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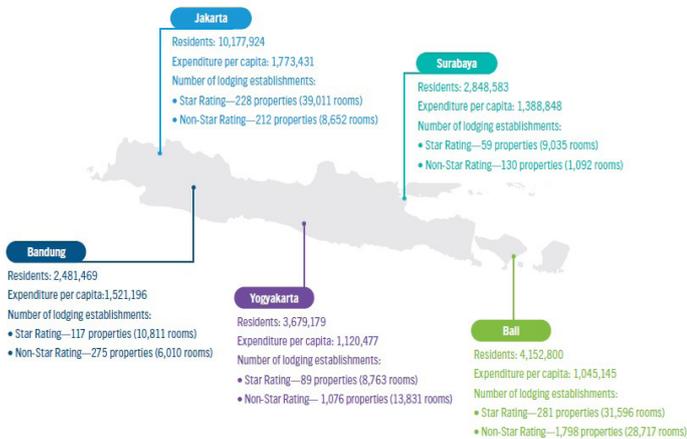
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Asia Pacific Market Reports
INDONESIA HOTEL MARKET
PERFORMANCE

September 2016

Indonesia Hotel Market Performance

A ride along the classic Java to Bali overland route



Source: BPS, 2015

Introduction

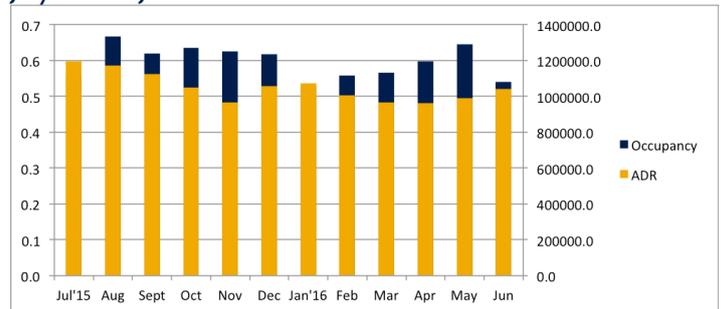
Java to Bali is one of the world’s classic overland routes, popular with Indonesians and foreigners alike, especially for Europeans with extended vacations. The trip itself consists of multiple destinations, offering a wide spectrum of genuine Indonesian cultural experiences. Typically, visitors start in Jakarta as a transport hub and city destination; continue to Bandung, which offers a combination of highland greenery, heritage and urban offerings; then stop in Yogyakarta, the centre of Javanese culture and education; then on to Surabaya, Indonesia’s second largest city and the gateway to Bromo, Batu/Malang or Banyuwangi; and finally, the journey ends in Bali, everyone’s favourite, must visit destination in Indonesia.

Each city offers something different, and each has their own unique hotel market characteristics. Destinations share similarities in trend and performance, but the character is always different.

This report provides a snapshot of hotel performance in Indonesia as well as each of the 5 destinations during H1 2016. Included are hotel market occupancy and rate year-over-year (YOY), new hotels, some demand trends and expectations on infrastructure that should alleviate some development strains.

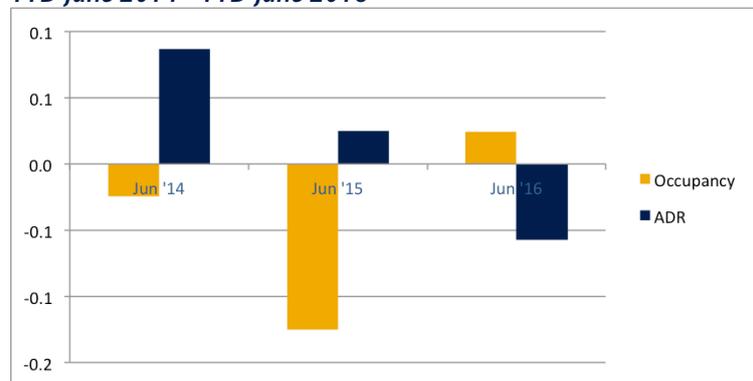
Indonesia Hotel Performance

Indonesia Monthly Occupancy & ADR (in Local Currency) July 2015 - June 2016



Source:STR

Indonesia Occupancy & ADR Growth (in Local Currency) YTD June 2014 - YTD June 2016



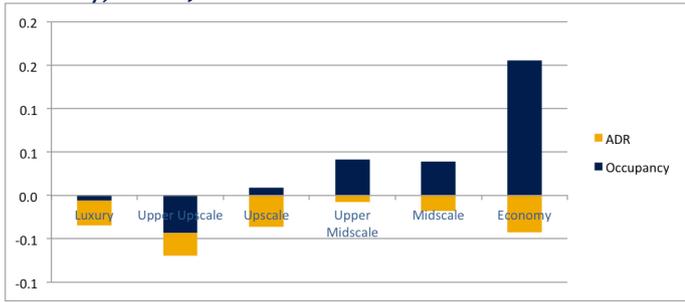
Source:STR

Occupancy lows experienced in June 2015 and June 2016 can be attributed to Eid al-Fitr. January 2016 performance was affected by Christmas and the business slowdown surrounding all 3 religious periods. ADR has fluctuated, although the last couple of months have shown some improvement.

Occupancy suffered enormously for the June 2015 year-to-date (YTD) time period, so the small bump in June 2016 YTD occupancy is due to a low comparison base. Low absolute occupancy can be blamed largely on the slashing of government MICE business, which has subsequently resumed, coupled with supply challenges and corporate belt tightening.

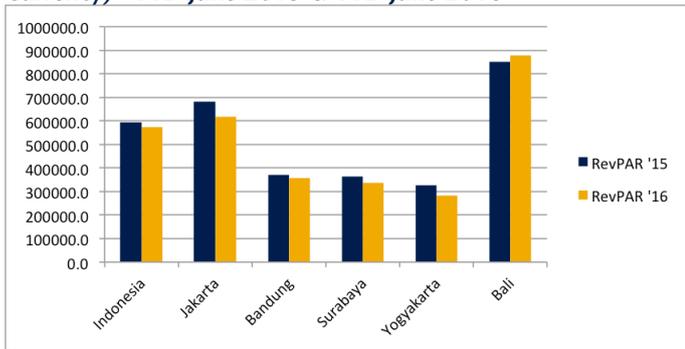
Largely as a result of corporate business trading down, and the increase in low rate tour groups in Bali, there has been a boom in occupancy for economy hotels. That said, rates at economy hotels and across the board was down in the first half of June. The weakest performance was in the Upper Upscale segment, which experienced both lower occupancy and lower rate.

Indonesia Occupancy & ADR Growth (by Class, in Local Currency) - YTD June 2016



Source:STR

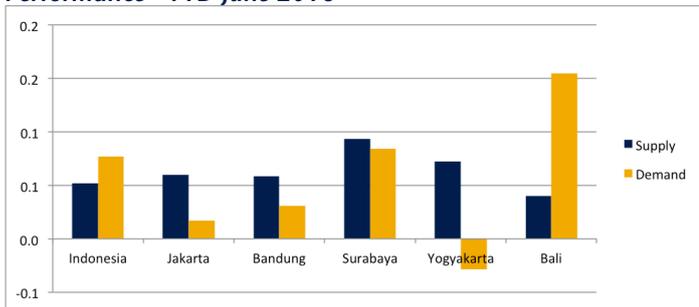
Indonesia Selected Market RevPAR Performance (in Local Currency) - YTD June 2015 & YTD June 2016



Source:STR

Revenue per available room (RevPAR) was down nearly across the board for June 2016, with the exception of Bali, which enjoyed a small year-over-year increase to just under IDR 900k. Yogyakarta recorded the lowest absolute RevPAR amongst the 5 markets, down to under IDR 300k. Bandung and Surabaya reported similar RevPAR of around IDR 350k.

Indonesia Selected Market Supply and Demand Performance - YTD June 2016



Source:STR

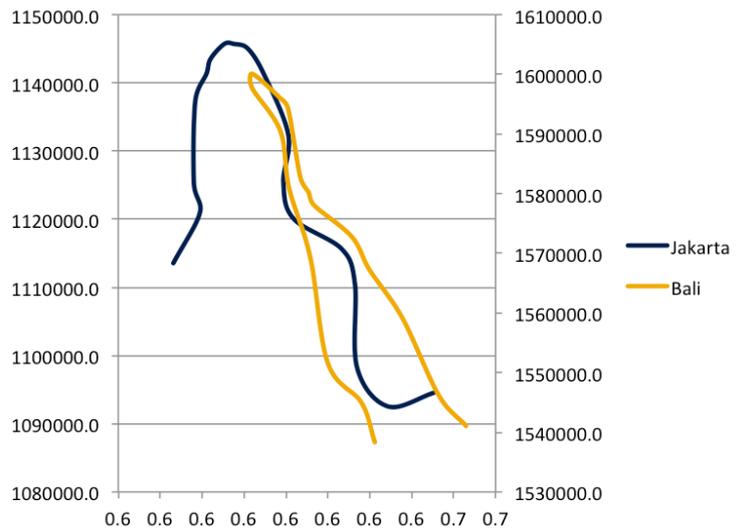
It is interesting to note that demand growth outpaced supply growth in only one of Indonesia's big 5 hotel markets through June – Bali. At the very least, there was

some demand growth in Jakarta, Surabaya & Bandung even though new supply grew more strongly. Yogyakarta's increased supply growth and negative demand performance is a crippling combination.

Hotel Performance in H1 2016

Occupancy and ADR Development Jakarta and Bali (Running 12 Monthly Data)

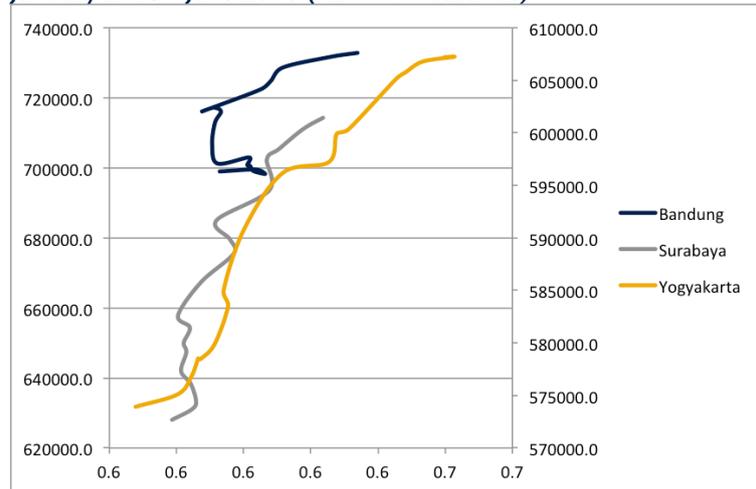
January 2015 - June 2016 (ADR in Millions)



Source:STR

Occupancy and ADR Development Bandung, Surabaya and Yogyakarta (Running 12 Monthly Data)

January 2015 - June 2016 (ADR in Thousands)



Source:STR

Our takeaways from the above chart, which indicates the direction of occupancy and average daily rate (ADR) since January 2015 in the 5 Java to Bali Overland cities:

- Rates have been dropped over the last 18 months for all markets.
- Occupancy is down, other than in Bali, where performance has improved in the last 6 months.
- The fluctuations in government spending on MICE effects all markets, and regulation changes have a dramatic and immediate impact. With the president announcing another austerity program in May 2016, and limited alternative demand sources to fill the void, pressure on occupancy will continue.
- Corporate belt tightening, which parallels lower than forecasted economic growth, affects all markets, particularly the larger cities of Jakarta and Surabaya, ultimately stalling ADR growth.
- Shorter booking periods are being experienced, 1 month for group & event and 1 day for free and independent travelers (FITs). This led hotels to lower rates.

Occupancy Performance – H1 2016

Bali	Surabaya	Bandung	Jakarta	Yogyakarta
61.7%	55.2%	52.3%	56.2%	51.6%

Source:STR

Occupancy Growth on Indonesia Markets YTD June 2016



Source:STR

Bali is the only city of the big 5 with an occupancy bump in the first half of 2016 – and it was a sizeable bump, up to nearly 62% from below 56% in the first half of 2015. Despite new supply pressures, tourism arrivals to Bali have allowed hoteliers to increase room nights sold over last year. May 2016 was the best month, with an increase in nearly 10% points to just under 68%.

Yogyakarta is notable due to a large fall in occupancy for June 2016 YTD June 2016. The combination of falling rooms night demand (RND) and increasing rooms night

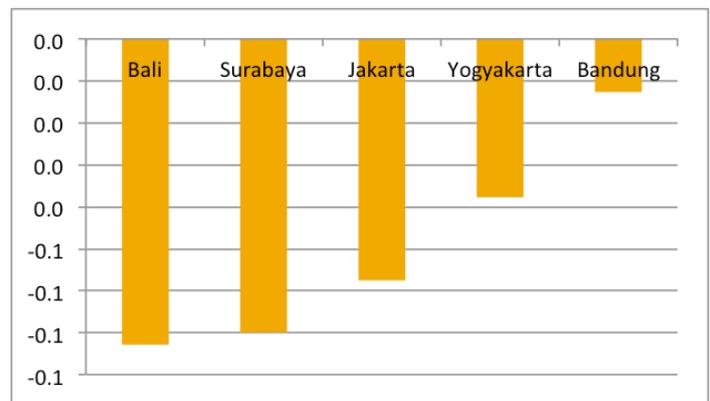
available (RNA) creates a very difficult situation.

Bandung hotels felt instant relief when government MICE demand was released from the shackles of austerity. However, new supply trumped demand growth, leading to a fall in occupancy.

Surabaya’s occupancy was almost flat year-over-year (YOY), which is noteworthy given a significant, 10% increase in supply, predominantly in the Midscale and Economy classes (up by nearly 20% in YTD June 2016).

Average Daily Rate (ADR) Performance – H1 2016 (IDR)

Bali	Surabaya	Jakarta	Yogyakarta	Bandung
1,422,238	609,345	1,097,870	549,178	682,881



Source:STR

The fall in occupancy gave **Bandung** hoteliers a bit of room to adjust ADR in order to remain competitive with other hotels, especially newly opened properties. Thankfully, Bandung still enjoys 7- day a week demand with the leisure market buffering performance. There are red flags with this segment; however, as worsening traffic conditions are creating an unpleasant experience for weekend visitors.

Surabaya reported a significant decrease in ADR of 7% to IDR 609,344 in the first half of 2016. This was the lowest first-half ADR value in the city since 2011. Overall ADR was greatly affected by declining occupancy as well as rate in Luxury & Upper Upscale properties as corporates traded down.

The fall in **Bali’s** rate is largely driven by a shifting guest demographic, which could be attributed to the volume of low-yielding China tour groups. Hoteliers are dropping rates in reaction to market sentiment on increased hotel supply, and the luxury segment has taken a real hit, with demand down year over year.

Jakarta hotels are essentially struggling from a supply and demand imbalance. Economic and corporate growth both domestically and internationally has failed to stimulate sufficient room night demand growth in the nation's capital. This, in combination with supply growth and the trading down of hotel tiers by corporates has led to panic selling of hotel rooms at reduced rates.

Revenue per Available Rooms (RevPAR) Performance – H1 2016 (IDR)

Bali	Bandung	Surabaya	Jakarta	Yogyakarta
876,997	357,083	336,073	616,613	283,343



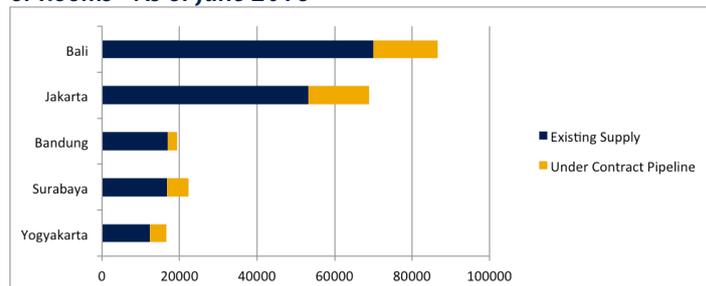
Source:STR

Yogyakarta recorded negative performance across the key performance indicators (KPIs): occupancy (-9.4%), ADR (-3.8%) and RevPAR (-12.8%). It is understood that the airport has reached maximum capacity, and new demand sources are more price sensitive, arriving by other means (car and train) and staying at Independent properties (not covered by the data) outside of the city center.

Fortunately, **Bali** enjoyed a small hike in RevPAR for June 2016 YTD, otherwise, there would have been 5 strikes along the Java Bali Overland Tour in the first half of the year.

Pipeline

Pipeline Performance on Selected Markets by Total Numbers of Rooms - As of June 2016



Source:STR

Bali's hotel market will increase from 70,000 to more than 85,000 rooms by 2020, the largest margin increase amongst Indonesia's largest hotel markets. The infrastructure squeeze will be even more acute unless major changes are made in parallel with these additional rooms.

From 2016-2020, **Jakarta's** room count will swell by another 34% to nearly 70,000 rooms in an additional 70 hotels. STR is currently tracking 26 projects in the In Construction phase, while the remained are in Final Planning or Planning. Of the 70 projects, only 36% are Upper Midscale, Midscale and Economy, while the rest are Upscale and above.

In the last 12 months, **Bandung** has added more than 1,300 additional rooms through both home-grown and international brands, including the InterContinental Dago Pakar, Crowne Plaza Bandung, Harper Pasteur, Four Points by Sheraton Bandung and The 101 Bandung Dago Hotel. In the next 4 years, room supply will increase by 14%. The largest room count is the Pullman and Ibis combination in the city center, while the smallest is Preference Samawi Dago. The average key count is about 150 to 160 rooms. There is no moratorium yet, but the government is limiting hotel permits in North Bandung and the city center.

New supply in **Yogyakarta's** pipeline sits at around 3,500 rooms scheduled to come online by 2020. This does not include independent homestays or bed and breakfast properties, which are dominant in Yogyakarta. The robust development of Economy and Midscale hotels indicates the segment remains attractive to investors. Given lacklustre performance, however, it is likely time to rethink the projections. Despite the moratorium on hotel development, about 90 licenses were previously issued, so more properties are expected.

With more than 4,700 rooms Under Contract (In Construction + Final Planning + Planning), **Surabaya** ranks third in activity behind Jakarta and Bali for the most pipeline projects in Indonesia. The Under Contract pipeline projects in Surabaya are dominated by Upscale, Upper Midscale and Midscale properties with more than 3,800 rooms opening in the next 3 to 5 years.

Market Trends

Jakarta

- Jakarta must develop a weekend leisure demand market, but to this point, attempts have failed.
- The largest problem for Jakarta hotels is slow demand growth, particularly for top-tier hotels. New rooms are opening, but new guests are few and far between.
- Costs are increasing, and when combined with lower than forecasted revenue, profits are being squeezed.

Bali

- Guest demographics are shifting in Bali: shorter length of stay, younger, more price sensitive and volumes of China tour groups.
- There is a shuffling of flags on hotels, with hotel management agreements being flipped between local and international operators.
- There is an increasing number of hotels for sale.
- The typical booking patterns and reservation methods are changing, although this is not unique to Bali.

Bandung

- As traffic conditions worsen, any areas outside the traditional tourist destination zone, like Lembang, Setiabudi, Dago, Riau, Braga and Cihampelas, will suffer.
- Bandung continues to position itself as one of the primary MICE destinations in Indonesia.
- If Bandung succeeds in hosting the PON event in September, it will put the city on the map as a sporting event destination, alongside Jakarta and Palembang.
- New tourist attractions, like Babakan Siliwangi, are broadening options for tourists.
- The textile industry is struggling due to the economy slowing down and cheap Chinese imports with more factory outlets closing. This may discourage visitors from Malaysia & Singapore.

Yogyakarta

- As Yogyakarta is more affordable than Bali and Bandung, young, technically savvy travelers, are flocking to the city.
- Hotels in all segments are citing a significant 30% to 60% of booking through OTAs.
- Virtual hotel operators like Airbnb, ZEN Rooms, NIDA

Rooms and AiryRooms, have mushroomed through the city as they offer flexibility and local interactions.

Surabaya

- Surabaya is still heavily dependent on government & corporate FITs, groups and MICE business. Therefore, the government's austerity measures are particularly painful, and as business expense budgets drop, so does the chosen hotel tier at the expense of the Upper Upscale and Upscale categories.
- There is no government imposed moratorium on hotel development yet.
- Online travel agents (OTAs) are soaking up market share of individual and corporate FITs, and their large margins are affecting ADR.

Infrastructure Updates

Jakarta

- The new Terminal 3 officially opened in August 2016, and when fully functional (Q2 2017), the terminal's carrying capacity will be roughly 25 million passengers per year. To date, operations have experienced problems and bad publicity.
- In May 2016, the airport train network had reached 26% completion.
- The odd-even car number plate system started in July 2016 as a temporary, yet frustrating solution to the city's traffic problems before the ERP launches in 2017. However, new reports state that the opening has been delayed until after the Asian Games in 2019.

Bandung

- The Husein Sastra Negara International airport expansion plan was completed in June 2016. The expansion plan covered the terminal area plus an additional apron. The new terminal building covers 17,000 sqm and accommodates more than 3 million passengers, 3 new routes. In addition, 3 new domestic flight schedules will be operated by Lion Air and Garuda Indonesia.
- Seroja Highway spans over 7 km and will ultimately improve south Bandung traffic conditions. The project is built to support the PON event in September 2016.

Surabaya

- The continuous box culvert development from East Surabaya to West Surabaya, along with the planning of underpass development in the Mayjen Sungkono area, is expected to reduce congestion within Surabaya, especially in the Mayjen Sungkono and HR Muhammad areas. This would be a good for the hotels within the area as their client base would require less time to travel within the city.
- Large infrastructure projects and industrial areas in

planning, such Juanda Airport expansion, Surabaya city's tram and highway projects and Java Integrated Industrial and Port Estate (JIPE) development, will all support the growth of Surabaya city and its hotel industry.

Yogyakarta

- The new Yogyakarta International Airport will be in Kulon Progo and is a joint venture between Angkasa Pura and GVK Group from India. It is scheduled for completion in 2020.

Summary

The first half of 2016 was tough for hotel owners and operators. New supply plays a part, but slower than forecasted demand growth also weighs on performance, and this won't improve until the economy improves. Each market has its own performance peculiarities, but there also are cross-market commonalities such as the governments off again, on again MICE budget constraints.

Significant changes are occurring that are rocking the traditional hotel paradigm. These include:
the growth of the sharing economy;

- OTA power and diversity, such as the proliferation of new OTA budget hotel models like ZEN Rooms, NIDA Rooms, RedDoorz and AiryRooms;
- booking patterns are shortening; and
- costs are increasing.

In short, now is a good time to travel the Java Bali Overland Route as good deals are aplenty. If you are building a hotel along the Java Bali Overland Route, do your homework.

WRITTEN BY:

HORWATH HTL INDONESIA

Citylofts Sudirman 22nd floor unit 2203
Jl. K.H. Mas Mansyur 121
Jakarta 10220
Indonesia
jakarta@horwathhtl.com
+62 21 2555 8584

www.horwathhtl.asia
www.horwathhtl.com

STR GLOBAL ASIA PACIFIC

Thong Teck Building
15 Scotts Road #08-12
228 218 Singapore
Singapore

JAKARTA, INDONESIA

APInfo@strglobal.com
+62 (0) 21 2555 8944

www.strglobal.com



Hotel, Tourism and Leisure

ASIA PACIFIC

AUCKLAND, NEW ZEALAND
auckland@horwathhtl.com

BANGKOK, THAILAND
ischweder@horwathhtl.com

BEIJING, CHINA
beijing@horwathhtl.com

HONG KONG, SAR
hongkong@horwathhtl.com

JAKARTA, INDONESIA
jakarta@horwathhtl.com

KUALA LUMPUR, MALAYSIA
kl@horwathhtl.com

MUMBAI, INDIA
vthacker@horwathhtl.com

SHANGHAI, CHINA
shanghai@horwathhtl.com

SINGAPORE, SINGAPORE
singapore@horwathhtl.com

SYDNEY, AUSTRALIA
rdewit@horwathhtl.com

TOKYO, JAPAN
tokyo@horwathhtl.com

AFRICA

ABIDJAN, IVORY COAST
cspecht@horwathhtl.com

KIGALI, RWANDA
fmustaff@horwathhtl.com

CAPE TOWN, SOUTH AFRICA
capetown@horwathhtl.com

EUROPE

AMSTERDAM, NETHERLANDS
amsterdam@horwathhtl.com

ANDORRA LA VELLA, ANDORRA
vmarti@horwathhtl.com

BARCELONA, SPAIN
vmarti@horwathhtl.com

BELGRADE, SERBIA
slovreta@horwathhtl.com

BUDAPEST, HUNGARY
mgomola@horwathhtl.com

DUBLIN, IRELAND
ireland@horwathhtl.com

BERLIN, GERMANY
germany@horwathhtl.com

ISTANBUL, TURKEY
merdogdu@horwathhtl.com

LISBON, PORTUGAL
vmarti@horwathhtl.com

LIMASSOL, CYPRUS
cmichaelides@horwathhtl.com

LONDON, UK
eheiberg@horwathhtl.com

MADRID, SPAIN
vmarti@horwathhtl.com

MOSCOW, RUSSIA
mohare@horwathhtl.com

OSLO, NORWAY
oslo@horwathhtl.com

PARIS, FRANCE
pdoizelet@horwathhtl.com

ROME, ITALY
zbaciac@horwathhtl.com

SALZBURG, AUSTRIA
austria@horwathhtl.com

WARSAW, POLAND
dfutoma@horwathhtl.com

ZAGREB, CROATIA
scizmar@horwathhtl.com

ZUG, SWITZERLAND
hwehrle@horwathhtl.com

LATIN AMERICA

BUENOS AIRES, ARGENTINA
cspinelli@horwathhtl.com

SÃO PAULO, BRAZIL
mschnurle@horwathhtl.com

MEXICO CITY, MEXICO
mjgutierrez@horwathhtl.com

DOMINICAN REPUBLIC
speralta@horwathhtl.com

SANTIAGO, CHILE
cspinelli@horwathhtl.com

BOGOTA, COLOMBIA
mjgutierrez@horwathhtl.com

NORTH AMERICA

ATLANTA, USA
pbreslin@horwathhtl.com

DENVER, USA
jmontgomery@horwathhtl.com

MIAMI, USA
acohan@horwathhtl.com

MONTREAL, CANADA
pgaudet@horwathhtl.com

NEW YORK, USA
pbreslin@horwathhtl.com

TORONTO, CANADA
pgaudet@horwathhtl.com



ASIA PACIFIC

AUSTRALIA
+61 (0) 2 8091 2009

BEIJING, CHINA
+86 (0) 10 8518 2438

HONG KONG, CHINA
+852 6963 0761

JAKARTA, INDONESIA
+62 (0) 21 2555 8944

MUMBAI, INDIA
+91 (0) 22 6631 1480

NEW ZEALAND
+64 (0) 4 831 8942

SINGAPORE, SINGAPORE
+65 6800 7850

TOKYO, JAPAN
+81 (0) 3 4589 9890

EMEA

DUBAI, UAE
+ 971 (0) 557 701202

LONDON, UK
+44 (0) 207 922 1930

MADRID, SPAIN
+34 9 1123 3296

MILAN, ITALY
+39 02 4547 2236

LATIN AMERICA

BRAZIL / ARGENTINA
+55 (11) 30932765

NORTH AMERICA

HENDERSONVILLE, TENNESSEE, USA
+1 615 824 8664