



Horwath HTL™

Hotel, Tourism and Leisure

MARKET REPORT

Bali Hotel & Hotel Residences

FEBRUARY 2018



And then there were few...

Like the revered Agatha Christie novel *'And Then There Were None'* where visitors flocked to Soldier Island with such wonder and excitement, Bali entered Q3 2017 on a high as droves of visitors flocked to the Island of the Gods.

Increasing flight connectivity, visa-free policies and toned-down supply growth over the last year led to excellent performance across the market. YTD October 2017 RevPAR performance was up 7% compared to the same time last year, on the back of healthy ADR and occupancy growth.

China took over as the number one foreign feeder market for Bali, surpassing Australia and growing by a whopping 59% per YTD September 2017 figures.

Just when all seems to be fine, alas, nature played a better hand. Mt Agung awoke and rumbled causing concerns and then eventually erupted sending waves of panic across the island and shutting down Ngurah Rai International Airport for a few days. Though the airport has since re-opened and flights have resumed operations (even China flights in early January due to Chinese government travel warnings, PLEASE let this be a lesson to destinations seeking and becoming reliant on one source market!), worried travellers cancelled year-end and New Year trips to Bali.

The media did everything it could to stoke the fear fire, without any intention I'm sure, filling its 24-hour coverage liberally using terms such as mass evacuation, impending eruption, global climate impact etc. As the peak holiday season loomed, Bali was a ghost-town - mirroring Soldier Island - visitors disappeared...

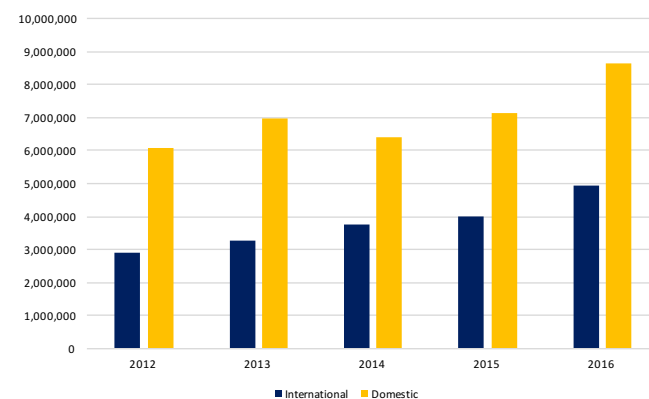
Bali Visitor Arrivals

2016 was a solid year for Bali, with international and domestic visitor arrivals recording double-digit YoY growth – 23% and 21% respectively. With increasing direct flight connectivity, visa exemptions and government promotion, Bali continued the roll for the first three quarters of 2017. YTD September 2017 foreign arrivals grew a further 25% to 4.6 million during the same period last year. Full steam ahead, the Island of the Gods looked set to achieve its target of 5.5 million foreign visitors by the end of 2017. This accounts for 40% of Indonesia's ambitious total foreign arrivals for 2017.

Alas, in September 2017, increasing seismic activity at Mt Agung caused widespread panic in Bali. Alert levels were raised and villagers were forced to evacuate for fears of an eminent eruption. The first eruption finally occurred in late November 2017, dusting the surroundings with dark ash and forcing Ngurah Rai International Airport to close. Although the airport opened a few days after, the damage had already been done. Fears of an even bigger eruption rerouted concerned tourists to other destinations as the peak holiday season arrived. Furthermore, the Chinese government grounded airlines destined to fill Bali's beds with Chinese FIT and groups.

The island became a ghost town in December recovering slowly for the Christmas/New Years peak holiday period. It has had a dramatic effect on the community, but historically, Bali has proven to be resilient over time and in this case, arrivals have increased again slowly but surely as both Mt Agung and the media calm down. After all, almost all major tourism areas are located much further than the 10-kilometre radius danger zone from Mt Agung.

Bali Arrivals



Source: BPS



Source: Hotel Indigo, Bali

Nationality Mix

- **China the powerhouse:** YTD September 2017 numbers made China the number one foreign source market for Bali. Arrivals from China grew by a whopping 59% over the same period last year, making up 26% of total foreign arrivals. The rapid growth was aided by increasing flight connectivity driven by zero-based tour groups.
- **Indians incoming:** In recent times, India arrivals have grown rapidly. 2016 recorded a 58% YoY increase in arrivals while YTD September 2017 figures continued that trend to record a 54% growth over the same period last year. The growth can be attributed to the opening of the first direct links between India and Indonesia. Furthermore, Bali's green paddy fields, rich culture and abundant yoga studios are all attractive selling points to young Indian travellers.
- **Still going strong mate!** Up till 2016, Australia was the number one foreign source market for Bali. Though China has taken over, Australians are still very much appreciated in Bali for their large numbers and high spending power. With a relatively easy flight and the recent visa exemption, arrivals from Australia are not expected to grow much in the upcoming years, barring any major external circumstances.
- **The Russians are back:** YTD September 2017 figures indicate that this market grew massively by 60% over the same period last year – the highest growth rate for a single foreign market.
- **More Korean restaurants?** South Korean arrivals have grown in the double digits by 30%. Just last year, arrivals were down 2% YoY compared to 2015. Will restaurants bend to the k-wave and introduce kimchi to their menus?

Top 5 Foreign Markets, Share of Total Foreign Arrivals



Top 5 Foreign Markets, YTD Sep 2017 Growth



Source: BPS

Hotel Performance

USD ADR decreased YoY since 2012 on the back of increasing competition and price wars to boost occupancy. Subsequently, RevPAR declined from 2013 to 2016 before enjoying an upkick YTD October 2017 of 7% (ADR up 4%, RND up 3%).

YTD OCT 2016	% Δ	YTD OCT 2017
72% Occ.	3% Δ	75% Occ.
IDR 1.7M ADR	4% Δ	IDR 1.86M ADR
RevPar IDR 1.29M	7% Δ	RevPar IDR 1.39M

Segment Performance

LUXURY (>USD 350): For those who say the luxury market is declining, think again.

Luxury	YTD Oct 2016	YTD Oct 2017	% Δ
Occupancy	55%	61%	10%
ADR (IDR)	6,609,000	7,011,000	6%
ADR (USD)	495	524	6%
RevPAR (IDR)	3,652,000	4,273,000	17%
RevPAR (USD)	274	319	17%

UPPER UPSCALE (USD 151-349): All performance matrixes have grown positively for YTD October 2017.

Upper Upscale	YTD Oct 2016	YTD Oct 2017	% Δ
Occupancy	75%	77%	2%
ADR (IDR)	2,869,000	2,952,000	3%
ADR (USD)	216	221	3%
RevPAR (IDR)	2,155,000	2,270,000	5%
RevPAR (USD)	162	170	5%

UPSCALE (USD 101-150): With increasing competition in the upscale segment, resorts have been cautious in raising rates in fear of losing market share.

Upscale	YTD Oct 2016	YTD Oct 2017	% Δ
Occupancy	73%	75%	2%
ADR (IDR)	1,680,000	1,680,000	0%
ADR (USD)	126	126	0%
RevPAR (IDR)	1,232,000	1,259,000	2%
RevPAR (USD)	92	94	2%

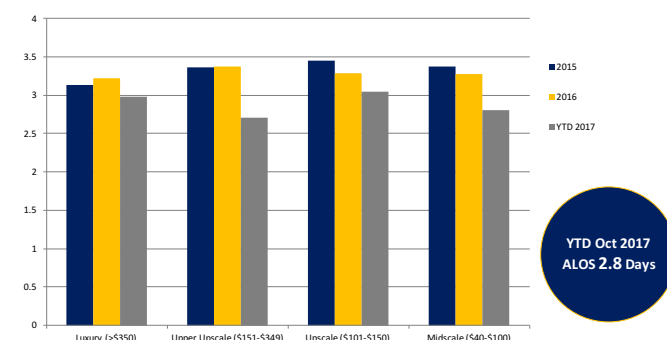
MIDSCALE (USD 40 – 101): With increasing competition in the upscale segment, resorts have been cautious in raising rates in fear of losing market share.

Upscale	YTD Oct 2016	YTD Oct 2017	% Δ
Occupancy	73%	75%	2%
ADR (IDR)	1,680,000	1,680,000	0%
ADR (USD)	126	126	0%
RevPAR (IDR)	1,232,000	1,259,000	2%
RevPAR (USD)	92	94	2%

Average Length Of Stay - By Rate Segment

Another indication of the mass-market demographic shift: in 2015 and 2016 ALOS remained above 3.0 across rate segments but YTD October 2017, ALOS dropped below 3 in 3 from 4 rate categories. The upper upscale segment experienced the most significant drop in ALOS from 3.4 in 2016 to 2.7 YTD October 2017.

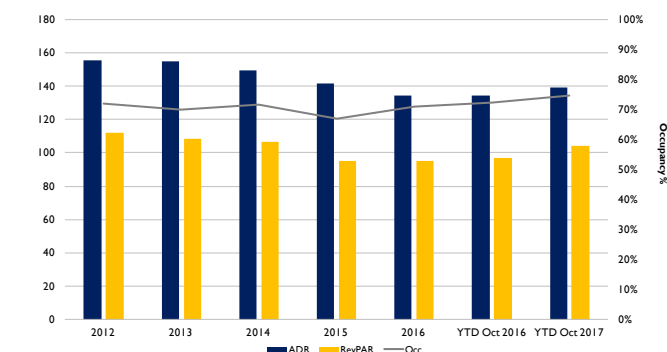
Average Length of Stay



Source: BHA and Horwath HTL

Market Performance Summary

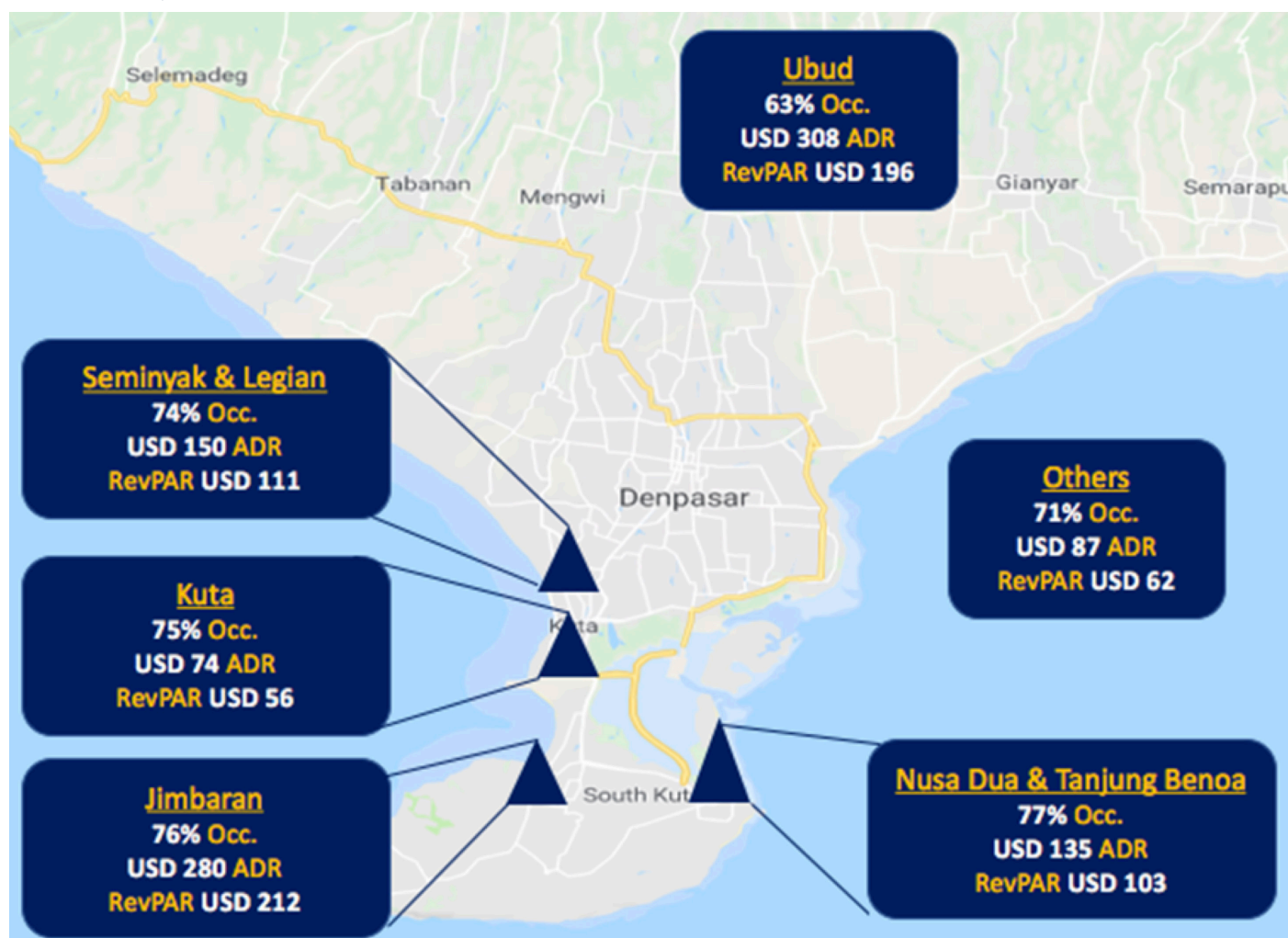
Market Performance Summary



Source: BHA and Horwath HTL

Performance By Location

Performance By Location - YTD October 2017



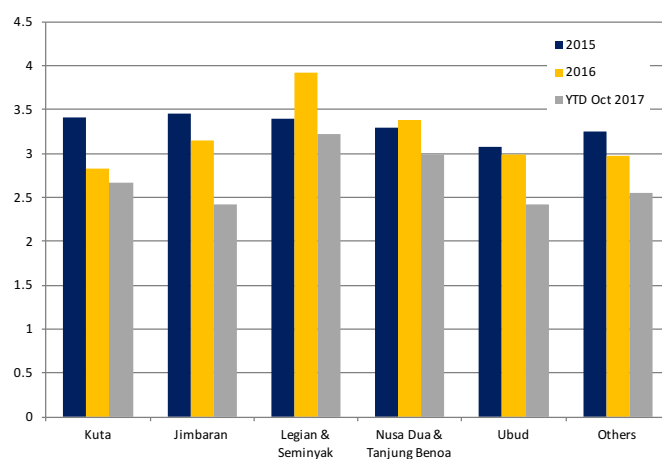
Source: TBC

Performance Growth Rates:
YTD October 2016 vs YTD October 2017

Area	Occ. % Change	ADR % Change	RevPAR % Change
Kuta	4%	-3%	1%
Jimbaran	1%	8%	9%
Ubud	10%	4%	14%
Legian & Seminyak	0%	5%	5%
Nusa Dua & Benoa	4%	5%	10%

Source: BHA and Horwath HTL

Average Length Of Stay By Location



Source: BHA and Horwath HTL



The Mount Agung Effect

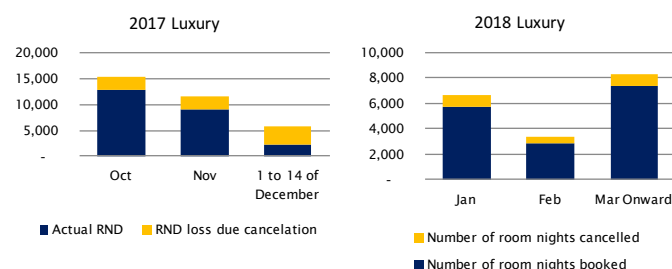
Following the awakening of Mt Agung in October, the global newscasts of mass evacuations and the ultimate closure of Ngurah Rai for a couple of days in late November, we surveyed Bali hotels to gauge the actual effect on RND.

We asked for an indication of lost RND in (1) October and November post 'high alert' status but prior to the airport closure, and (2) then in December post airport closure and (3) what were the effects into January and February 2018 with advance reservations.

Mt Agung Effect By Rate Category

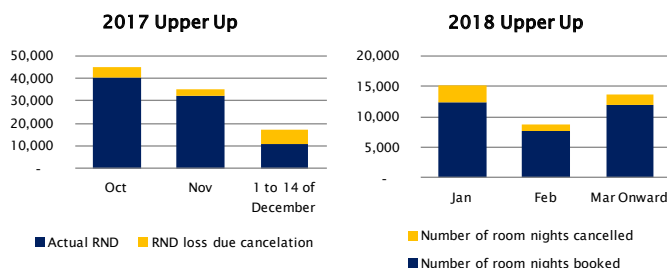
The responses can be seen in the following graphs for the various rate categories. The effects in 2017 (October, November & first half of December) and 2018 (January, February and March advanced bookings).

LUXURY (>USD 350): Lost RND was far more severe in the luxury segment post airport closure in the first 2 weeks of December when 60% of room nights were cancelled. By month end, the preliminary numbers show a YOY December occupancy loss of 20% points to 27%. The number of advance room nights cancelled was 15%, 17% and 11% from January to March in the luxury segment.



Source: BHA and Horwath HTL

UPPER UPSCALE (USD 151-349): Lost RND was the least severe in the upper upscale segment in the first 2 weeks of December when 36% of room nights were cancelled. That said, by month end, the preliminary numbers show a very large preliminary YOY December occupancy loss of 27% points to 37%. The number of advance room nights cancelled was a high 18% in January reducing to 12% and 13% in February and March in the upper upscale segment.



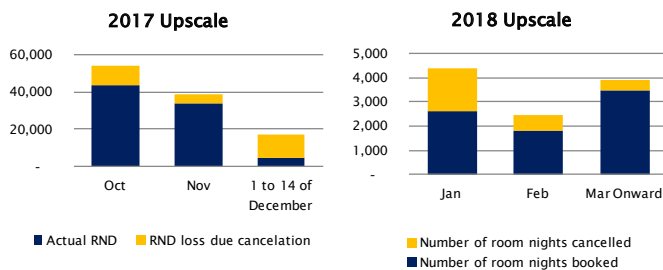
Source: BHA and Horwath HTL



Source: The Slow, Bali

UPSCALE (USD 101-150): Lost RND was the most dramatic in the upscale segment in the first 2 weeks of December when 72% of room nights were cancelled. By month end, things had improved slightly and the preliminary YOY December occupancy loss was a high 26% points to 38%.

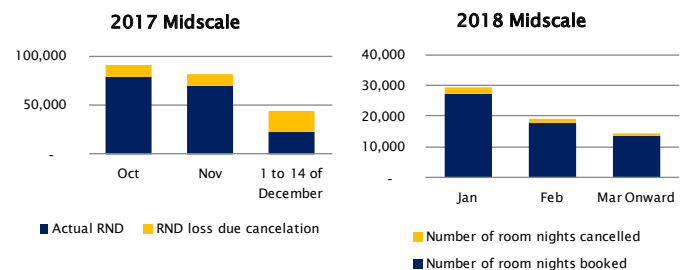
The number of advance room nights cancelled was a massive 40% in January, down to 26% (still dire) and 11% in February and March respectively in the upscale segment.



Source: BHA and Horwath HTL

MIDSCALE (USD 40-101): Cancelled RND in the midscale segment was around 15% in both October and November jumping to a high 49% in the first 2 weeks of December. The preliminary YOY December occupancy loss was 22% points to a very low 45%.

The number of advance room nights cancelled was the lowest in the midscale category moving from 7% to 8% and then down to 6% from January through March.



Source: BHA and Horwath HTL



Source: Sol Beach House Legian, Bali



Source: Hotel Indigo, Bali

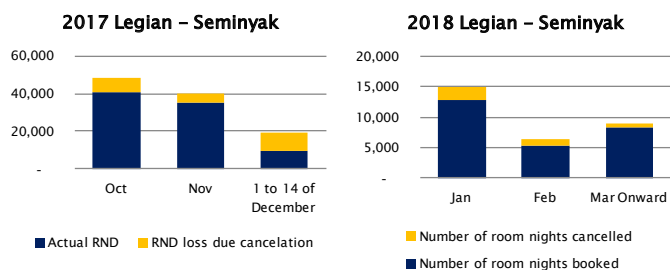
Mt Agung Effect By Location

The areas that are closer to the airport were more resilient during the Mount Agung downturn, particularly Jimbaran.

Not surprisingly, Nusa Dua/Benoa Bay with its reliance on MICE suffered the greatest room night demand cancellations. Cancelled RND in Legian/Seminyak jumped from 15% and 13% (October and November) to 51% in the first 2 weeks of December.

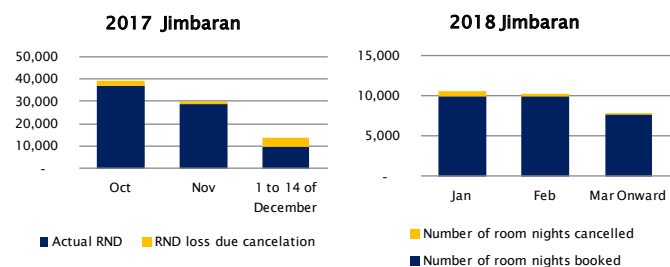
Legian/Seminyak

Cancelled RND in Legian/Seminyak jumped from 15% and 13% (October and November) to 51% in the first 2 weeks of December. The number of advance room nights cancelled was 14%, 18% and 7% in January through March respectively in Legian/Seminyak.



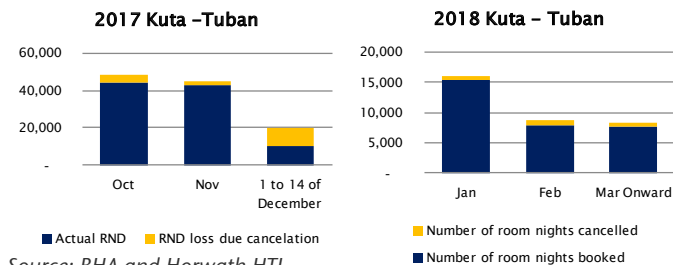
Jimbaran

Lost RND was the least dramatic in Jimbaran in the first 2 weeks of December when 29% of room nights were cancelled. Around 5% of RND was cancelled in October and November.



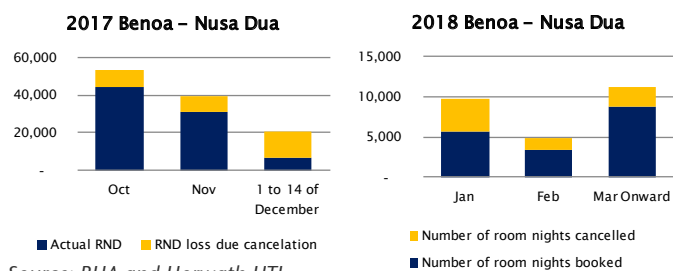
Kuta/Tuban

RND cancellations fell from 8% to 4% and then leapt to 48% in the first 2 weeks of December following the airport closure in Kuta/Tuban. Advanced booking cancellations were less than 10% in each of the 3 months of Q1 2018.



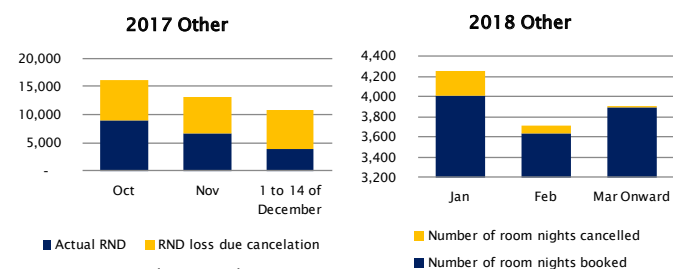
Benoa Bay/Nusa Dua

The Nusa Dua/Benoa Bay area suffered enormously during the Mt Agung period. RND cancellations sat at around 20% in October and November before peaking at a devastating 66% of total bookings in the first 2 weeks of December. Advanced bookings were also slashed in January (42% of total), February (29%) and March 2018 (22%).



Other

Similarly to Nusa Dua/Benoa Bay, the Other area which includes Ubud and Sanur was slammed by the Mt Agung eruption. The % of total reservations cancelled in October and November was just under 50% before increasing to 64% following the airport closure in the first 2 weeks of December. Fortunately cancellations of advanced reservations were less dramatic with the proportion of total reservations cancelled falling from 6% to 2% and 1% from January through March.





Source: The Slow Bali

Hotel New Supply

The bulk of new supply is expected to come online in 2018, with a forecasted 15% YoY growth in rooms, the equivalent to a total of about 38 new rumoured resorts.

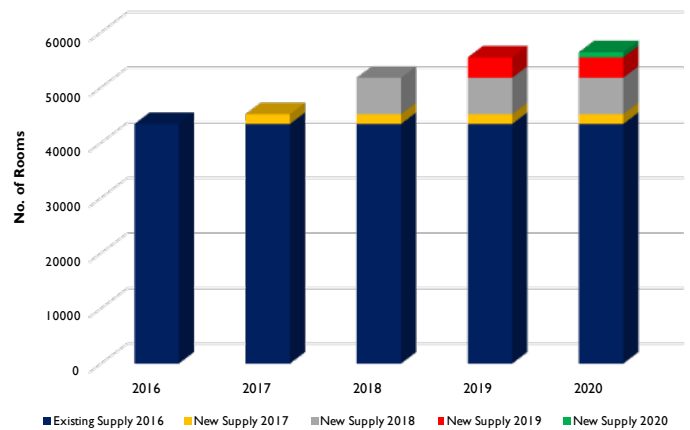
26 additional resorts are expected to open in 2019 and 2020 for a total of 12,988 additional rooms over 2016.

Hotel New Supply Breakdown

The popular areas have been earmarked for even more development, with little joy shared in the central and northern Bali.

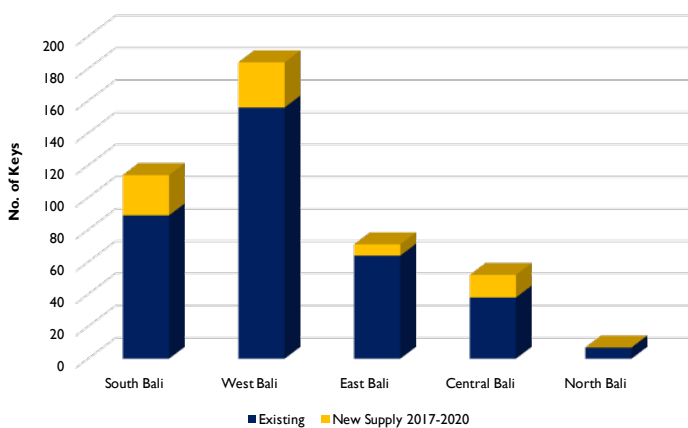
It's a pretty even split for growth across rate categories, with a slightly greater proportional growth in the midscale market (3-star).

Accumulated New Supply



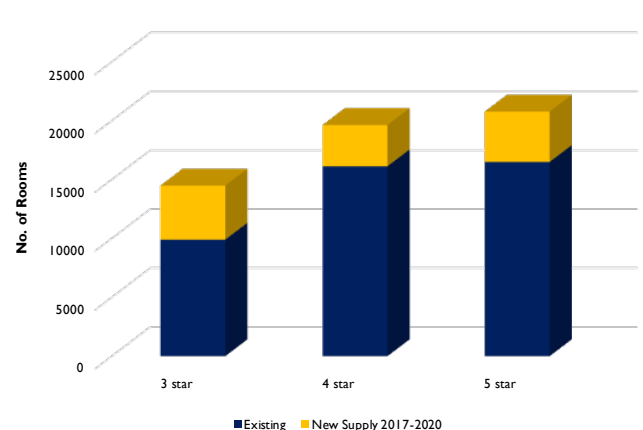
Source: Horwath HTL

Pipeline by Location



Source: Horwath HTL

Pipeline by Star Rating



Source: Horwath HTL



Source: New World Grand, Bali

Hotel Residences Update

Developers diverge from traditional property offerings, as domestic demand hits plateau - pipeline hotel residences focus on upscale and luxury properties.

“As Bali’ Ngurah Rai International Airport closed down due to the volcano eruption of Mount Agung, the island is experiencing one of it’s quietest high seasons for tourist arrivals. This has significantly affected not only the hotel performance, but also the broader real estate market, which was already shouldering a slowing absorption rate due to supply and demand imbalance.

At the end of this 2017, hospitality-managed condominiums/ apartments have an average sales pace of 1.65 units sold per month, while villas have a lower rate of 0.60.

High competition has pushed developers to diverge from traditional product offerings to other alternatives such as vacation ownership and timeshare. Recently, Marriott Vacation Club International and the developer of Swiss-Belhotel Arjuna have launched their units into the market.

Another trend is the shift to international hotel affiliation, as hotel residences seek to widen their target demand to include foreigners while the domestic segment continues to show slow recovery.

With new and rebranded properties presently commanding higher price premiums and lower-tier projects exiting the market, the built-up sales price has risen from the previous year. That said, the increased price points have yet to make up for the declining transaction volume across the market.

Nevertheless, the new shift is expected to improve buyer sentiment and positively impact sales.”

Bill Barnett, Managing Director, C9 Hotelworks

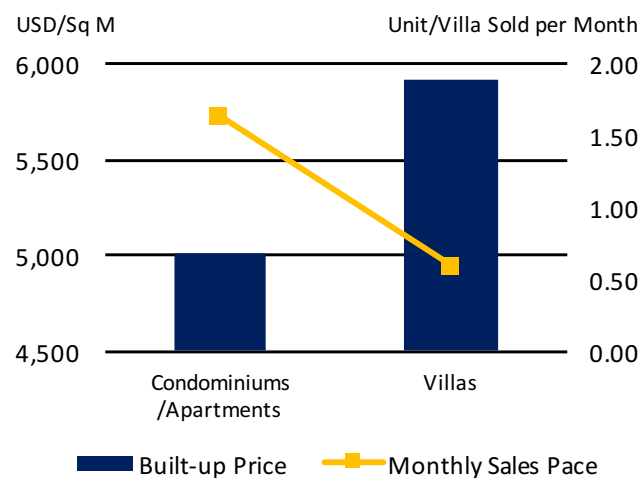
Trends

- The rise of Airbnb and other online rental platforms have brought higher competition for hotel residences, as buyers are now considering pure-residential developments and utilizing third-party management companies.
- Average built-up sales price per square meter stands at USD5,008 for condominiums/ apartments and USD5,913 for villas.
- Key international source markets for hotel residences include Mainland China, United States, Australia, Taiwan, Japan, and Hong Kong.

Forward Outlook

- There are 5 key pipeline developments, which include Ayana Residences (Phase 2), The Sterling at Worldhotel (Phase 2), relaunch of AVANI Nusa Dua, Bali National Golf Villas (Phase 2) and Amari Pecatu.
- National tax amnesty program has created uncertainty amongst domestic and overseas segments, pushing potential buyers to sideline.
- Preparation for the construction of a new airport in North Bali is in progress, with private land acquisition by the government underway.

Sales Performance of Branded Residences

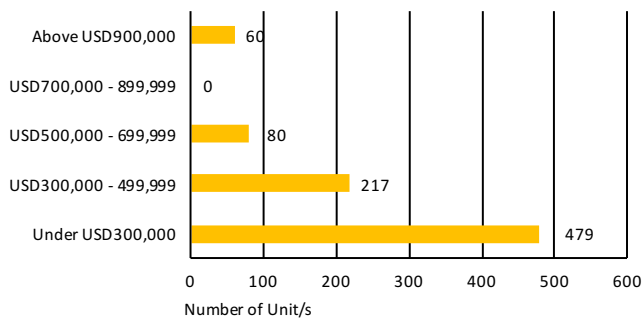


Source: C9 Hotelworks Market Research

Condominiums/Apartments

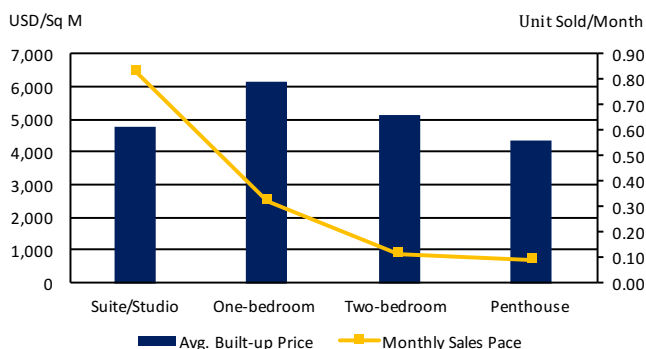
Pecatu has the highest concentration of supply, followed by Jimbaran and other areas along the southern coast of Bali.

Condominium/Apartment Pricing Strata



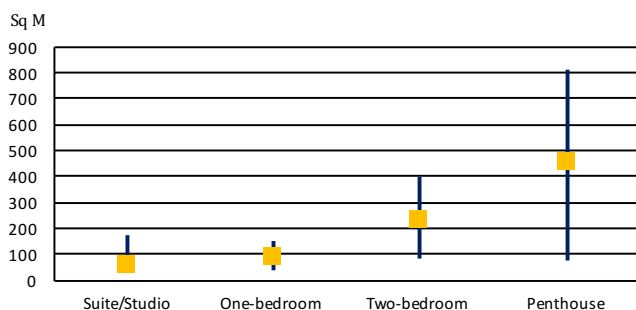
Units priced under USD300,000 dropped by 10% in supply share, as midscale projects are sold out or have stopped sales

Sales Performance by Unit Configuration



High-yielding configurations such as studios and hotel suites have the highest absorption rate of 0.83 unit/s sold per month

Built-up Area by Unit Configuration



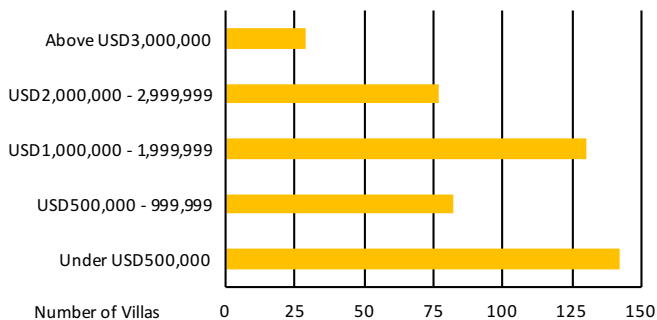
Average built-up area ranges from 33 square meters for a studio unit to 811 square meters in a penthouse

Source: C9 Hotelworks Market Research

Villas

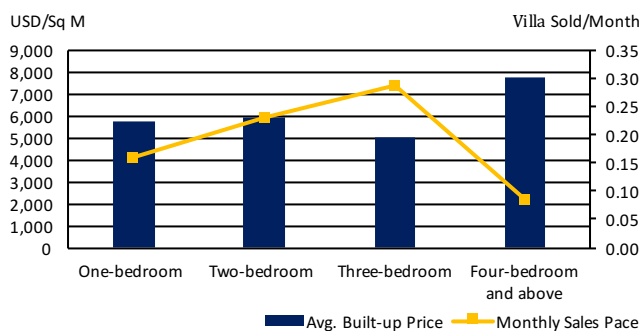
Pecatu has the highest concentration of supply, followed by Jimbaran and other areas along the southern coast of Bali.

Villa Pricing Strata



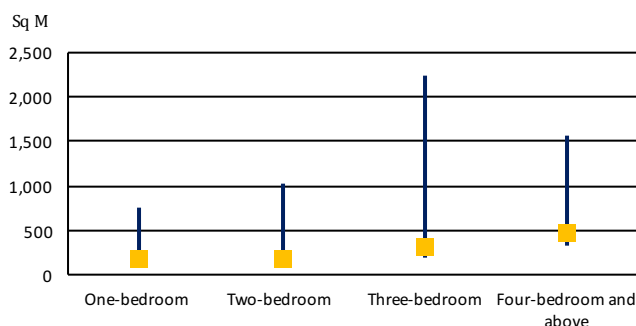
Supply of villas priced above USD1 million increased by 7% y-o-y due to entry of new luxury product

Sales Performance by Villa Configuration



Four-bedrooms and above configuration has a significantly higher average built-up price of USD7,731 per square meter

Built-up Area by Villa Configuration



Weighted average built-up area of villas ranges from 177 square meters to 474 square meters

Source: C9 Hotelworks Market Research



Hotel Residences: Bali (2017 vs. 2016)

Built-up Sales Price



BRANDED CONDOMINIUMS/APARTMENTS:

Year-on-year growth average rose 12%

BRANDED VILLAS:

Year-on-year growth average up by 36%

Absorption Rate



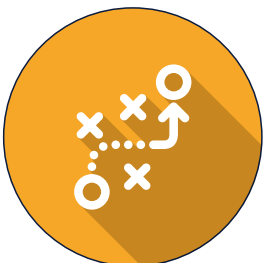
BRANDED CONDOMINIUMS/APARTMENTS:

Monthly sales pace drops 48%

BRANDED VILLAS:

Monthly sales pace decreased 69%

Trends



PRODUCT OFFERINGS:

Developers are adopting other types of product offerings such as vacation club and timeshare



DEMAND PROFILE:

Domestic buyers still account for majority of demand, though increased foreign demand is rising

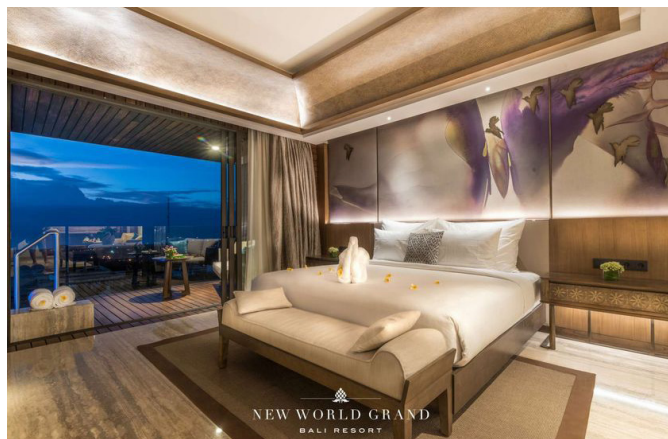


PIPELINE PROJECTS:

International hotel affiliation is seen to drive absorption rate and pricing premium



Source: New World Grand, Bali



Source: New World Grand, Bali



Source: Mandarin Oriental, Bali



Source: Mandarin Oriental, Bali



Source: The Slow, Bali



Source: Sol Beach House Legian, Bali



Horwath HTL is the world's largest hospitality consulting brand with 45 offices across the world providing expert local knowledge. Since 1915 we have been providing impartial, specialist advice to our clients and are recognized as the founders of the Uniform System of Accounts which subsequently has become the industry standard for hospitality accounting.

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

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

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

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