reputation to become a top tourist destination in the medium-term. Lombok's international arrivals have seen a remarkable jump in the last two years. Arrivals in 2013 doubled from the year before and 2014 YTD data seems to indicate that this feat might be repeated. With a strong growth in regional travel and an optimistic domestic market, as well as Lombok's increased connectivity with national and regional ports of travel, the island's growth seems imminent.

The establishment of the Mandalika Resort project is a milestone in Lombok's development as a premier tourist destination in Indonesia. The project is anticipated to create a new wave of demand and will likely bring in high volumes of international visitors to the market. This substantial growth will be readily supported by the new Lombok International Airport. As Bali faces challenges of oversupply and soaring land costs, investors might turn to Lombok as an attractive alternate site for hotel investments.

High average rate growth alongside consistent and relatively high occupancy levels in Lombok's upscale and five-star market is priming the island for development opportunities across a wider range of market positioning from mid-scale hotels and resorts, to luxury resorts.



# MEDAN OTHER MARKETS

## MEDAN

### OVERVIEW

Medan is the capital of the North Sumatra province in Indonesia. Located along the northern coast, it is the fourth-largest city in the archipelago behind Jakarta, Surabaya and Bandung, in addition to being the largest Indonesian city outside Java. It is estimated to be a home to approximately three million people. Medan is situated on Indonesia's westernmost island of Sumatra. It was historically colonised by the Dutch, who are responsible for much of the city's architecture.

Medan is considered to be an economic and commercial hub of the northern part of Indonesia. In the last decade, the business sector in Medan has grown significantly with a number of technology, telecommunication, finance and marketing companies establishing themselves in the city. Medan is also the marketing, commercial, and transportation centre of a rich agricultural area containing great tobacco, rubber, and palm oil estates. Coffee and tea are also grown in the vicinity. Industries in the city are involved in automobile assembly, and the production of machinery and tiles.

Medan, gateway to the beautiful **Lake Toba region**, is also a tourist centre, with an international airport. The city's attractions include the Great Mosque (the largest in Sumatra) and the Palace of the Sultan of Deli.

### ACCESSIBILITY

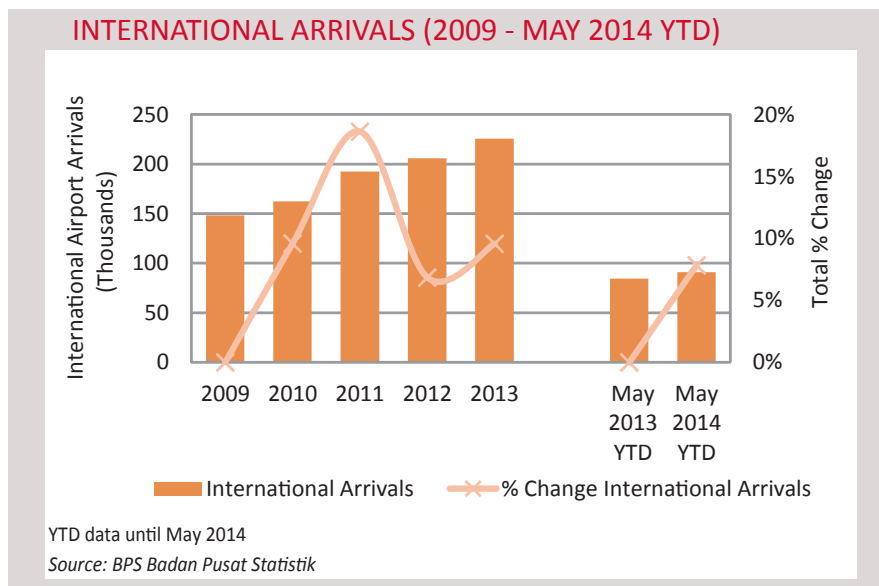
Most visitors arrive into Medan by plane through the **Kuala Namu International Airport**, which replaced Medan Polonia Airport in July 2013. Polonia had the capacity to handle only about one million passengers per year, but further to the city's rapid economic growth, the airport was operating at eight times its capacity. The new airport is situated around 50 kilometres from Medan and is able to accommodate wide-bodied aircrafts. It is understood that the airport is already operating at a capacity of around eight million passengers annually.

Presently, the airport is internationally connected to Singapore, Malaysia, and Bangkok. Air connectivity to other destinations is anticipated to improve, with new connections under discussion with several airlines. Moreover, talks are underway for additional domestic flights to Surabaya and Bali in 2014, and, internationally, to Hat Yai in Thailand, Ipoh in Malaysia, and to long-haul markets such as Jeddah, Frankfurt and Amsterdam. It needs to be noted that the latter two destinations are highly speculative at this point in time.

Medan's economic growth has put tremendous pressure on the city's infrastructure, where traffic jams are common. Furthermore, even as the new airport has become operational, a toll road linking the airport with Medan (proper) is still under planning, hampering the access between the two points. It is believed that the airport toll road will be completed over the course of 2014; however, its progress is slow-paced owing to land acquisition challenges. Also, plans are underway to expand the airport's annual capacity to 16 million passengers in the second phase, and eventually to 22 million by 2023.

## TOURISM MARKET OVERVIEW

The tourism market in Medan is mainly driven by demand from **local corporate** and **government** sectors. The city's rapid economic growth has contributed to a noteworthy rise in visitation over the years, which recently received a further boost on the back of the new and improved airport facilities.



**Leisure demand** exists, albeit mainly during the weekends, with the majority of the domestic demand stemming from Sumatra. International weekend leisure segment, on the other hand, typically travels to Medan for golf, shopping, or for the city's nightlife.

Visitation to the city is predominantly domestic, with the upscale and five-star hotel market capturing almost **75%-80%** of the total arrivals. Internationally, Medan's primary feeder markets are directly linked to the city's international air connections; resultantly, Singapore and Malaysia are the most dominant feeder markets.

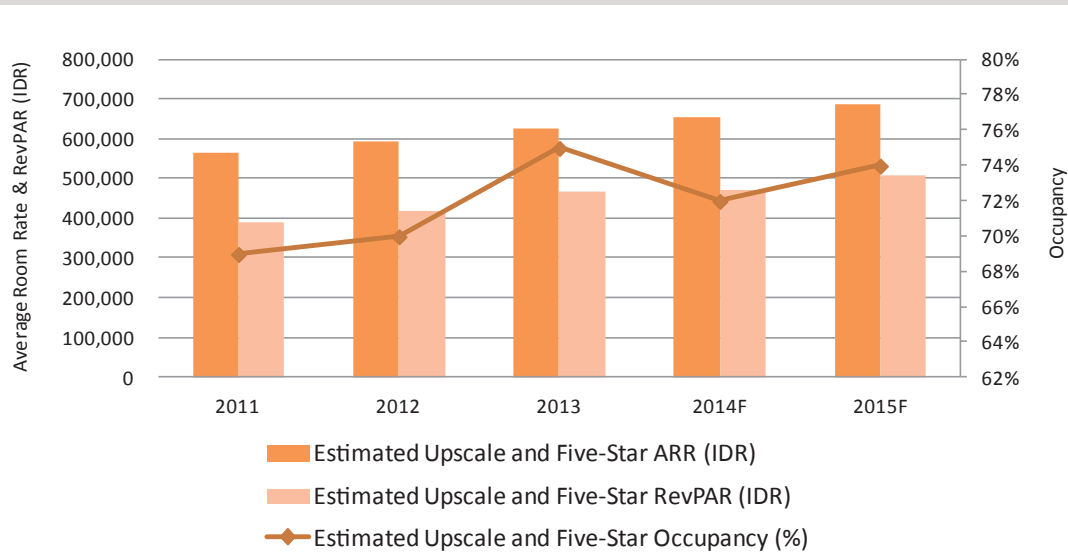
## HOTEL PERFORMANCE OVERVIEW

Internationally branded hotels were basically absent from the Medan market until 2007. This changed after the opening of the JW Marriot Hotel Medan, the Grand Aston City Hall Medan and the Grand Swiss-Belhotel Medan, introducing a total of more than **770** rooms between 2008 and 2010.

Despite the large number of rooms introduced into the Medan market in the past, the upscale and five-star segment in the city has historically experienced healthy occupancy and room rate growth owing to a steadily increasing flow of arrivals. Going forward, however, the market is forecast to record a drop in occupancy by three percentage points due to fewer arrivals expected as a result of the presidential elections and the absence of a large number of international events in 2014. These international events induced significant room nights into the market in 2013 through three medical conferences and the APEC summit held in July.

The average YTD occupancy for upscale and five-star market in Medan stood at **69%** till July 2014, which is predicted to go up to **72%** by the end of the year, a few points behind 2013 full year performance. Conversely, average room rates are forecast to continue growing at the rate of inflation in the immediate foreseeable future, in anticipation of future demand growth and the lack of new supply entering the market.

### MEDAN UPSCALE AND FIVE-STAR HOTEL MARKET PERFORMANCE (2011 - 2015F)



Source: HVS Research

### GROWTH OUTLOOK UPSCALE AND FIVE-STAR HOTEL MARKET

Upscale and Five-Star Market	Occupancy (%)	ARR (IDR)	RevPAR (IDR)
2014F	↓ -3%	↑ 5%	↑ 1%
2015F	↑ 2%	↑ 5%	↑ 8%

Source: HVS Research

### MARKET OUTLOOK AND DEVELOPMENT OPPORTUNITIES

At the moment, there are a number of developers engaged in talks with domestic and international brands to develop new hotels in the city of Medan - both stand-alone as well as part of mixed-use developments, such as an attachment to a shopping mall. No official announcements have been made as to what brands will be attached to these developments.

In the short term, no new hotel openings are expected in the Medan market, which is envisaged to have a positive effect on occupancy and room rate growth for the coming years. The new airport's upcoming connections are also anticipated to favourably impact the demand for accommodation in the city.

Besides an increasing volume of bookings from the government and corporate segments, the leisure segment holds great potential as well. The latest attraction to be added to the market, the Centre Point Mall, which opened in early 2014, is already generating a fair amount of domestic and regional interest. As the most advanced city in Sumatra, Medan also plays a dominant role as a gateway city to the rest of the region because of its close proximity and convenient accessibility from Singapore and Malaysia. Further economic development in Sumatra is likely to benefit Medan's hotel market across all positioning.



# YOGYAKARTA

## OTHER MARKETS

## YOGYAKARTA

### OVERVIEW

Yogyakarta is the capital city of Yogyakarta Special Region in Java, and is one of Indonesia's 32 provinces. The Yogyakarta Special Region is among the most densely populated areas in Indonesia, stretching from Mount Merapi to the Indian Ocean. The city has an area of approximately 32.5 square kilometres, and experiences humid tropical climate.

Yogyakarta offers many historical sites, museums and monuments, besides a lively art and cultural heritage, golf courses, volcanic mountains and exciting shopping destinations. It is renowned as a centre for classical Javanese fine art and culture such as batik, ballet, drama, music, poetry, and puppet shows. Furthermore, Yogyakarta is also famous as a centre for Indonesian higher education, with a multitude of universities, in particular the Gadjah Mada University, which is one of the country's most recognised and prestigious universities.

Because of its proximity to the world famous **Borobudur** and **Prambanan** temples, Yogyakarta has become a pivotal tourist destination in Indonesia after Bali. Most tourists stay in Yogyakarta for visiting the afore-mentioned temples and to get a taste of the Javanese culture and tradition.

Tourism is the biggest contributor to Yogyakarta's economy, followed by the agriculture and mining industries.

### ACCESSIBILITY

**Adisucipto International Airport** is the main airport serving the Yogyakarta area, and is situated around six kilometres away from the city center. The airport, currently served via a number of international routes, such as Kuala Lumpur, Johor Bahru and Singapore, is one of the busiest in the Java-Bali region.

This airport is unable to accommodate the surging passenger traffic, operating at more than five times its designed capacity. Therefore, plans are underway to construct a larger airport in the Kulon Progo Regency, called **Kulon Progo Airport**.

It is gathered that barring construction delays, the airport will commence operation in 2017 and will have a capacity of 20 million passengers once completed. In the first phase, the airport is planned to have a runway of 3,000 metres, long enough to accommodate wide-bodied aircrafts. Based on the masterplan, the international airport will be able to accommodate up to 28 aircraft in its aprons.

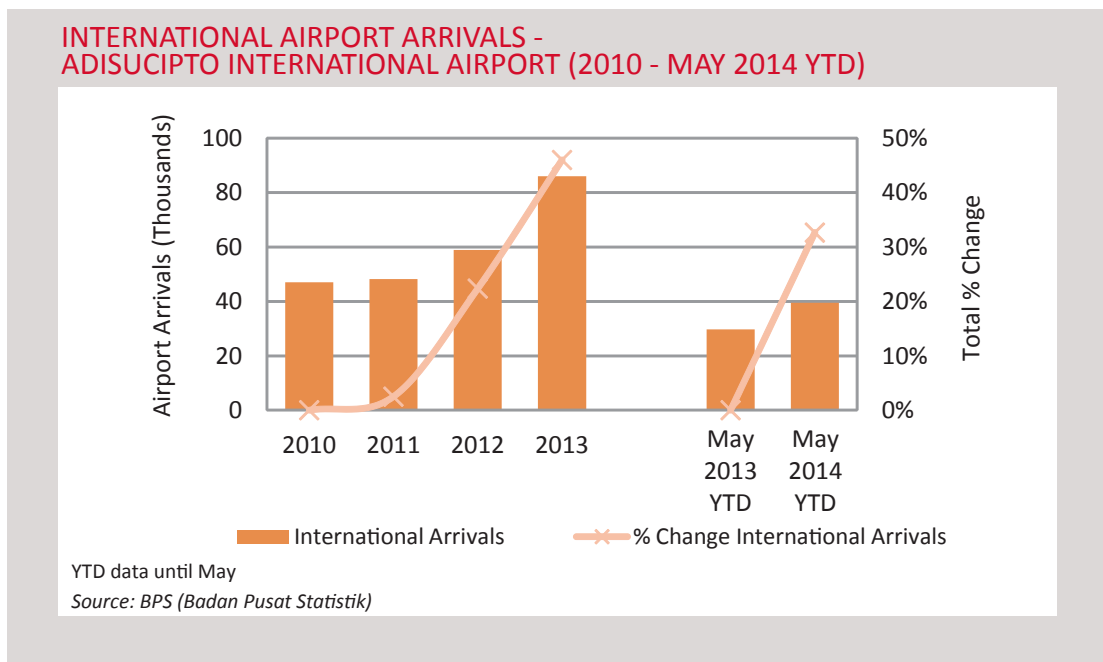
Also included in the project, is an **Airport City**, which is envisaged to include a hotel, an airport hospital, and other facilities. Additionally, an airport railway would be built to facilitate transport between the airport and the city of Yogyakarta in cooperation with state railway company PT Kereta Api Indonesia (KAI).

The realisation of the new airport is much anticipated by Yogyakarta's hotel sector, as improved and extended airport facilities of an international stature are envisaged to attract several additional international feeder markets.

## TOURISM MARKET OVERVIEW

Yogyakarta’s tourism industry has experienced impressive growth in the past few years, with domestic demand as the primary driver. The traditionally strong domestic government and corporate meeting segments are increasingly using Yogyakarta’s upscale hotels, currently accounting for more than half of the accommodated demand.

Where normally domestic guests make up more than 90% of a hotel’s guest profile in most markets in Indonesia, international demand in the upscale and five-star hotel segment of Yogyakarta accounts for approximately 30%-35%, and in some cases even up to 40% of the overall guest profile.



**Singapore** and **Malaysia** are the rapidly growing feeder markets for Yogyakarta, with **Japan** and **Western-European** countries such as the Netherlands also accounting for a large portion of international arrivals.

In general, international arrivals at Adisucipto International airport have grown at an average of 22.3% between 2010 and 2013, with May 2014 year-to-date recording arrival growth of **32.6%** compared to the same period last year.

Total passenger traffic at Yogyakarta’s Adisucipto International Airport has grown tremendously; making it one of Indonesia’s fastest growing airports in recent years. Between 2008 and 2013, total passenger traffic grew at **15.6%** annually on an average.



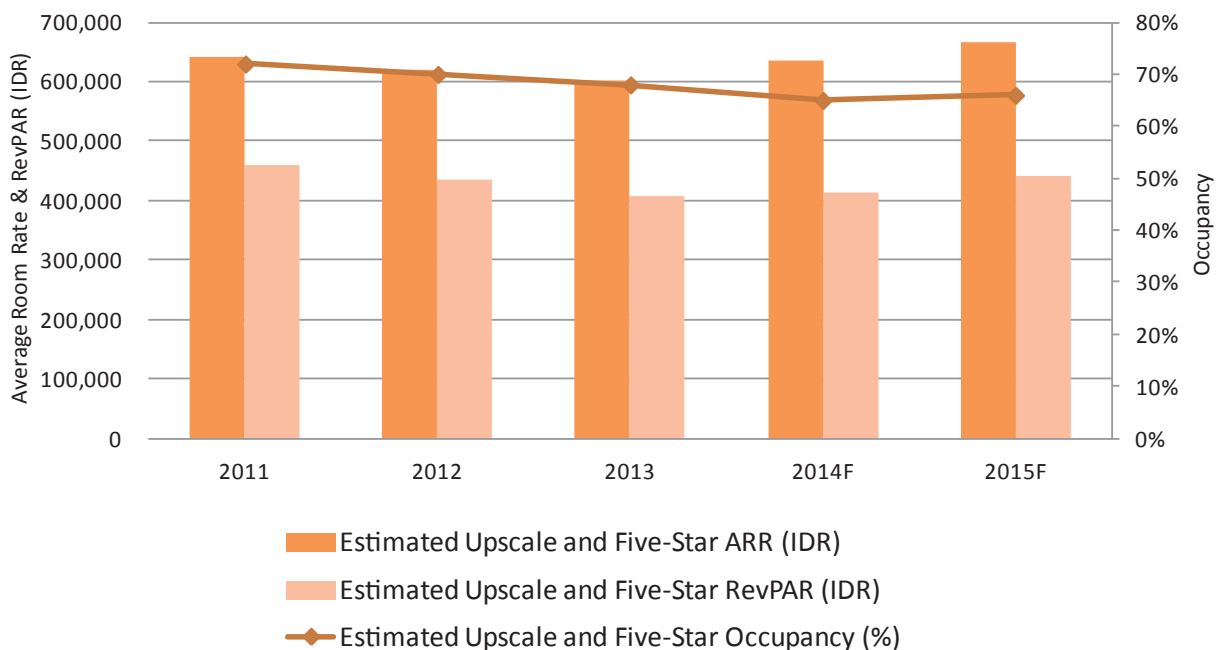
## HOTEL PERFORMANCE OVERVIEW

Occupancies and room rates of the upscale and five-star hotels in Yogyakarta have seen a decline in the past two-to-three years as a result of a significant amount of new hotel supply entering the market. In general, between late 2012 and mid-2014, the Yogyakarta hotel market has seen an increase of 60% in rooms supply, with accommodated demand growth lagging behind at **19%** during the same period.

A large number of new hotels, more than **70**, are non-hotel association affiliated hotels with small room counts (15-20 keys) and operating at low price points. As a result, they adversely affect marketwide performance.

Furthermore, recent hotel openings in Yogyakarta include the 274-room Tentrem Hotel, the latest addition to the five-star market, which opened in early 2013, and the Grand Aston Yogyakarta, which also opened in 2013 with 141 rooms. Consequently, the marketwide occupancy is forecast to drop to **65%** by the end of 2014, from approximately 68% recorded in 2013. However, after a decline in average room rate in 2013 to **IDR600,000**, the market is projected to see a modest growth of around **6%**, this year translating to an average room rate of **IDR635,000**.

### YOGYAKARTA UPSCALE AND FIVE-STAR HOTEL MARKET PERFORMANCE (2011 - 2015F)



Source: HVS Research

### GROWTH OUTLOOK FOR UPSCALE AND FIVE-STAR HOTEL MARKET

Upscale and Five-Star Market	Occupancy (%)	ARR (IDR)	RevPAR (IDR)
2014F	↓ -3%	↑ 6%	↑ 1%
2015F	↑ 1%	↑ 5%	↑ 6%

Source: HVS Research

## NEW DEVELOPMENTS AND HOTEL SUPPLY

Apart from a substantial amount of new unbranded hotels, Yogyakarta is slated to see at least **969** branded rooms entering the market in the short-term. The Archipelago Group will open its second Indonesian-based Alana Hotel, which will also feature Central Java's largest conference centre.

Additional future hotel openings are the Harper Mangkubumi; Melia's mid-market brand the Inside by Melia with 258 keys (to be opened in 2015); and a five-star hotel of approximately 287 rooms whose branding is yet to be disclosed.

The new branded hotel supply in Yogyakarta is expected to further raise the profile of the overall hotel market complementing the estimated growth in future arrivals.

### NEW ENTRANTS

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	The Alana Hotel & Residence	269
	Harper Mangkubumi	155
2015	Inside by Melia	258
	Five-Star Internationally Branded Hotel	287
	Holiday Inn Express	178
TBC	HARRIS Hotel Kotagede	TBC
<b>Total Proposed Room Supply (Indicative)</b>		<b>1,147</b>

Source: HVS Research

## MARKET OUTLOOK AND DEVELOPMENT OPPORTUNITIES

The Yogyakarta hotel market enjoys strong demand growth fundamentals. The city houses one of the most popular demand generators globally, **the Borobudur Temple**, which is the largest Buddhist temple in the world.

Although the influx of new hotel supply has somewhat compressed the market's yield levels, opportunities for hotel development still exist across all segments. Whilst hotel supply and demand growth will mostly be witnessed in the three and four-star segments, opportunities for five-star hotel products exist in the mid-term by when average room rate levels are expected to pick up.



# MAKASSAR

## OTHER MARKETS

## MAKASSAR

### OVERVIEW

Makassar is the provincial capital of South Sulawesi, Indonesia, and the largest city on Sulawesi Island. It is also Indonesia's sixth largest city after Jakarta, Surabaya, Bandung, Medan, and Semarang. For centuries, this outpost in East Indonesia was known mainly for its fisheries, agriculture and seafaring Bugis traders. By the 16th century, it became a major transit point of the spice trade and later, for metal goods, textiles, rattan and pearls, among other commodities. South Sulawesi has natural resources of minerals such nickel, iron ore, marble and coal. It is also known for its agriculture, fisheries, forestry, and plantations.

Located on the busy trading route along the deep Straits of Makassar, the city is a settlement of many races and ethnic groups including Chinese, Europeans, Javanese, Balinese, Ambon and others. Today, Makassar is part of one of the busiest trading routes in Asia, frequented by both local and international cargo ships.

Makassar is also a busy university town and a rapidly growing manufacturing hub. Additionally, it is seen as the primary business and distribution centre for the cocoa and coffee industry.

Tourists travel to Makassar mainly en route to the **Tana Toraja** highlands, and for the numerous diving spots near the islands of Makassar, or the pristine beaches at Bira.

### ACCESSIBILITY

The city is served by many domestic airlines flying from the busy Indonesian cities like Jakarta, Surabaya and Bali, using Makassar both as a final destination as well as a transit airport. The **Sultan Hasanuddin International Airport** is located 17 kilometres northeast of Makassar and is operated by PT. Angkasa Pura I. The airport is the main point of entry for flights to the eastern part of Indonesia.

The airport underwent significant expansion in the past in order to cope with the growing traffic. In 2008 a new terminal was opened with an increased capacity of seven million passengers. However, after five years since its opening, the airport was already operating over capacity in 2013 as passenger traffic grew six-fold.

The airport operator, PT Angkasa Pura I, has allocated IDR2.4 trillion to increase the capacity of Sultan Hasanuddin International Airport to 30 million passengers per year. The airport expansion is expected to be completed by 2017.

Other than expanding the current terminal facilities, the plan encompasses the construction of a second terminal, additional runways, and other facilities typically available at an airport of such an intended size.

## TOURISM MARKET OVERVIEW

The demand for hotel accommodation in Makassar is predominantly driven by government and MICE segments, constituting approximately **60%** of the accommodated demand in the city's leading hotels. More than half of this government and corporate meeting demand stems from Jakarta and Java, with the balance originating regionally.

Leisure demand in the city contributes around **10%-15%** of the total accommodated room nights, while corporate individual demand is mainly driven by the immediate catchment areas of Makassar. Nearly **90%** of the room night demand in the city is domestic, and the remainder is represented by visitors from the US, Malaysia, China, Japan, and other smaller markets.

Due to the city's strong economic growth, domestic and international arrivals to the city's airport have started to grow exponentially as outlined in the following graphs.



International arrivals in 2013 rose by **27.7%** over that recorded in 2012, while the number of departure passengers on domestic flights from Sultan Hasanuddin International Airport grew on an average by **18.2%** per year between 2009 and 2013. June 2014 year-to-date numbers are down by **8%**, which is being primarily attributed to the country's subdued travel as a result of the presidential elections and the Ramadan fasting period.



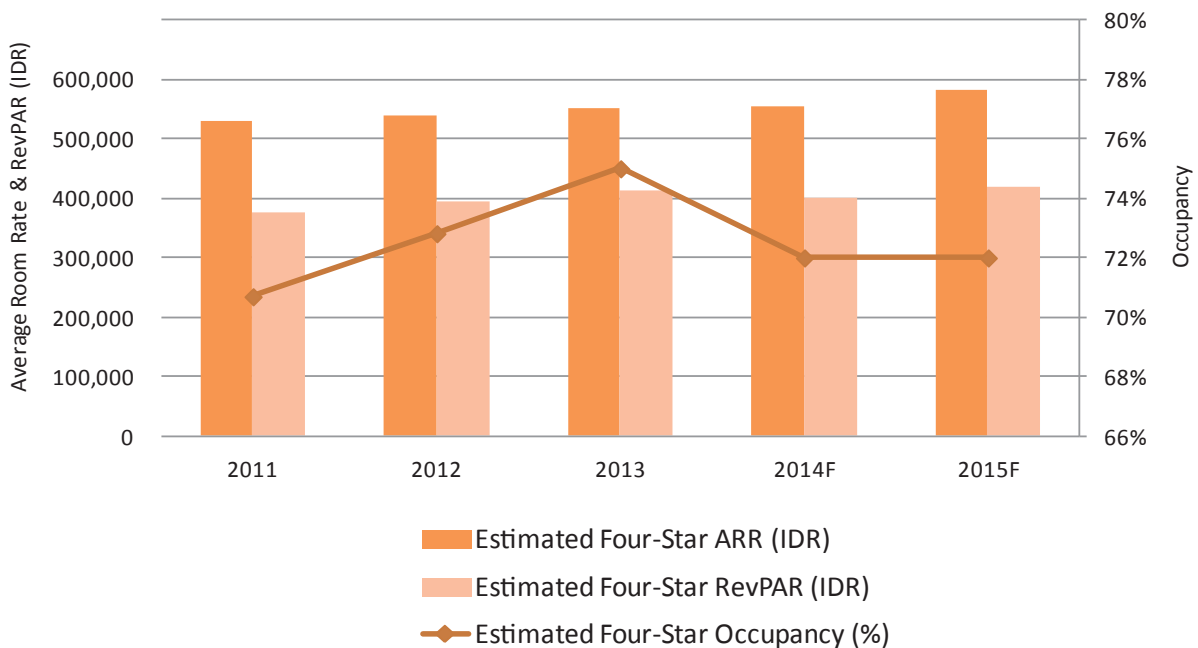
## HOTEL PERFORMANCE OVERVIEW

The Makassar hotel market has witnessed a significant increase in new supply in the past 18 months. The city was home to approximately 5,000 rooms in the beginning of 2013, and currently, the market houses 7,000 rooms, with more than 60 hotel projects having been granted licenses to start building and/or are under construction.

The four-star market, however, has been able to achieve modest improvements in its occupancy levels between 2011 and 2013, despite the market's supply growth, although average room rate growth has been muted.

The new hotel supply over the next couple of years is expected to cause demand-supply imbalances in the city, with growth in supply outpacing the growth in demand, affecting marketwide occupancy levels negatively. Occupancy levels for the year 2014 are anticipated to drop by around three percentage points, whereas average room rate growth is expected to be minimal for 2014. This is mainly due to lower travel activity projected as a result of the presidential elections with most corporate travellers deferring their trips to the region.

### MAKASSAR FOUR-STAR HOTEL MARKET PERFORMANCE (2011 - 2015F)



Source: HVS Research

### GROWTH OUTLOOK FOR FOUR-STAR HOTEL MARKET

Four-Star Market	Occupancy (%)	ARR (IDR)	RevPAR (IDR)
2014F	↓ -3%	↑ 1%	↓ -3%
2015F	0%	↑ 5%	↑ 5%

Source: HVS Research

### NEW ENTRANTS

Anticipated Opening	Proposed Hotel	No. of Rooms (Est.)
2014	Best Western Plus Makassar	162
2015	Four Points by Sheraton	261
	Swiss-Belhotel Makassar	TBC
	Novotel Makassar	321
	Park Inn Makassar	TBC
2016	Howard Johnson	TBC
<b>Total Proposed Room Supply (Indicative)</b>		<b>744</b>

Source: HVS Research

### MARKET OUTLOOK AND DEVELOPMENT OPPORTUNITIES

With a citywide occupancy level of **75%** across around 37 star-rated hotels and 20 non-star rated hotels, Makassar can be considered a key player in the Indonesian hotel market. Driven by strong growth in the government and corporate meeting segments, existing hotels have reaped the benefit of the city's ever growing demand for accommodation. This trend is expected to continue, and upcoming developments in the four-star sector with a wide range of facilities catering to these two market segments are expected to do well. That said, as with many Indonesian cities, the economy and mid-scale segment also have recorded healthy performance levels.

Makassar is poised for long-term growth in hotel demand in light of the expansion of the existing airport resulting in its improved accessibility. Moreover, Sulawesi's tourism attractions, pristine beaches and unrivalled natural beauty offer opportunities to tap into a lucrative leisure market going forward.



## About HVS

**HVS** is the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries. Established in 1980, the company performs 4500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. [www.hvs.com](http://www.hvs.com)

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**HVS SINGAPORE** Together with offices in Jakarta, Beijing, Shanghai and Guangzhou, HVS Singapore has appraised or advised on existing hotels and resorts, as well as development projects located in more than 100 cities and resort markets across Asia Pacific. The team's extensive project experience encompasses consulting and strategic advice, development feasibility studies, investment sales and acquisitions, hotel asset management and hotel management company search for a host of project types – hotels, resorts, serviced residences, golf courses, mixed-use complexes, residential, office and retail.

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