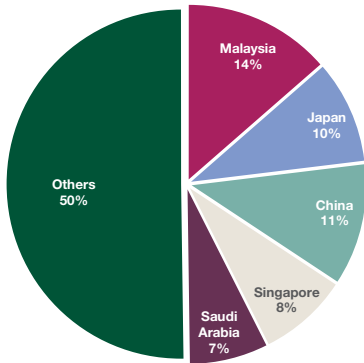


Asian Cities Report **Jakarta Hospitality**

1H 2015

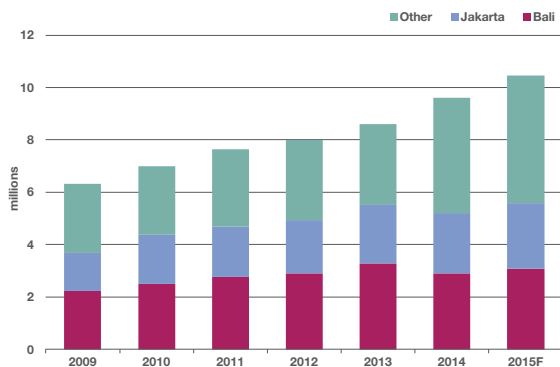


GRAPH 1
Top five countries of inbound visitors to Indonesia, 2014



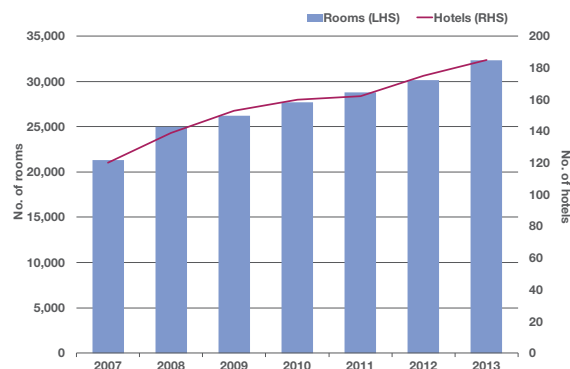
Source: BPS, Savills Research & Consultancy

GRAPH 2
Foreign arrivals to Indonesia, Jakarta and Bali, 2009–2015F



Source: BPS, Savills Research & Consultancy

GRAPH 3
Jakarta hotel supply, 2007–2013



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. The local demand from 254 million potential hospitality consumers is also growing rapidly. Investor interest is also strong; Indonesia was the 13th highest for T&T investment growth globally in 2014. 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.

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 fell 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: 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.

Jakarta overview

Jakarta is the capital city and home to 10.2 million residents. Country wide, 79% of tourism receipts are from leisure travellers whilst 21% visit Indonesia for business. In Jakarta this latter figure is likely to be higher as it is both the business and political centre of Indonesia.

According to Jakarta's Tourism and Culture office, Jakarta received 2.3

million international visitors in 2015. The target for 2015 is 2.5 million visitors.

More visitors are staying longer. The average length of stay of international guests in Jakarta has increased from 2.98 days in 2009 to 3.92 days in 2011, the latest year for which data is available, which is positive for Jakarta's destination development. From 2007 to 2012, the CAGR for Jakarta international arrivals was 8%, while domestic tourists grew at a yearly average of 17%.

Hotel supply

According to Statistics Indonesia, Badan Pusat Statistik (BPS) there are 17,484 classified and non-classified hotels in the country with 469,277 rooms. Of these, 1,996 are classified hotels with 195,886 rooms. The CAGR for room supply of classified hotels for the whole of Indonesia was 6% in the decade to 2014.

In Jakarta there are 421 classified and non-classified hotels, with 43,737 rooms. Of these, 205 are classified hotels representing 35,504 rooms. The CAGR of classified Jakarta hotels was 4% in the decade to 2014. From 2013 to 2014, the number of classified hotel rooms increased by 10% to 35,504 rooms.

According to Smith Travel Research (STR), there are 84 pipeline hotels in Jakarta and 6,743 pipeline rooms. Of the top five cities with the largest number of rooms under construction globally, two are in Indonesia – in Bali and Jakarta. Of the hotels that send data to STR, the Asia Pacific hotel development pipeline consists of 2,398 hotels, totalling 543,378 rooms as of February 2015. The number of rooms under construction in Jakarta is 6,743, less than the 8,315 recorded last year. Bali recorded 5,613 rooms, just under last year's 5,089 rooms.

Pipeline hotel rooms represent 19% of existing classified hotels, or 15% of classified and non-classified hotels.

Jakarta hotel performance

The average occupancy for the first quarter of 2015 was 57% which is nearly 16% lower than the average occupancy in the first quarter of 2014. Annually, occupancy has fallen from nearly 72% in 2012 to slightly under 66% in 2014. In contrast to the Average Daily Rate (ADR) which shows a mixed picture, occupancy has decreased every month for the latest quarter.

The average ADR for the first quarter of 2015 was IDR1,215,710, up 4.7% from the same quarter in 2014. From

2012 to 2014, ADR has strengthened every year in Indonesian rupiah terms. In US dollars, ADR has strengthened for the last five years according to STR Global data.

The average Revenue Per Available Room (RevPAR) in the first quarter of 2015 was IDR693,350, which is 12% lower than the average of Q1/2014. Quarter on quarter, occupancy is 15.5% lower, ADR is 4.7% higher and RevPAR is 11.5% lower.

Transport infrastructure

Jakarta's hospitality growth and tourism competitiveness is hindered by its transport infrastructure limitations.

Soekarno-Hatta International Airport was the busiest airport in Southeast Asia, the third busiest Asian airport, and the 10th busiest in the world in 2013 by passenger numbers. Forty-four airlines are operating scheduled flights to the airport. The airport handled 60 million passengers in 2013 and is undergoing expansion to increase passenger capacity to 80 million by 2020.

Construction of a train line linking the current airport to the city will start in 2015, to be operational by 2019, under a private-public partnership for IDR26 trillion (USD\$2.2 billion). This will reduce the typical road journey of up to three hours to 30 minutes.

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 ultimately be applied to 45 countries.

The government forecasts 11 million people will visit Indonesia in 2015 if the policy is fully implemented as planned. Embarkation and disembarkation cards will not be necessary at 19 international airports, and 11 ports. This will prevent passenger build up at immigration and make the process easier for tourists, especially those from China, who are not used to writing in the Latin alphabet.

Government curbs on business and Meetings, Incentives, Conferences & Exhibitions (MICE) spending

Under the newly-elected President Joko Widodo the public sector spending allowance for MICE, travel, restaurants and hotels has decreased. These cost-cutting measures are intended to re-direct government resources towards

more important infrastructure projects. The government policy placed in the 2015 budget aims to save 24 trillion rupiah (\$1.9 billion) by reducing these civil servant costs.

The Indonesian Hotel & Restaurant Association is concerned about the impact on hotels in Jakarta, but also hotels in the countryside that rely on local government meetings for survival. The association predicts that many hotels will go out of business if the occupancy rate moves below 55%. Furthermore, a shock to the hospitality industry may adversely affect the government's GDP target.

Hospitality and food and beverage accounted for 3.1% of GDP nationally in 2014, according to the BPS. Five-star hotels are likely to be the most affected by the policy.

The ban may be relaxed by the National Development Planning Agency to allow regional governments without meeting rooms to use hotel facilities as convention halls and meeting rooms.

Outlook

The government predicts country-wide visitor arrivals will grow at 12% per annum to 20 million visitors by 2020 from the current 9.5 million visitors. Jakarta aims for 2.5 million international visitors in 2015.

Key demand drivers are the visa-free entry policy implemented in March, the increasing spending power of Asian consumers, low cost airlines, and improvements in political, transport and utilities infrastructure.

Demand depressors include macroeconomic uncertainty, visitor perception of the safety record of regional airlines, and the civil servant spending cuts. As Indonesia is the largest energy producer in Southeast Asia with its resources of oil, natural gas, coal and geothermal, they are extremely susceptible to the negative effects associated with a fall in oil prices.

Jakarta's current hotel supply pipeline is 19% less than last year although it is still among the top five in the world for pipeline projects according to STR data. Increased competition should increase overall product quality. Despite the large amount of supply, hospitality consumption from domestic consumers and regional visitors is increasing.

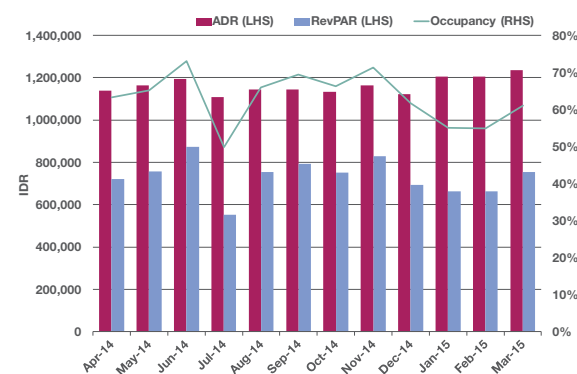
Although occupancy has decreased this quarter which is discouraging for developers and operators in the short term, demand should absorb the extra supply in the long term. ■

TABLE 1 Future supply in Jakarta, May 2015

Under construction	30
Final planning	7
Planning	47
Total	84

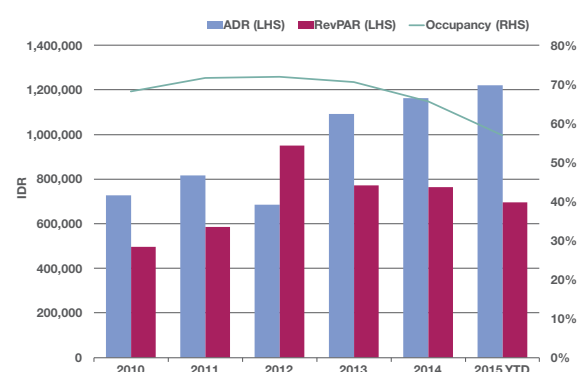
Source: STR Global, Savills Research & Consultancy

GRAPH 4 Jakarta hotel performance over 12 months, Apr 2014–Mar 2015



Source: STR Global, Savills Research & Consultancy

GRAPH 5 Jakarta annual hotel performance, 2010–2015 YTD



Source: STR Global, Savills Research & Consultancy

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