

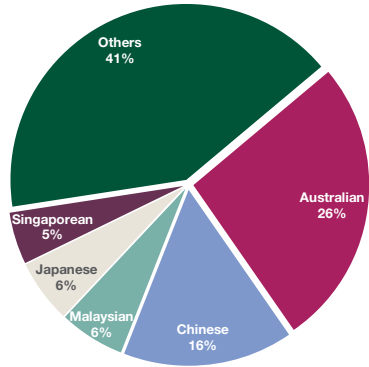
Asian Cities Report

Bali Hospitality

1H 2015

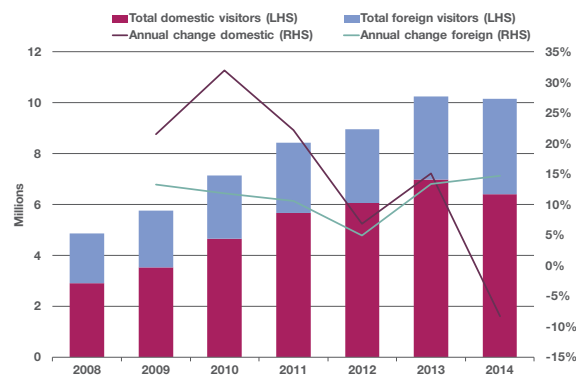


GRAPH 1
Top nationalities of international visitors to Bali, 2014



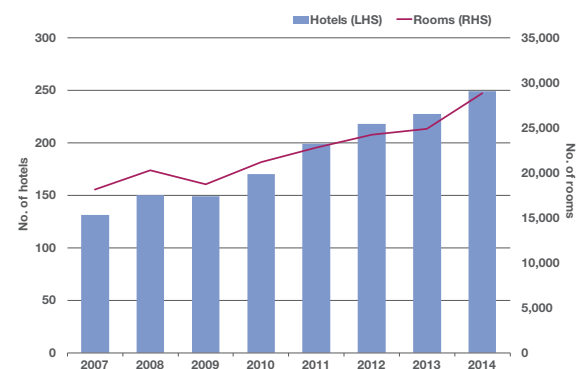
Source: BPS, Savills Research & Consultancy

GRAPH 2
Foreign and domestic visitor growth, 2008–2014



Source: BPS, Savills Research & Consultancy

GRAPH 3
Current hotel supply in Bali, 2007–2014



Source: BPS, Savills Research & Consultancy

Introduction to Indonesian tourism

Indonesia's Travel & Tourism (T&T) sector is the 16th largest globally, in line with its GDP rank. By 2030, it is forecast to be a top ten GDP country and in the last decade to 2014, annual GDP growth has been 6% or above, whilst GDP per capita has quadrupled.

In 2014, the number of foreign tourists increased by 10.4% to 9.5 million people. Domestic T&T consumption is growing – there are 254 million potential hospitality consumers. Total 2014 T&T consumption by both domestic and international visitors was US\$48 billion. 77%, or US\$36.7 billion, was domestic consumption, whilst visitor exports represented 23%, or US\$11.2 billion. Investor interest is also strong; Indonesia was the 13th highest for T&T investment growth globally in 2014, according to the World Travel & Tourism Council.

Indonesia visitor arrivals

Indonesia is aiming for 20 million international visitors by 2020. Asian source markets make up 39% of international arrivals and this share will continue to increase. Five countries make up 61% of arrivals: Singapore (1.6 million, 19%); Malaysia (1.4 million, 16%); Australia (997,000, 11%); China (807,000, 9%); and Japan (491,000, 6%).

In the first two months of 2015, international visitor arrivals decreased by 5% and 14% for January and February respectively, compared to the same months in 2014. From 2012 to 2013, total annual international arrivals increased by 9%. From 2003 to 2013, annual growth has been volatile, ranging from -11% to 19%.

Over the long term, Indonesia has successfully captured key source markets. The following regions had the highest Compound Annual Growth Rate (CAGR) over the decade to 2014: China (32%); India (19%); Middle East (18%); Russia (18%); Vietnam (17%); and the Philippines (10%).

Healthy regional economic growth and the proliferation of regional and low-cost airline routes should enable Indonesia to reach its visitor arrival goals.

Bali overview

10.2 million domestic and international visitors visited Bali in 2014, at a ratio of 63% to 37% respectively. 3.76 million foreign tourists visited in 2014, an increase of 14.9% compared to last year's 3.27 million tourists (310,000 tourists per month). From 2008 to 2014, the CAGR for domestic visitors

was 17%, higher than the CAGR for international visitors at 14%. In Q1/2015, there were nearly 950,000 international visitors, a 14% increase on Q1/2014.

Australia is still the top inbound source market with a quarter of total international arrivals for 2014, while Chinese tourists are second and represent 16%. The top five nationalities make up 58% of international arrivals.

The government is investing in much needed transport, utilities and other projects. These projects include Meetings, Incentives, Conferences and Exhibitions (MICE) infrastructure, sports venues and the Bali Trade Center, a place to showcase Balinese goods which will start construction in 2017.

Hotel supply

According to Statistics Indonesia, Badan Pusat Statistik (BPS), there are currently 249 hotels in Bali and 28,811 rooms. From 2007 to 2014, the CAGR for hotels and rooms was 10% and 6.9% respectively. 2013 to 2014 saw the highest rate for room growth since 2007, with a 16% increase. Room supply increased 3 percentage points faster than the CAGR of hotel establishments; this reflects the entrance of several large hotel developments into the market in 2014, pulling up the annual room supply rate.

According to Smith Travel Research's (STR's) pipeline data, there are 93 potential pipeline hotels in Bali, of which 37 are under construction. Of the top five cities with the largest number of rooms under construction globally, two are in Indonesia – Bali and Jakarta. STR identified 2,398 Asia Pacific pipeline hotels totalling 543,378 rooms as of February 2015. Bali recorded 5,613 rooms, a 10.2% increase on last year's 5,089 rooms. Bali represents 1% of all Asia Pacific future supply, which is more than any megacity in China apart from Shanghai and Chengdu.

Bali hotel performance

In Q1/2015, the average occupancy was 57.3%, representing an 11% decrease from the same quarter last year. The moving annual average for March 2015 was 66.5%, an annual decrease of 1.83%. The average Q1 occupancy for all regions in Indonesia was 56.1%. January and March occupancy posted record lows for all years since January 2008. This may be due to the prolonged increases in hotel supply, lingering consumer concern about the safety of regional airlines after the twin Malaysian Airlines

tragedies, and increased competition from other destinations in Asia Pacific as many remote resorts improve their destination marketing. The weakened ruble and Australian dollar are also potential demand depressors.

The Average Daily Rate (ADR) of Q1/2015 was IDR1,146,822, or US\$123.56. This is a 3.7% increase on the same quarter of 2014 in local currency terms. The moving annual average for March 2015 was IDR1,142,056, or US\$131.26, a 0.32% increase on the moving annual average of March 2014.

Revenue per Available Room (RevPAR) for the first quarter of 2015 averaged IDR 643,502, or US\$70.83. This is a decrease of 7.8% from the same quarter in 2014 in local currency terms. This significant decrease may have been fuelled by the decrease in occupancy. The moving annual average for March 2015 is IDR736,146, or US\$87.84. This is 6.1% less than the moving annual average of March 2014 in local currency terms.

Transport infrastructure

Like other areas of Indonesia, Bali's tourism competitiveness is affected by transport infrastructure limitations. The increased interest in Bali from foreign and domestic tourists has placed a burden on the airports and roads.

The second phase of the Ngurah Rai Airport expansion was completed in September 2014. Increasing capacity to 25 million passengers per annum, it is the third busiest airport in the country. By 2017, the airport is predicted to receive 20 million passengers per annum, this only leaves 5 million passengers' worth of spare handling capacity for future growth. A site for a new airport in Buleleng Regency has been mooted.

The increase in airport tax from April 2014, of 33% and 88% for international and domestic flights respectively, is a demand depressor. It may deter some price-sensitive visitors from Bali.

Stakeholders are improving the road traffic. A toll road connecting South Bali to the rest of the island will commence construction in 2015, followed by another toll road in 2016.

Better infrastructure may reduce the cost of transporting commercial goods, a positive for T&T businesses and consumers. Given the high rate of Indonesia's economic growth, these much needed toll roads are likely to be at capacity soon. While busy highways

do not create a scenic tourism environment, 4.3 million full-time Bali residents, as well as the residents of neighbouring West Tenggara, rely on these roads.

Utilities infrastructure

Water infrastructure and sanitation is a growing problem as the old systems struggle to cope with the dramatic increase in Bali's permanent residents and tourists. Many businesses use private water harvesting units to collect rain water.

Without sustainable management of Bali's natural water resources, environmental problems will worsen and may affect Bali's competitiveness as a tourist destination. Issues include a falling water table, salt water intrusion, decreasing river and lake water, as well as soil deterioration. Bali's coastline is a key asset upon which sun and beach tourism is developed; polluted run-off leads to polluted sea water and damage to marine biology.

It is estimated that tourists use 16 times more water than locals; hoteliers and property stakeholders should consider creating incentives to guide responsible and sustainable tourism consumption in Bali.

Visas

A key demand driver is the visa-free entry policy implemented in March 2015. Originally intended only for China, Japan, South Korea and Russia, the policy will be ultimately applied to 45 countries.

The government forecasts 11 million people will visit Indonesia in 2015 if the policy is fully implemented as planned.

Government curbs on business and MICE spending

Under the newly-elected President Joko Widodo, public sector spending allowances for MICE, travel, restaurants and hotels has decreased. These cost-cutting measures are intended to divert government resources towards more important infrastructure projects.

Outlook

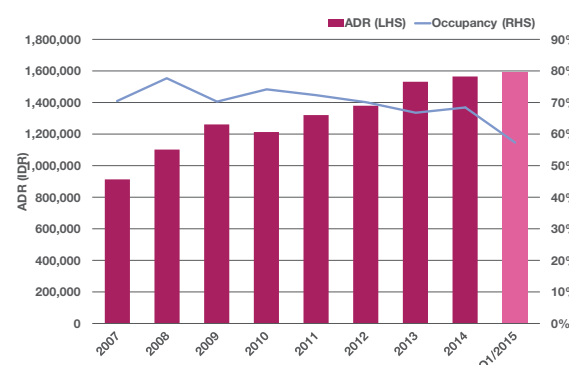
The provincial tourism office of Bali predicts four million international visitors will visit Bali in 2015, a 6% increase from 2014. The government predicts international visitor arrivals to the whole of Indonesia will grow at 12% per annum to 20 million visitors by 2020, from the current 9.5 million visitors. ■

TABLE 1 Future supply in Bali, May 2015

Under construction	37
Final planning	20
Planning	36
Total	93

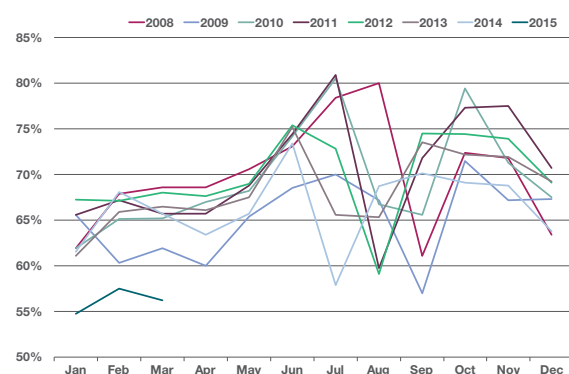
Source: STR Global, Savills Research & Consultancy

GRAPH 4 Bali hotel performance, 2007-Q1/2015



Source: STR Global, Savills Research & Consultancy

GRAPH 5 Bali occupancy rate, 2008-Q1/2015



Source: STR Global, Savills Research & Consultancy

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