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INDONESIA HOTEL WATCH 2016

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Foreword

HVS Singapore is pleased to publish the fourth edition of the **Indonesia Hotel Watch (IHW) 2016**. This publication covers the top twelve markets in Indonesia, the world's largest archipelago.

The current global political and economic scenario is mixed with the world continuing to struggle to meet the sustainable development goals amidst political realignments, geopolitical turmoil, disparity in development, a related slowdown in investment and trade, and declining capital flows to developing economies. Thus, global economic indicators present a subdued picture as growth drivers rebalance short-term growth and long-term sustainability.

Through this IHW 2016 publication, we present detailed research and unbiased opinions to encourage data-driven fundamental analysis to take lead in the decision making process. We have analysed the overall hospitality landscape in Indonesia, highlighting the demand and supply dynamics and future growth potential. In addition, we have also provided a broad based Return on Capital Employed (ROCE) Analysis indicating investment potential in greenfield developments (development return) and operating assets (acquisition return).

2016 started on a positive note and whilst some markets are facing lower occupancies, generally it has been a positive growth for most markets in Indonesia. Of the twelve markets we track, seven markets have positive RevPar change from 2015 to 2016. In addition, eleven markets are forecasted to have positive RevPar growth for 3 year CAGR.

Special thanks to our Singapore and India teams for putting this publication together.

I trust you will find this report informative and do let us know if you require any clarifications and we welcome your comments.

Thank you

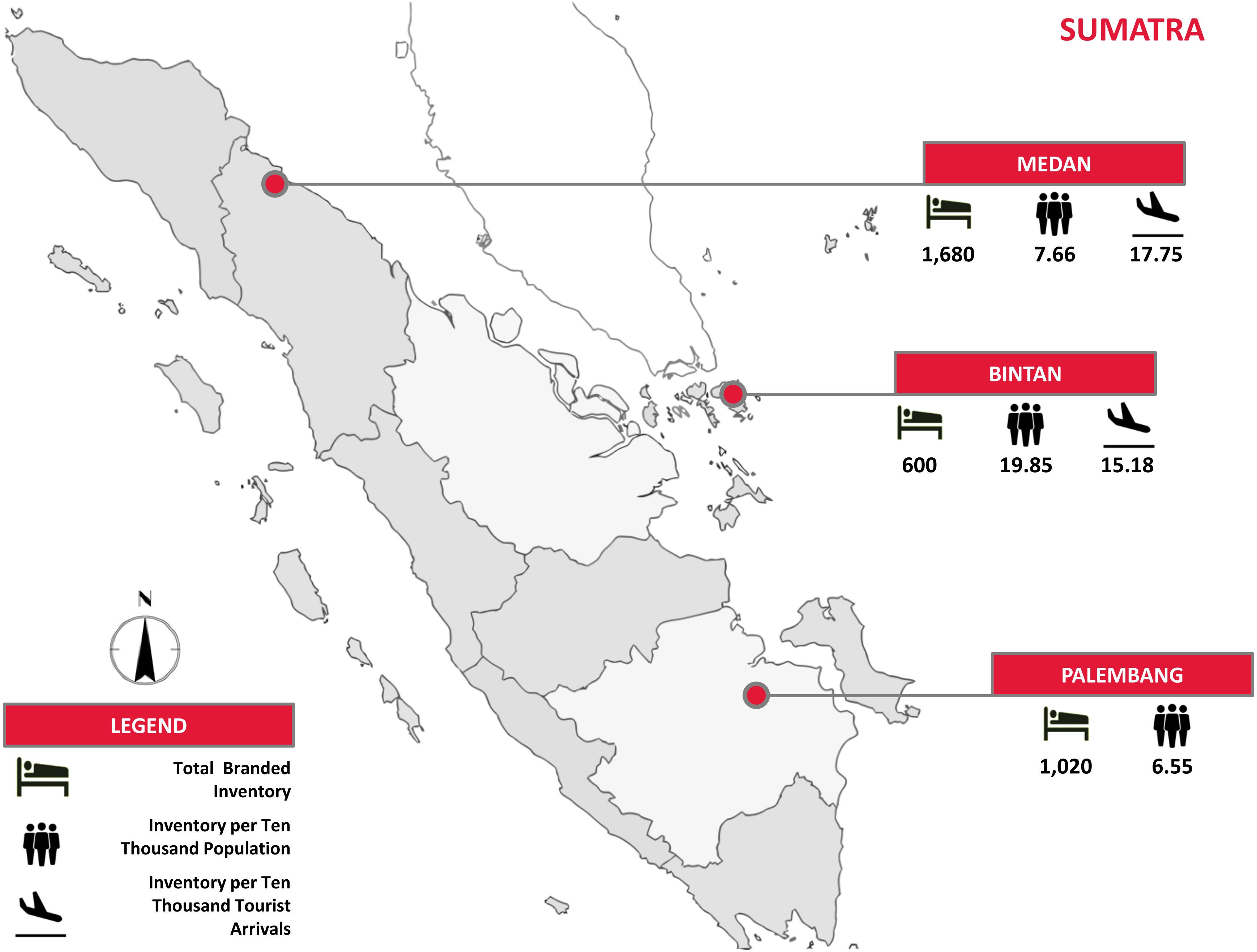
Yours sincerely,

Chee Hok Yean
Managing Partner - Asia Pacific
HVS

INDONESIA

INDONESIA – Twelve Major Markets Covered in Indonesia Hotel Watch

SUMATRA



MEDAN
1,680
7.66
17.75
BINTAN
600
19.85
15.18
PALEMBANG
1,020
6.55
N
LEGEND
Total Branded Inventory
Inventory per Ten Thousand Population
Inventory per Ten Thousand Tourist Arrivals

JAVA

JAKARTA

Total Branded Inventory	Inventory per Ten Thousand Population	Inventory per Ten Thousand Tourist Arrivals
24,540	24.36	35.20

BANDUNG

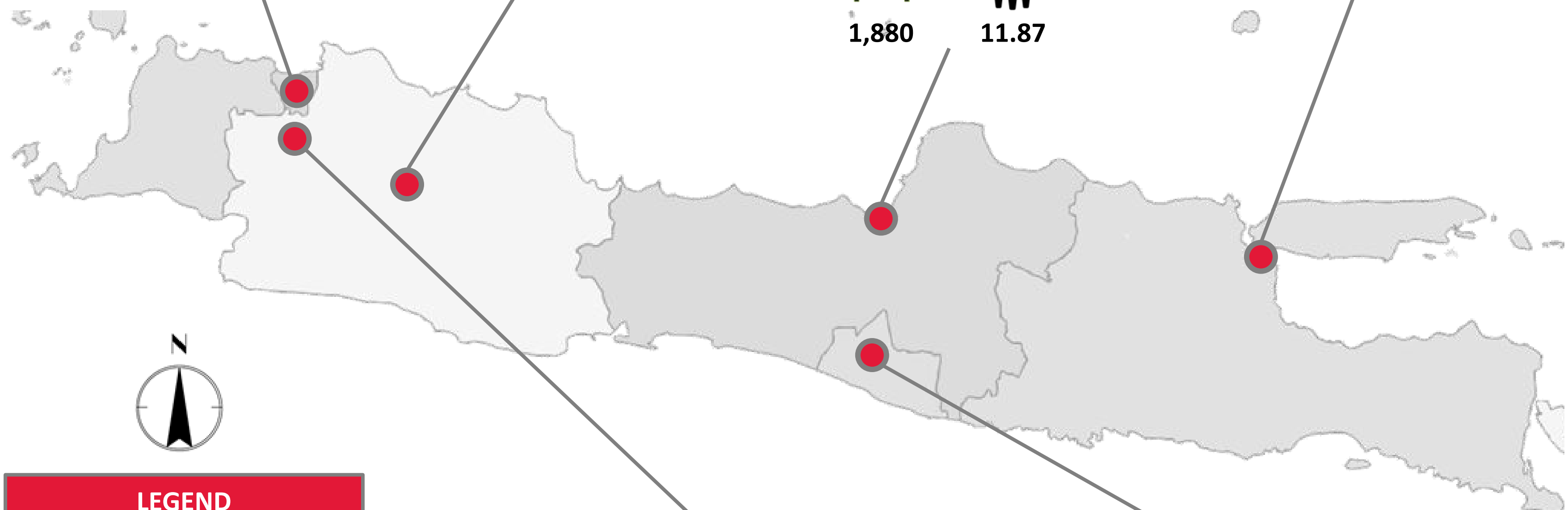
Total Branded Inventory	Inventory per Ten Thousand Population	Inventory per Ten Thousand Tourist Arrivals
6,910	26.83	88.63

SEMARANG

Total Branded Inventory	Inventory per Ten Thousand Population
1,880	11.87

SURABAYA

Total Branded Inventory	Inventory per Ten Thousand Population	Inventory per Ten Thousand Tourist Arrivals
5,530	19.36	28.46



LEGEND

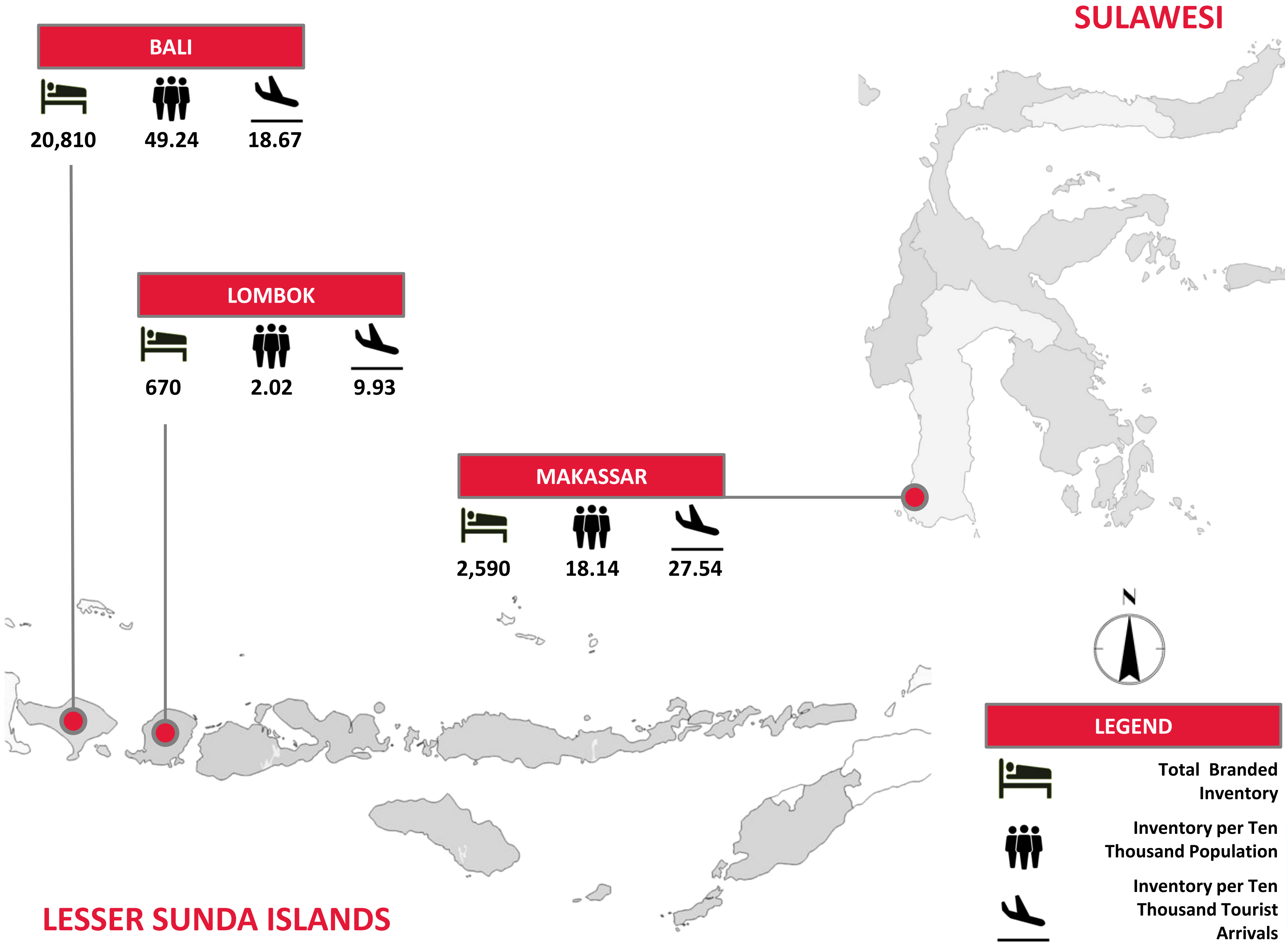
- Bed icon: Total Branded Inventory
- People icon: Inventory per Ten Thousand Population
- Plane icon: Inventory per Ten Thousand Tourist Arrivals

BOGOR

Total Branded Inventory	Inventory per Ten Thousand Population
1,310	12.71

YOGYAKARTA

Total Branded Inventory	Inventory per Ten Thousand Population	Inventory per Ten Thousand Tourist Arrivals
3,600	88.98	17.86


SULAWESI
BALI
20,810
49.24
18.67
LOMBOK
670
2.02
9.93
MAKASSAR
2,590
18.14
27.54
N
LEGEND
Total Branded Inventory
Inventory per Ten Thousand Population
Inventory per Ten Thousand Tourist Arrivals
LESSER SUNDA ISLANDS

MACRO-OVERVIEW - INDONESIA

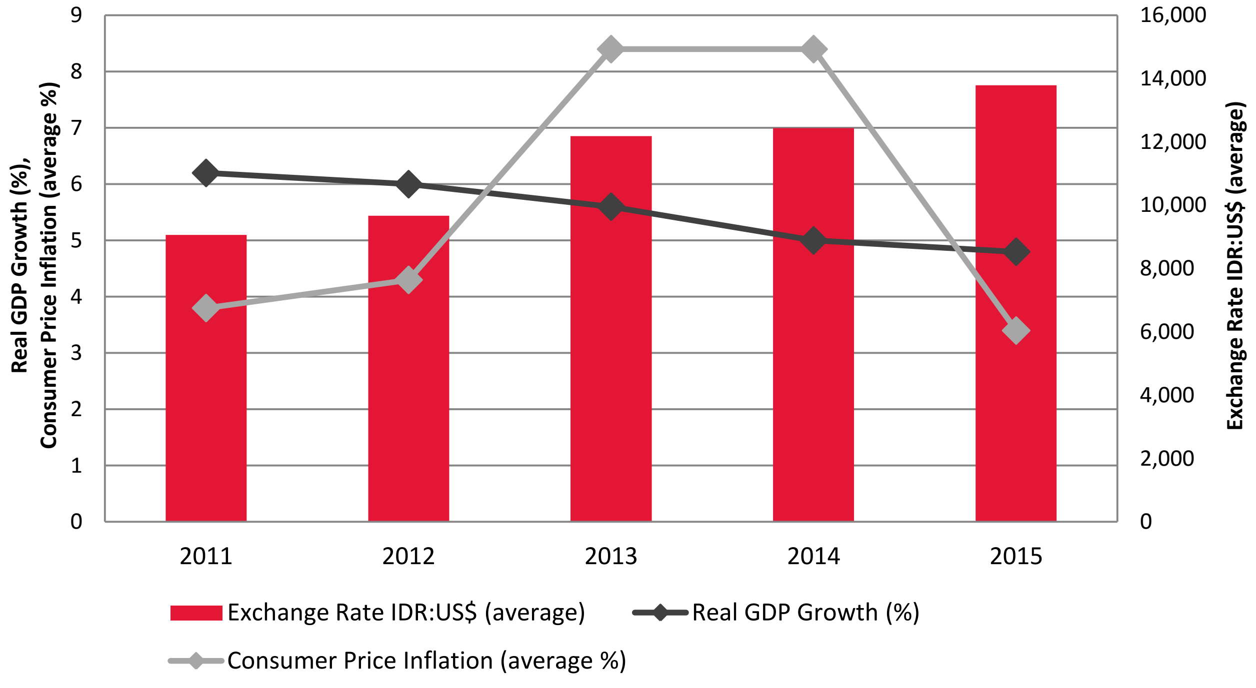
The Indonesian economy has been moderately stable over 2014/2015 with the Gross Domestic Product (GDP) growing at a steady pace of 4.73% in 2015 as compared to 5.14% in the previous fiscal year. As of 1Q2016, the economy expanded by 4.92%, an improvement over the 4.73% during 1Q2015.

The current government has initiated efforts towards its overdue agenda of improving policies, starting off with liberalizing restrictions on foreign investment in sectors such as tourism, entertainment and some parts of logistics and retail. The other two critical sectors that the government is expected to focus on are infrastructure and manufacturing. While improved infrastructure would enhance competitiveness of Indonesia as an investment destination, a stronger manufacturing base would enable it to withstand global volatility in commodity prices and a slump in consumption demand in Asia Pacific, thereby, reducing burden on the country's export-driven resources sector.

On the monetary policy front, earlier this year, Bank Indonesia reduced benchmark interest rate by 25 basis points to 6.75% subsequent to a declining trend in inflationary pressures. The central bank expects long-term inflation to be within the target band of 3-5%. Having witnessed considerable devaluation over the last four years, the Rupiah is also expected to be relatively stable in the short-to-medium term on account of gradual recovery in macroeconomic variables and improved investor sentiment.

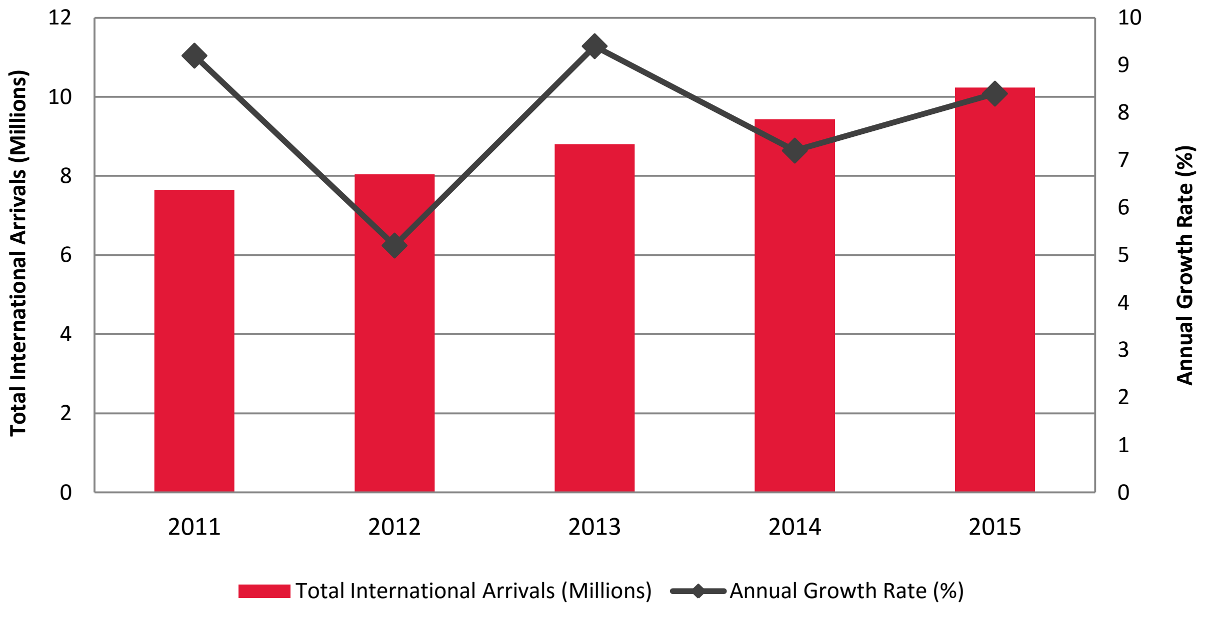
The year 2015 was a remarkable one for tourism in Indonesia. Total international arrivals crossed the ten million mark for the first time, exhibiting a Compounded Annual Growth Rate (CAGR) of 7.5% from 2011 to 2015. Even though Singapore continued to be the largest source market, accounting for 15.6% of the international arrivals in 2015, growth in international tourist arrivals over the last four years was primarily fueled by Chinese travelers to Indonesia, expanding at a year-on-year growth rate of approximately 20.4% since 2011.

FIGURE 1: INDONESIA GDP PERFORMANCE INDICATORS (2011-2015)



Source: Badan Pusat Statistik Indonesian

FIGURE 2: INDONESIA TOTAL INTERNATIONAL ARRIVALS (2011-2015)



Source: Badan Pusat Statistik Indonesian

EXISTING HOSPITALITY LANDSCAPE

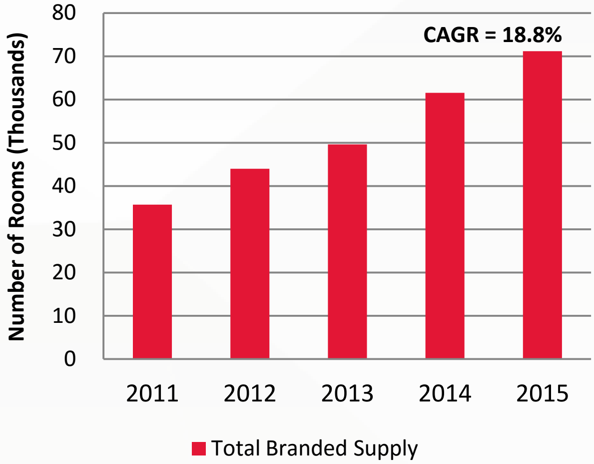
Due diligence pertaining to demand and supply dynamics was carried out while analyzing each market for its existing performance and forecasting future potential. For the analysis, we not only utilized our extensive in-house database, but also intellectual capital that our associates have developed over the years. Having covered these markets for well over a decade, we have keenly observed and analyzed various cycles (economic and industry specific), which puts us in a position to understand fundamental changes better than most.

Branded Supply

As highlighted in Figure 3, we are currently tracking branded supply of approximately 72,000 rooms across 12 major markets in Indonesia. Over the last five years, the overall supply of branded rooms in the defined set has almost doubled exhibiting a strong CAGR of 18.8%. Bali and Jakarta are the two major markets in the country, home to around 63% of the overall branded supply. Figure 4, represents the composition of supply, which as of 2015 was dominated by hotels of Midscale & Budget positioning comprising approximately 55% of the total inventory. Upscale segment accounts for approximately 33% of the total inventory, whereas, the Luxury segment, primarily present in mature markets such as Jakarta and Bali (accounting for around 85% of Indonesia's luxury supply collectively), constitutes the remaining 12%.

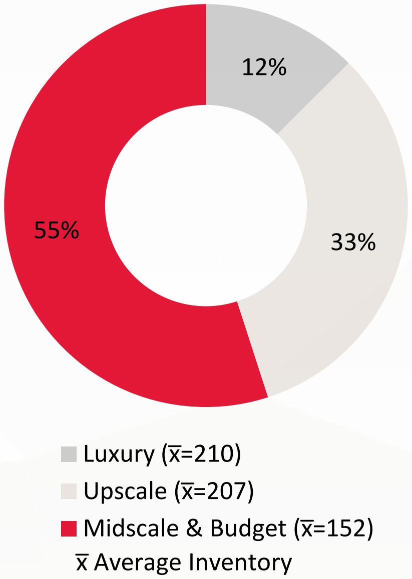
In markets such as Bali, Jakarta and Surabaya, **International brands** account for over 70% of the total branded supply. However, smaller markets such as Lombok, Medan, Bogor and Palembang have higher penetration of **Domestic brands.** We further note that International brands represent about 99.5% of the supply in the Luxury segment and 66.2% in the Upscale segment. However, this split in the Midscale & Budget segment is almost even. According to our research, Accor Hotels has the largest branded representation, by inventory, in the country. The Archipelago Group takes the second spot among other branded operators, both domestic and international, within the defined set of 12 markets in Indonesia. Figure 5, overleaf, highlights the top ten brands in the major markets covered in this report.

FIGURE 3: TOTAL BRANDED SUPPLY ACROSS TWELVE MAJOR MARKETS (2011-2015)



Source: HVS Research

FIGURE 4: COMPOSITION OF SUPPLY – BY POSITIONING (2015)



Source: HVS Research

FIGURE 5: TOP TEN BRANDS – BY TOTAL INVENTORY (AS OF MAY 2016)

Source: HVS Research

Marketwide Performance

Market Performance Trend

The three-year historical hotel performance reflected in Figure 6 (page 13) is derived from a sample of 36,000 rooms out of the total branded supply of approximately 72,000 rooms tracked by HVS. We believe the chosen sample to be reflective of the larger census. Additionally, we also believe the performance of the 12 markets to be a good indicator of the performance of the overall hospitality industry in Indonesia.

As highlighted before, Bali and Jakarta account for approximately 67% of the supply in the sample taken for this analysis. Therefore, it would only be fair to state that consolidated marketwide performance to a large extent is guided by the growth dynamics of these two markets.

Marketwide performance was subdued in Indonesia in 2015. The average occupancy achieved was 61.5% in 2015, an approximate 6% decline over the previous year. The decline in occupancy was a continuation of the momentum set in 2014, as growth in supply for room nights outpaced the demand for the same. Average rates, on the other hand, exhibited modest growth of 3.3% in 2015 over 2014, having experienced marginal decline of 0.7% in 2014 over 2013. Marketwide average rate growth in 2015 can be attributed to escalation of rates in local currency in key markets such as Bali and Jakarta in light of a comparatively higher devaluation of the Rupiah to the USD, which made travel more affordable from international feeder markets. The occupancy and average rate dynamics translated in a RevPAR decline to the effect of 2.9%.

Another factor that impacted hotel performance was the eruption of Mount Barujari in Lombok in November 2015. This force majeure event dealt a strong blow to hotel occupancy particularly in Bali and Lombok. Its impact extended beyond the two-day closure of Ngurah Rai International Airport and Selaparang Airport (airports in Bali and Lombok, respectively) as uncertainty impeded recovery of hotel demand in the fourth quarter.

Leading Markets – RevPAR Growth

Palembang, Makassar and Semarang stood out among the markets covered, exhibiting top growth in RevPAR in 2015 over 2014. While occupancy suffered a decline in Makassar due to the addition of approximately 400 rooms in 2015 over an otherwise small base of branded inventory, owing to the Upper Midscale positioning of the new supply, marketwide average rate increased by a substantial 38% in 2015. This rate increase more than compensated for the decline in occupancy, translating into a robust increase in RevPAR of 11.7%.

Semarang and Palembang, the fifth and sixth most populous cities in Indonesia, benefitted from steady demand and supply dynamics resulting in healthy year-on-year average rate growth. Semarang, the administrative capital for Central Java, witnessed a 10.8% year-on-year growth in RevPAR in 2015 and Palembang, second-largest city in Sumatra, also expected to play host to 2018 Asian Games along with Jakarta, exhibited a staggering 29.9% growth in RevPAR in 2015 over the previous year.

Leading Markets – RevPAR Index

Bali, Indonesia's tourism juggernaut, continues to exceed marketwide RevPAR performance, indexed at 1.6 to the market collectively. The island is home to some of the most high-end resorts in Southeast Asia and is one of the preferred beach destinations in this part of the world attracting over four million or approximately 40% of the international tourist arrivals into Indonesia. In 2015, the island witnessed a marginal decline of approximately 0.9% in RevPAR (in IDR) over 2014 resulting from a 6.2% decrease in occupancy outweighing a 5.6% growth in average rate (in IDR). The relative stability in RevPAR demonstrates the market's resilience despite disruptions to hotel demand in the last quarter of 2015 due to volcanic activity.

Bintan, located 42 km southeast of Singapore, relies heavily on demand emanating from the commercial capital of Southeast Asia during weekends and holiday periods, resulting in high seasonality and low average year round occupancy. However, hotels in Bintan benefit from a high-paying clientele and the fact that their average rates are pegged to the Singapore Dollar (SGD), a more stable currency than the Rupiah. Even though the destination has a small inventory of branded supply, benefitting from high

rate parity, its RevPAR is indexed 20% higher than the market with an average rate, which is second highest (to Bali) in the country. In 2015, Bintan witnessed a decline in occupancy owing to weak economic sentiments in Southeast Asia resulting in a slump in demand from Singapore, one of its primary feeder markets. Average rates, on the other hand, increased by a strong 15.7% in IDR terms or 10.2% in SGD terms yielding a RevPAR growth of 4.4% in IDR terms.

Jakarta, the capital and the most populous city of Indonesia, has the largest number of rooms in the Luxury segment in the country. However, thriving between corporate demand over the weekdays, which has become increasingly price sensitive and a low-yielding domestic segment over the weekends, most Luxury/Upper Upscale hotels fall short of the US$200 average rate mark. This, coupled with the presence of a large inventory in the Midscale & Budget segment indexes Jakarta's RevPAR close to the marketwide par value. In 2015, **Jakarta** saw over 1,000 rooms being added to the existing hotel supply, of which over 50% were in the Upper Upscale/Luxury space. During this period, since growth in supply for room nights outpaced its demand, the city saw occupancy decline by 6.0% over the previous year. However, due to a change in the composition of supply, marketwide average rates exhibited 7.6% increase in IDR terms, yielding a marginal 1.1% growth in RevPAR.

FIGURE 6: OPERATING CHARACTERISTICS (OCCUPANCY, AVERAGE RATE, REVPAR & REVPAR INDEX) – MAJOR MARKETS (2013-2015)

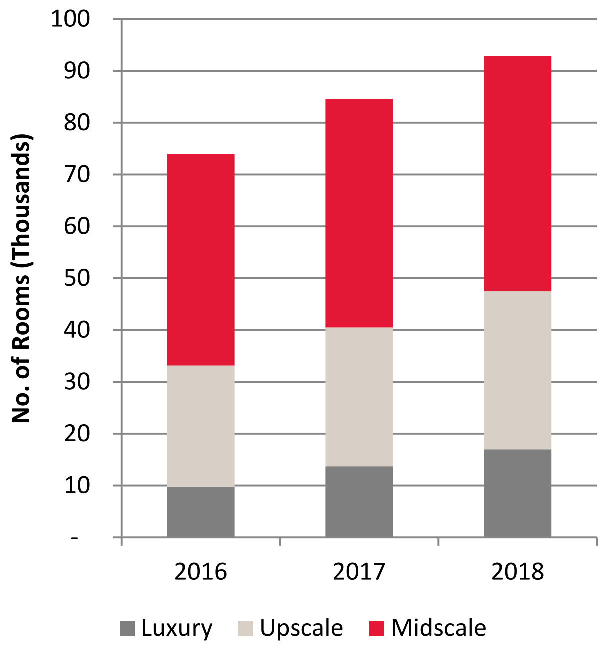
Cities	Demand (CAGR)	Supply (CAGR)	Occupancy			Average Rate (IDR '000)			RevPAR (IDR '000)			RevPAR Index* (2015)
			2013	2014	2015	2013	2014	2015	2013	2014	2015	
Bali	15.1%	18.4%	66.4%	66.9%	62.7%	2,098	1,852	1,956	1,393	1,239	1,227	1.6
Bandung	22.8%	29.7%	65.9%	63.2%	59.0%	610	650	649	402	411	383	0.5
Bintan	3.2%	6.1%	50.0%	52.5%	47.4%	1,485	1,659	1,920	743	872	910	1.2
Bogor	18.8%	19.9%	79.5%	80.5%	78.0%	583	575	583	464	463	455	0.6
Jakarta	13.1%	18.5%	66.7%	64.6%	60.7%	1,035	1,151	1,239	690	744	752	1.0
Lombok	20.1%	25.1%	73.9%	80.6%	68.2%	777	910	904	575	734	617	0.8
Makassar	24.0%	43.9%	63.0%	58.0%	46.8%	250	289	400	158	168	187	0.2
Medan	0.9%	0.0%	69.2%	70.2%	70.5%	599	605	630	415	424	444	0.6
Palembang	35.4%	38.7%	56.2%	48.4%	53.6%	586	595	698	329	288	374	0.5
Semarang	16.5%	13.7%	65.3%	65.8%	68.6%	455	442	470	297	291	323	0.4
Surabaya	14.9%	22.9%	70.5%	65.2%	61.6%	694	693	601	489	452	370	0.5
Yogyakarta	15.5%	14.0%	66.4%	69.9%	68.2%	587	644	619	390	450	422	0.6
Average	**15.0%**	**19.5%**	**66.5%**	**65.5%**	**61.5%**	**1,205**	**1,196**	**1,236**	**801**	**784**	**761**	**1.0**

Cities	Demand (CAGR)	Supply (CAGR)	Occupancy			Average Rate (US$)**			RevPAR (US$)**			RevPAR Index* (2015)
			2013	2014	2015	2013	2014	2015	2013	2014	2015	
Bali	15.1%	18.4%	66.4%	66.9%	62.7%	201	156	146	133	104	92	1.6
Bandung	22.8%	29.7%	65.9%	63.2%	59.0%	58	55	48	38	35	29	0.5
Bintan	3.2%	6.1%	50.0%	52.5%	47.4%	142	140	143	71	73	68	1.2
Bogor	18.8%	19.9%	79.5%	80.5%	78.0%	56	48	44	44	39	34	0.6
Jakarta	13.1%	18.5%	66.7%	64.6%	60.7%	99	97	93	66	63	56	1.0
Lombok	20.1%	25.1%	73.9%	80.6%	68.2%	74	77	68	55	62	46	0.8
Makassar	24.0%	43.9%	63.0%	58.0%	46.8%	24	24	30	15	14	14	0.2
Medan	0.9%	0.0%	69.2%	70.2%	70.5%	57	51	47	40	36	33	0.6
Palembang	35.4%	38.7%	56.2%	48.4%	53.6%	56	50	52	31	24	28	0.5
Semarang	16.5%	13.7%	65.3%	65.8%	68.6%	43	37	35	28	25	24	0.4
Surabaya	14.9%	22.9%	70.5%	65.2%	61.6%	66	58	45	47	38	28	0.5
Yogyakarta	15.5%	14.0%	66.4%	69.9%	68.2%	56	54	46	37	38	32	0.6
Average	**15.0%**	**19.5%**	**66.5%**	**65.5%**	**61.5%**	**115**	**101**	**92**	**77**	**66**	**57**	**1.0**

* *RevPAR Index is calculated over the average RevPAR of the 12 major markets.*
For example, the RevPAR Index for Bali is 1.6, which represents that the market's RevPAR is 60% higher than the average.
** *Exchange Rate is based on Economic Intelligence Unit statistics*

Source: HVS Research

FIGURE 7: FUTURE SUPPLY – BY POSITIONING (2016-2018)



Source: HVS Research

Future Supply

We expect the addition of approximately 22,000 branded rooms over the next three years, a 30.5% growth over the existing supply of 72,000. What is noteworthy is that almost 70% of the upcoming supply is in the Luxury and Upscale segments indicating that individual investors still consider hotel developments as prized possessions and build them as status symbols. We want to highlight that for proposed supply, we only captured assets that were under construction or in early stages of planned development. We did not include the several projects that were not likely to be developed in the next three years.

Bali and Jakarta account for almost 58% of the total proposed supply and as per our research Jakarta is expected to witness the largest absolute quantum of supply in country. From a relative increase perspective, Bogor, Lombok and Palembang are expected to see year-on-year supply increase of 44.9%, 25.8% and 25.2%, respectively over the next three years. Figure 7 presents future supply by positioning and Figure 8 presents future supply for the 12 markets.

FIGURE 8: FUTURE GROWTH IN SUPPLY – BY MAJOR MARKETS (2016-2018)

MARKETS	Exisiting Supply (2015)	Active Supply (Under Construction 2016-2018)	Future Supply (2018)	CAGR
Bali	20,810	5,700	26,500	12.8%
Bandung	6,910	1,570	8,480	10.8%
Bintan	1,440 *	520	1,960	16.7%
Bogor	1,310	1,440	2,750	44.9%
Jakarta	24,540	7,080	31,620	13.5%
Lombok	670	390	1,060	25.8%
Makassar	2,590	1,160	3,750	20.3%
Medan	1,680	540	2,220	15.0%
Palembang	1,020	580	1,600	25.2%
Semarang	1,880	120	2,000	3.1%
Surabaya	5,530	1,780	7,310	15.0%
Yogyakarta	3,600	1,090	4,680	14.0%
Total	**71,970**	**21,960**	**93,930**	**14.2%**

** Existing Supply includes Unbranded Supply within Bintan Resorts Development*
Source: HVS Research

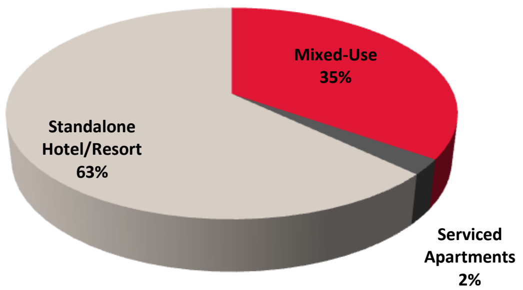
Asset Type and Investor Profile

To better understand the nature of active proposed supply (highlighted in Figure 8) and investors' motivation, we segregated the same into three categories – Standalone Hotel/Resort, Mixed-Use and Serviced Apartments. Accounting for approximately 63% of the overall pie, Standalone Hotels/Resorts comprise majority of the active proposed supply in Indonesia. Nearly half of the Standalone Hotels/Resorts are slated to be developed in Bali, with a significant portion of the rest coming up in smaller markets such as Bandung, Makassar, Palembang and Yogyakarta. Even though Bali is increasingly witnessing the development of mixed-used projects (residential components alongside hotels and resorts), owing to the relatively stable acquisition cost of land and strong growth in arrivals and demand for room nights, return on investment continues to be lucrative for Standalone properties as they justify highest and best use. The same holds true for some of smaller markets (mentioned above), where cost of land could typically range between 15% to 20% of total project cost.

Mixed-Use developments, defined as hospitality developments built in conjunction with other real estate components, such as residential, retail and office, comprise 35% of the overall proposed supply in Indonesia. Approximately 57% of the Mixed-Use projects tracked are being developed in Jakarta. Owing to a significantly higher cost of land in the capital city, developers are building hotels in conjunction with residences, which in most cases are being branded and serviced by the hotel operator itself. Our research indicates that these branded residences are able to fetch a 25-35% premium over similar unbranded ones making them an attractive proposition. Also, the promoter is able to generate cash flow upfront through pre-sale of units, easing funding requirements for the overall project. That being said, many developers are also looking at developing hotels in conjunction with retail and office developments. The motivation behind this is to create more self-contained developments that are convenient for consumers and can compensate for the challenging transportation infrastructure in the city. While in theory Mixed-Use developments may promise a whole larger than the sum of its parts, one must factor in inherent risks associated with each individual component.

Branded Serviced Apartments account for a marginal 2% of the overall supply indicating no traction for extended stay products among investors. The extended stay segment which currently forms a small portion of the accommodated demand is either absorbed by hotels or more affordable unbranded residential options offering larger livable area and customized services. Figure 9 highlights the breakdown of proposed supply into the three categories discussed.

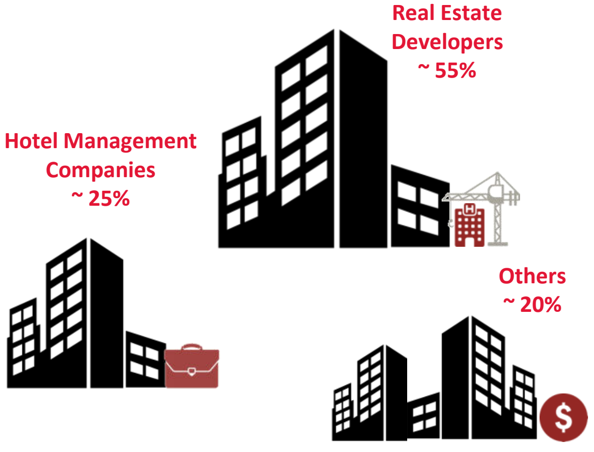
FIGURE 9: FUTURE SUPPLY – BY ASSET TYPE



Source: HVS Research

Similar to other developing countries in the region, investor profile in Indonesia is dominated by real estate developers followed by hotel management companies. This split is a result of the relatively nascent stage of transaction activity leading to low interest from institutional investors. While there are international players vested in the market, their interests are channeled through joint partnerships with local stakeholders due to prohibitive land ownership and investment laws. Figure 10 highlights investor profile.

FIGURE 10: FUTURE SUPPLY – BY INVESTOR PROFILE



Performance Outlook

We forecast marketwide RevPAR to decline by approximately 1.6% in 2016 over 2015 as growth in supply outpaces a soft growth in demand given the current economic scenario in Asia Pacific. Going forward, in the next three years, we expect demand growth to gather steam and surpass incoming supply with occupancy recovering nearly to 2015 performance levels. On the average rate, we expect steady growth since most of the supply is in the Leisure and Upscale segments - these hotels typically focus on yield optimization through rate growth. On account of the forecasted occupancy and average rate dynamics, we anticipate a 5.8% CAGR in marketwide RevPAR over the next three years. For similar reasons, primary markets such as Jakarta and Bali are expected to experience CAGR in RevPAR of 5.1% and 5.7% respectively, mirroring marketwide sentiments which these markets greatly influence.

Secondary markets such as Bogor, Makassar and Surabaya are expected to witness a dip in performance in 2016 due to the addition of a relatively large quantum of branded Midscale & Budget (low rate yielding) supply over a small base. Over time, this branded supply is expected to induce demand of its own and gradually grow marketwide occupancy and RevPAR levels.

Going forward, destinations to watch out for are Bandung, Lombok, Makassar and Palembang and can be labeled as growth hotspots of the country. These markets are expected to benefit from stable short-term outlook and build upon the same to achieve robust medium-to-long term potential.

Figure 11 highlights future performance outlook for the 12 markets.

FIGURE 11: PERFORMANCE OUTLOOK – MAJOR MARKETS

Markets	Δ RevPAR (2015-16)	RevPAR Forecast (3 Yr CAGR)	Demand Outlook	Supply Outlook
Bali	2.6%	5.1%	Moderate Growth	Moderate Growth
Bandung	3.7%	6.5%	Moderate Strong Growth	Moderate Growth
Bintan	4.4%	-0.4%	Moderate Growth	Moderate Strong Growth
Bogor	-5.1%	3.5%	Strong Growth	Strong Growth
Jakarta	2.2%	5.7%	Moderate Strong Growth	Moderate Growth
Lombok	7.4%	8.6%	Moderate Growth	Moderate Growth
Makassar	-4.3%	8.9%	Moderate Growth	Weak Growth
Medan	-0.7%	3.8%	Moderate Growth	Moderate Growth
Palembang	-0.9%	8.4%	Moderate Growth	Moderate Growth
Semarang	8.2%	5.4%	Weak Growth	Weak Growth
Surabaya	-1.7%	6.3%	Moderate Growth	Moderate Growth
Yogyakarta	8.2%	1.2%	Moderate Strong Growth	Moderate Strong Growth
Average	**-1.6%**	**5.8%**	Moderate Growth	Moderate Growth

LEGEND

Strong Growth | Moderate Strong Growth | Moderate Growth | Weak Growth

Source: HVS Research

Return on Capital Employed (ROCE) Analysis

Figures 12 and 13, present indicative return on investment numbers for the development of greenfield projects (development return) and acquisition of operating assets (acquisition return), for markets covered in the publication. Do note the following caveat and assumptions for the ROCE Analysis:

Caveat

We would like to emphasize that these are indicative numbers and highlight the overall investment potential in a market. It would be presumptive to extrapolate these numbers to a particular project, existing or proposed.

Each greenfield development or acquisition opportunity needs to be assessed on its own merit after factoring in demand and supply dynamics relevant to the same which, may or may not be in line with marketwide trend.

Investment decisions/calls to a large extent depend on the subjective needs of the investor. The impending analysis does not take into account the following larger investment objectives, nor does it factor in the opportunity cost of capital (no leverage).

- Distressed Divestments
- Strategic Expansion or Acquisition
- Diversification
- Exit Strategy
- Highest & Best Use

Both development and acquisition returns are based on our projection of demand and supply dynamics for a particular market based on historical trends and our understanding of its future potential.

Assumptions

Development Cost: Based on our interactions with various stakeholders and secondary research, we arrived at a weighted average development cost number per square meter (sq. m) after factoring in the inventory composition (positioning of existing and proposed products) for a particular market.

- We then combined the weighted average development cost number and the weighted average Gross Floor Area (GFA) per Room to arrive at the development cost per room for the overall market. We would like to reiterate that the development cost per room is reflective of the entire market and is dependent on the composition of inventory, existing and proposed, in the same.
- Depending on the commercial maturity of the market, we assumed land cost to be around 20-30% of the total development cost. This range was derived as an average of the numerous feasibility studies performed by HVS over the last five years and may be reflective of current market prices.

The development return assumes a three-year construction period for a typical greenfield project and takes into account stabilized parameters and operating performance on par with the market.

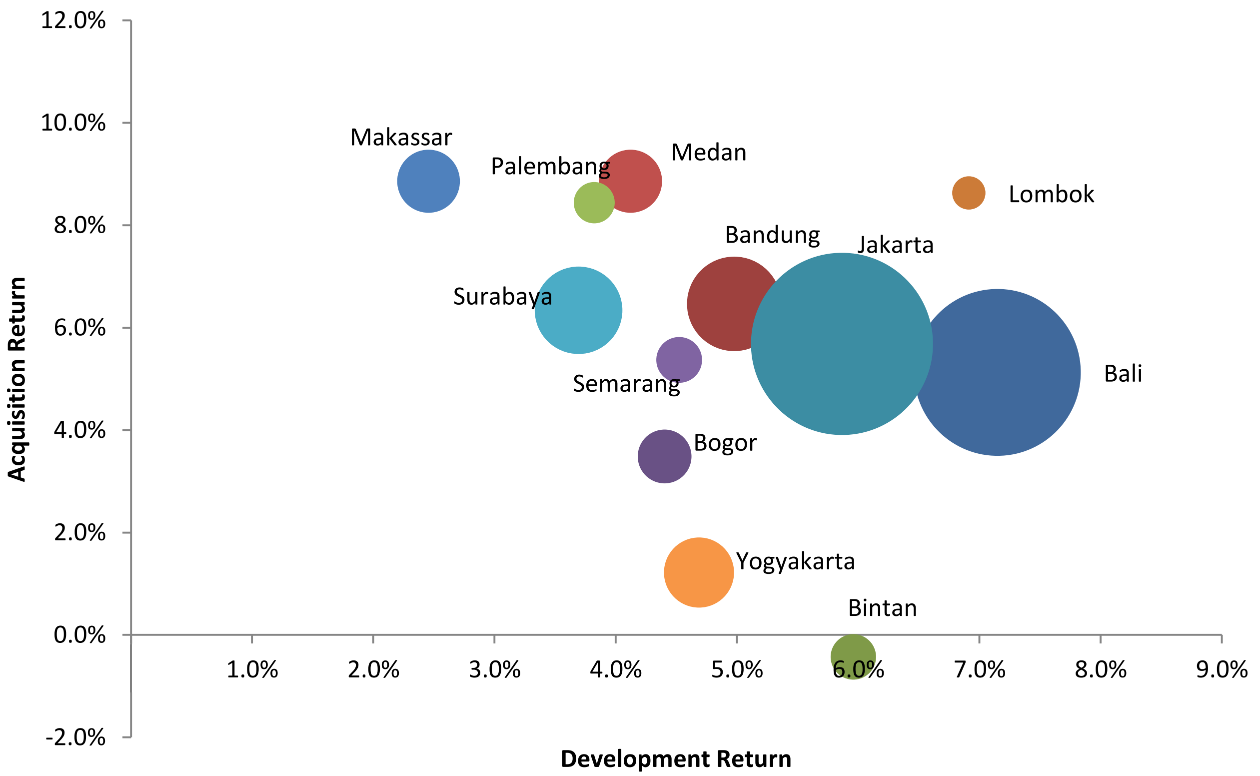
RevPAR growth has been assumed as a proxy for growth in overall hotel valuation for the market. The three-year forecasted growth in RevPAR is used to indicate acquisition return.

FIGURE 12: DEVELOPMENT RETURN AND ACQUISITION RETURN (CHARACTERISTICS)

	Development Return	Acquisition Return
Investment Strategy	Build (Greenfield)	Acquire (Operating Assets)
Investment Focus	Long-term	Short-term
Duration	As of stabilized year	Annualized three-year (CAGR)
Return Type	Expected	Expected or Notional
Based on	Net Income in stabilized year	Value Appreciation
Definition (Proxy)	Net Income divided by Development Cost	Three-year CAGR in RevPAR
Range	2.5 - 7.1%	0 - 8.9%
Top five markets	Bali, Bandung, Bintan, Lombok and Jakarta	Bandung, Lombok, Makassar, Palembang and Surabaya

Source: HVS Research

FIGURE 13: DEVELOPMENT RETURN AND ACQUISITION RETURN – MAJOR MARKETS



** Size of bubbles represents the proposed supply in respective markets*

Source: HVS Research

Concluding Remarks

The first half of 2016 started off on a positive note on account of stable macroeconomic indicators and right chords struck by the government to facilitate an investor friendly environment. While hospitality indicators were under pressure in 2015, there is no discounting the fact that demand for room nights continued to exhibit healthy double-digit year-on-year growth. As Bali and Jakarta continue to thrive and dominate proceedings, we expect smaller markets such as Bandung, Makassar, Palembang and Semarang to surface in the short term and gather investor interest. Given concomitant progress in infrastructure and investment policies, without doubt, Indonesia, the largest economy in Southeast Asia, presents firm upward potential in the medium term.

About HVS

HVS, the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrated its 35th anniversary last year. Established in 1980, the company performs 4,500+ 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 40 offices and more than 350 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.
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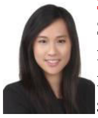
HVS ASIA PACIFIC is represented by eight offices in Singapore, Bangkok, Beijing, Hong Kong, Mumbai, New Delhi, Shanghai and Shenzhen. HVS also hosts five of the main annual industry events in the region, namely the Hotel Investment Conference - South Asia (HICSA), Hotels Operation Summit India (HOSI), the Tourism, Hotel Investment & Networking Conference (THINC) Indonesia and Sri Lanka, and the China Hotel Investment Conference (CHIC). Additionally, HVS publishes a wide range of leading research reports, articles and surveys, which can be downloaded from our online library (HVS.com/Library).

HVS SINGAPORE team has worked on a broad array of projects that include economic studies, hotel valuations, operator search and management contract negotiation, development strategies for new brands, asset management, research reports and investment advisory for hotels, resorts, serviced residences and branded residential development projects.

About the Authors



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