



# INDONESIA HOTEL WATCH 2017



# Foreword

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HVS Singapore is pleased to publish the fifth edition of the Indonesia Hotel Watch (IHW) 2017. This publication provides an insight into the top ten hotel markets in Indonesia, the world's largest archipelago.

Growth in the global economy is likely to be uneven and imbalanced over the next few years, as the world continues to struggle to meet its sustainable development goals. Geopolitical risks as well as policy and regulatory decisions will largely determine economic outcomes and the global operating environment. Economists expect emerging-market regions to continue outperforming developed-world markets. However, the overall outlook is somewhat subdued, as growth drivers rebalance short-term growth and long-term sustainability.

Through this IHW 2017 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. Given the strong growing domestic middle class, HVS has decided to provide greater insight on its growth in Indonesia.

2017 started on a sluggish note but is expected to improve following a strong 5% GDP growth in 2Q2017. Of the ten markets we track, five markets have positive RevPAR change from 2015 to 2016. In addition, three markets are forecasted to have positive RevPAR growth for 3-year CAGR.

Special thanks to our Singapore and India teams for their efforts in the preparation of this publication.

I trust you will find this report informative and do contact us if you require any clarifications.

We welcome your comments.

Thank you

Yours sincerely,



Chee Hok Yean  
Managing Partner - Asia Pacific  
HVS

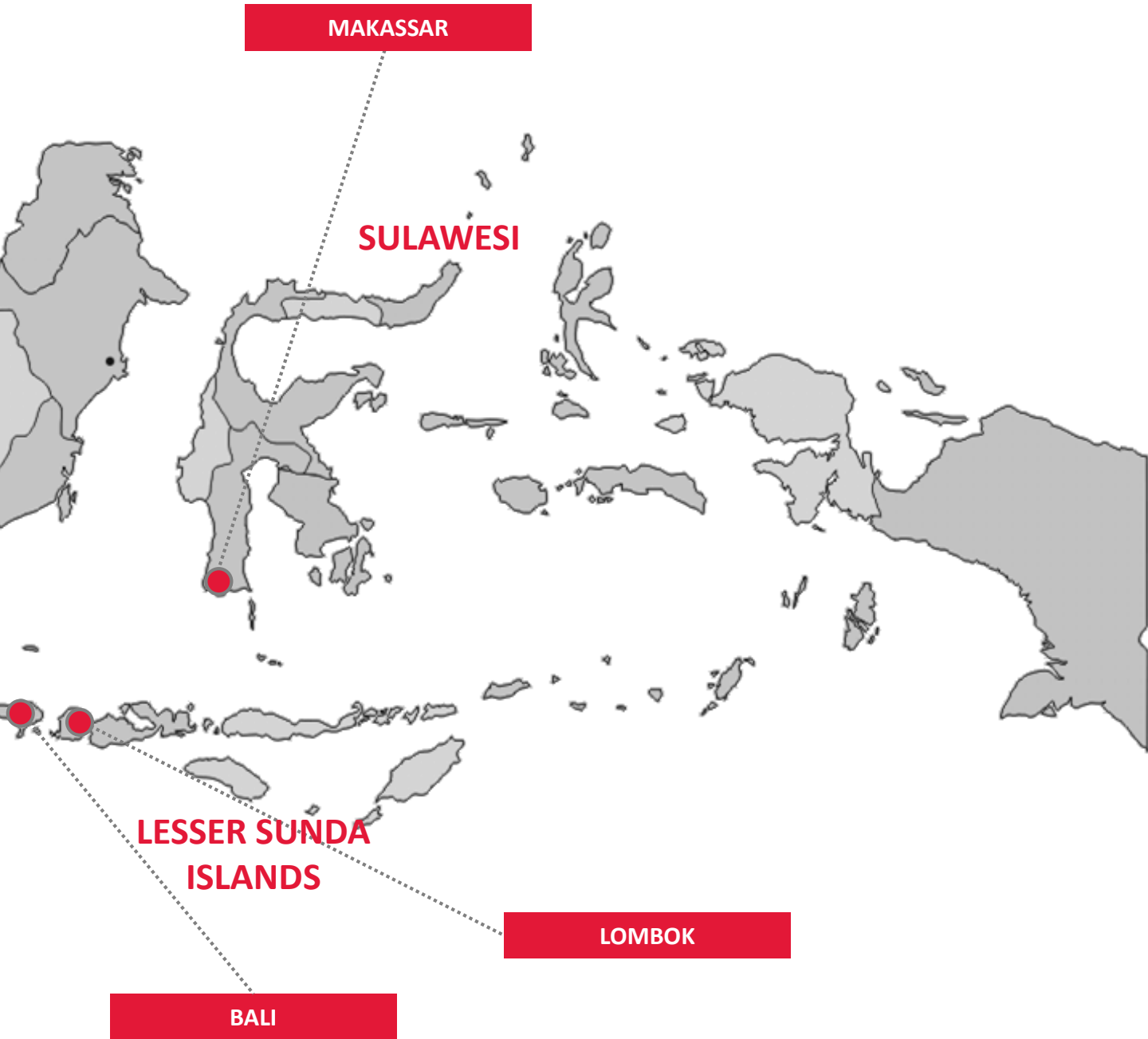
2017



# INDONESIA

Ten Major Markets covered in Indonesia Hotel Watch 2017







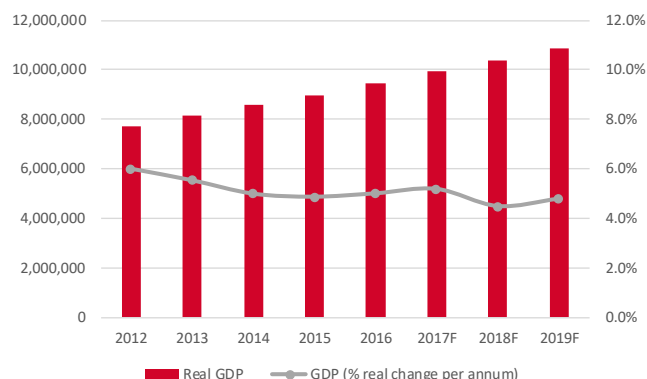
## MACRO-OVERVIEW – INDONESIA

Indonesia is one of the fastest growing economies in Southeast Asia with a population of around 255 million inhabitants in 2015. While 2016 has been an uncertain year on a global level with the United States (US) presidential election leading to a slowdown in trade and economic deceleration in China, Indonesia's economy picked up as the local government initiated major infrastructure projects and inaugurated policies to ease restrictions on foreign investment.

### Economic Performance

Indonesia's real Gross Domestic Product (GDP) expanded 5.1% in 2016, from 4.9% in the previous year. Working towards economic growth, the government has put in effort to improve the country's infrastructure and strengthen commercial and strategic ties with key countries in Asia. Indonesia is boosting private and government investment with improved fiscal policies, driving growth in private consumption and is export trading. Thereby, the Real GDP is expected to grow in the mid-term.

FIGURE 1: REAL GDP AND REAL GDP % CHANGE (2012-2019F)

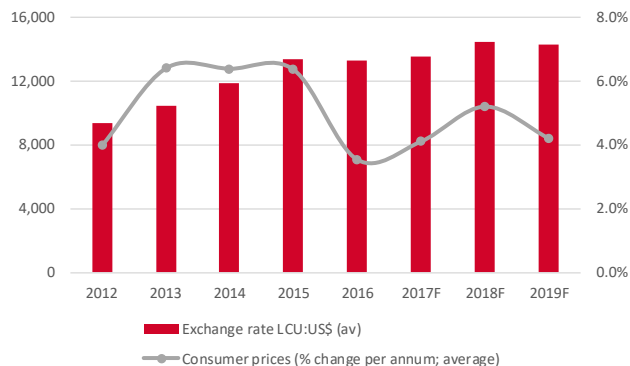


Source: Economist Intelligence Unit

### Inflation & Currency Exchange

Indonesia's Consumer Price Index (CPI) fell sharply from 6.4% in 2015 to 3.5% in 2016, recording the lowest growth since 2012. Indonesia was strongly impacted by the decrease in commodity prices (crude oil, crude palm oil & coal), a sluggish global economy, and in particular China's slowing economy in 2016. With commodity prices expected to recover in the mid-term, Indonesia's CPI is expected to range between 4% and 5%.

FIGURE 2: EXCHANGE RATE AND CONSUMER PRICE INDEX (2012-2019F)



Source: Economist Intelligence Unit

From 2012 to 2015, the Indonesian Rupiah (IDR) has been constantly depreciating against the US Dollar (USD), with a slight appreciation of 0.6%

from 2015 to 2016. Despite the slight appreciation in 2016, however, the IDR is expected to continue to weaken in the short-term which can be partially explained by the interest rate hike in the US as well as a rising demand for the US Dollar. A similar trend is observed for the exchange rate between the IDR and the Singapore Dollar (SGD), as the SGD closely follows the movement of the USD.

### Employment in Tourism

Given the positive economic growth of Indonesia in 2016, unemployment rate fell from 5.8% in 2015 to 5.5% in 2016. The travel & tourism sector has contributed approximately 6,708,000 jobs, which accounts for 5.6% of total employment in 2016. In 2017, the number of jobs is forecast to rise by 1.7% to 6,820,000, signifying development and growth potential in the Indonesian tourism sector.



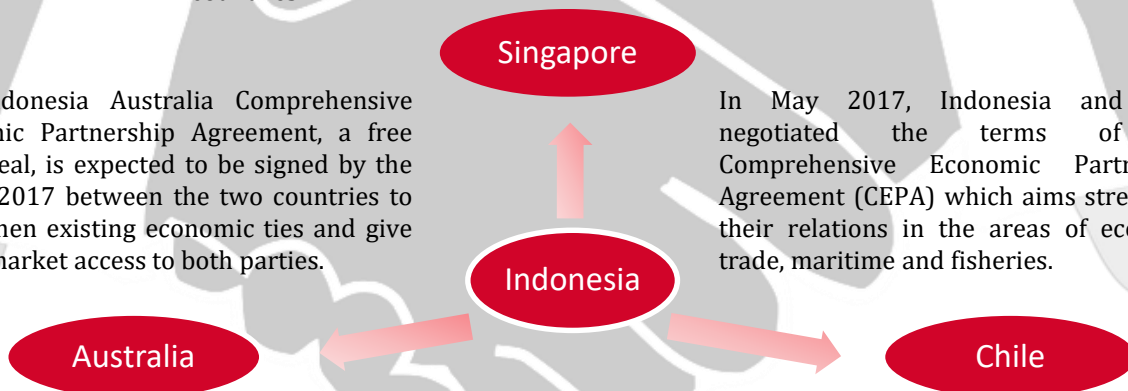
## MACRO-OVERVIEW – INDONESIA

### Future Geo-Political Relations

For the first nine months of 2016, Singapore companies invested almost US\$7.1 billion in Indonesia, which was double of that invested in the same period in 2015. As such, Indonesia is the top choice for the Singapore Manufacturing Federation (SMF) to continue strengthening the bilateral relations between the two countries.

The Indonesia Australia Comprehensive Economic Partnership Agreement, a free trade deal, is expected to be signed by the end of 2017 between the two countries to strengthen existing economic ties and give wider market access to both parties.

In May 2017, Indonesia and Chile negotiated the terms of the Comprehensive Economic Partnership Agreement (CEPA) which aims strengthen their relations in the areas of economy, trade, maritime and fisheries.



### Infrastructure

According to the World Economic Forum (WEF)'s Global Competitiveness Report 2015-2016, Indonesia ranks 62<sup>nd</sup> out of 140 economies for infrastructure development. As both infrastructure development and macroeconomic growth go hand-in-hand, Indonesia's economic development has been limited as the country struggles to cope with absorbing larger flows of goods and people that travel across the country. The Indonesian government has recognised the need to improve quality and quantity of both 'hard' and 'soft' infrastructure. Thus, a larger infrastructure development budget has been allocated in 2017 at approximately IDR388 trillion as compared to IDR317 trillion in 2016, of which IDR184 trillion will be funded by regional governments and IDR154 trillion will be spent from the central government fund.

Some of the key projects are highlighted below:



- Develop **24 seaports** across Indonesia by **2019**
- Current ports underway:
  - Kalibaru Port
  - Bintung Port
  - Kuala Tanjung Port
  - Bali Benoa Cruise Terminal



- Additional **3,258 kilometres** of rail infrastructure to be added to rail network in Java, Sumatra, Sulawesi and Kalimantan.
- Proposed railways:
  - Sumatra coal railway
  - West Kutai-Balikpapan coal railway
  - Muara Wahau - Bangalon coal rail way
  - Soekarno-Hatta Airport links
  - Trans Sumatra railway



- Establish **15 new airports** across the country by **2019**.
- Soekarno-Hatta Internaitonal Airport is **undergoing renovation** and is expected to be **completed in early 2018**
- Silangit Airport is expected to be operational by **September 2017** to boost tourist arrivals to Lake Toba



## TOURISM MARKET OVERVIEW

### Tourism Arrivals

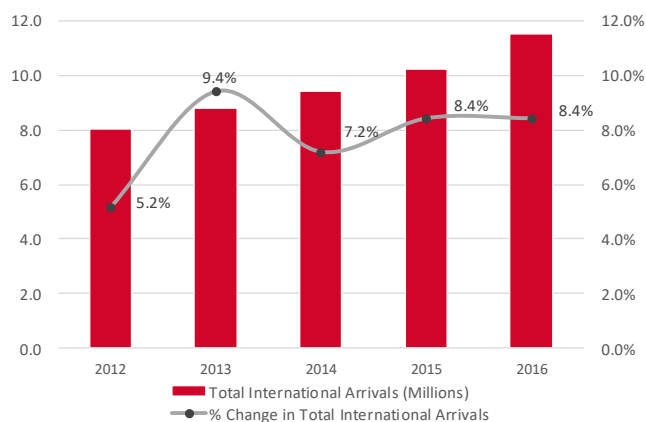
Indonesia, a world renowned tourist destination, with spectacular natural resources and a remarkable cultural heritage, attracted 11.5 million international tourists in 2016. Contributing approximately 4% to the GDP, the tourism industry is becoming of greater importance for Indonesia’s economy.

The Tourism Ministry aims to achieve 15 million international arrivals in 2017 and 20 million arrivals by 2019, which translates to an expected CAGR of 20.2% from 2016. To achieve such targets, the Ministry will focus on three key priority plans:

- Go Digital:**  
 Reinforcing the marketing & sales strategy
- Air Connectivity:**  
 Upgrading the number of flights to secondary destinations
- Construction of homestays in Tourism Villages:**  
 Creating accommodation for tourists in upcoming destinations in the short-term

Despite domestic tourism being on the forefront in Indonesia, a strong correlation between international tourists and tourism receipts is observed.

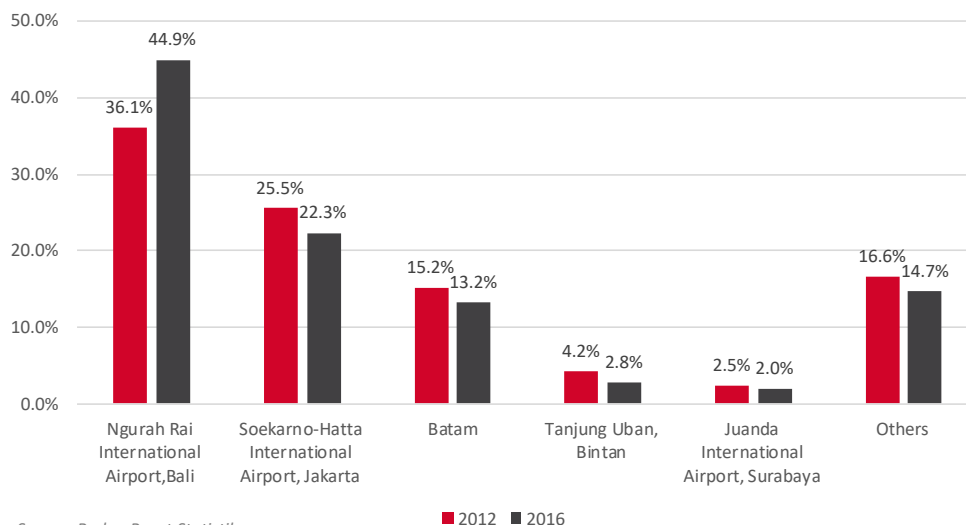
FIGURE 3: INTERNATIONAL TOURISM ARRIVALS (2012-2016)



Source: Badan Pusat Statistik

Ngurah Rai International Airport in Bali has recorded the highest number of international tourist arrivals to Indonesia in the past five years. From 2012 to 2016, tourist arrivals to Ngurah Rai International Airport increased by 8.8%, while all other airports experienced a decrease in tourist arrivals. Bali accounted for nearly half of Indonesia’s tourist arrivals in 2016, followed by Jakarta’s Soekarno-Hatta International Airport. Being the capital of Indonesia, Jakarta attracts business and MICE visitors to the city owing to its high standard of meeting and convention facilities.

FIGURE 4: INTERNATIONAL TOURIST ARRIVALS BY PORT (BY PERCENTAGE OF TOTAL ARRIVALS, 2012 vs. 2016)



Source: Badan Pusat Statistik



## Source Markets

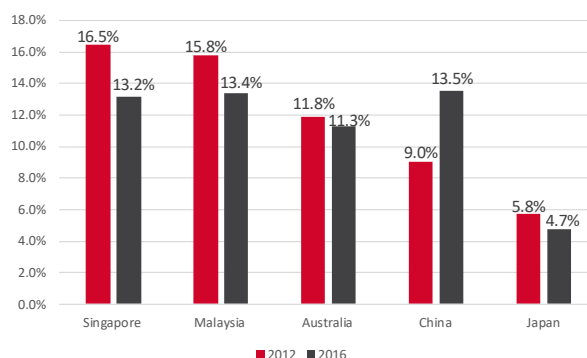
While the top five international source markets for Indonesia have remained unchanged in the past five years, China was the only country among the top five improving its share.

In 2016, China outpaced Singapore, becoming the number one source market for Indonesia. With a CAGR of 21%, China increased its share by 4.5% from 2012 to 2016, accounting for the largest number of foreign tourist arrivals to Indonesia.

Over the five-year period, Bangladesh, accounting for 0.3% of foreign arrivals, recorded the highest CAGR of 59.7%, followed by Sri Lanka with a CAGR of 28.9% at a share of 0.2%.

Russia's share decreased by a CAGR of 2.9% to reach only 0.8% of total foreign arrivals in 2016.

**FIGURE 5: TOP 5 INTERNATIONAL SOURCE MARKETS (PERCENTAGE SHARE, 2012 vs. 2016)**



Source: Badan Pusat Statistik



## HOTEL DEMAND AND SUPPLY ANALYSIS INDONESIA – BY PROVINCE

### Foreign and Domestic Tourism

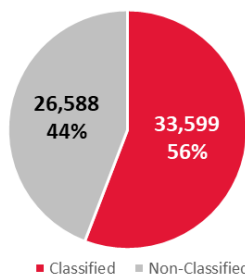
As of 2016, demand growth across all provinces outpaced supply growth in both the mid and long-term. Classified hotel rooms are predominantly in DKI Jakarta, Bali, West Java, and Kepulauan Riau, while non-classified hotel rooms dominate the market in West Nusa Tenggara, South Sulawesi, North Sumatera, Central and East Java as well as DI Yogyakarta. In the mid as well as long term, however, classified hotel room supply increased at a faster pace than non-classified hotels rooms.

With the exception of foreign guests in classified hotels in Bali, domestic guests form a very large portion of hotel market demand in most of the provinces. With the rise of the local middle class in Indonesia, domestic guests are expected to outnumber foreign guests in the immediate future.

### HOTEL DEMAND AND SUPPLY ANALYSIS BY PROVINCE IN 2016

#### Bali

##### Room Supply Breakdown



	Total Hotel Guests	Total Room Supply
10Y-CAGR	12.7%	4.7%
5Y-CAGR	12.7%	5.5%

Source: Badan Pusat Statistik

##### Ratio of Type of Guests by Classified and Non-Classified Hotels

###### Classified Hotels

**1** Foreign Guests (Persons)

**0.5** Domestic Guests (Persons)

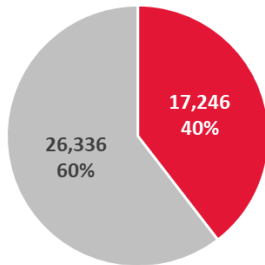
###### Non-Classified Hotels

**1** Foreign Guests (Persons)

**18** Domestic Guests (Persons)

## Central Java

Rooms Supply Breakdown



■ Classified ■ Non-Classified

	Total Hotel Guests	Total Room Supply
10Y-CAGR	14.9%	6.5%
5Y-CAGR	21.0%	7.1%

Source: Badan Pusat Statistik

### Ratio of Type of Guests by Classified and Non-Classified Hotels

#### Classified Hotels

1 Foreign Guests (Persons)

60 Domestic Guests (Persons)

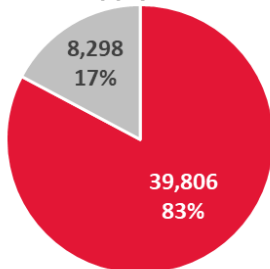
#### Non-Classified Hotels

1 Foreign Guests (Persons)

127 Domestic Guests (Persons)

## DKI Jakarta

Room Supply Breakdown



■ Classified ■ Non-Classified

	Total Hotel Guests	Total Room Supply
10Y-CAGR	10.7%	6.3%
5Y-CAGR	11.3%	6.0%

Source: Badan Pusat Statistik

### Ratio of Type of Guests by Classified and Non-Classified Hotels

#### Classified Hotels

1 Foreign Guests (Persons)

4.4 Domestic Guests (Persons)

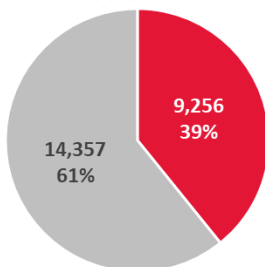
#### Non-Classified Hotels

1 Foreign Guests (Persons)

58 Domestic Guests (Persons)

## DI Yogyakarta

Room Supply Breakdown



■ Classified ■ Non-classified

	Total Hotel Guests	Total Room Supply
10Y-CAGR	11.1%	5.2%
5Y-CAGR	15.7%	7.0%

Source: Badan Pusat Statistik

### Ratio of Type of Guests by Classified and Non-Classified Hotels

#### Classified Hotels

1 Foreign Guests (Persons)

2 Domestic Guests (Persons)

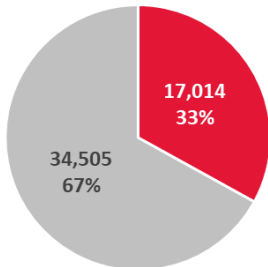
#### Non-Classified Hotels

1 Foreign Guests (Persons)

23 Domestic Guests (Persons)

## East Java

### Room Supply Breakdown



■ Classified ■ Non-Classified

	Total Hotel Guests	Total Room Supply
10Y-CAGR	12.5%	6.6%
5Y-CAGR	17.8%	7.4%

Source: Badan Pusat Statistik

### Ratio of Type of Guests by Classified and Non-Classified Hotels

#### Classified Hotels

1 Foreign Guests (Persons)

24 Domestic Guests (Persons)

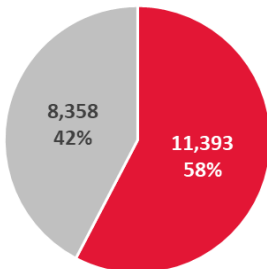
#### Non-Classified Hotels

1 Foreign Guests (Persons)

96 Domestic Guests (Persons)

## Kepulauan Riau

### Room Supply Breakdown



■ Classified ■ Non-Classified

	Total Hotel Guests	Total Room Supply
10Y-CAGR	13.1%	4.3%
5Y-CAGR	13.5%	3.8%

Source: Badan Pusat Statistik

### Ratio of Type of Guests by Classified and Non-Classified Hotels

#### Classified Hotels

1 Foreign Guests (Persons)

1.1 Domestic Guests (Persons)

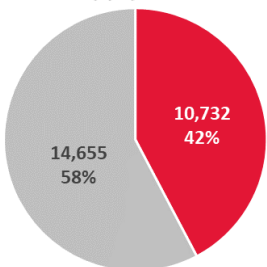
#### Non-Classified Hotels

1 Foreign Guests (Persons)

7.8 Domestic Guests (Persons)

## North Sumatra

### Room Supply Breakdown



■ Classified ■ Non-Classified

	Total Hotel Guests	Total Room Supply
10Y-CAGR	18.9%	5.6%
5Y-CAGR	19.2%	5.4%

Source: Badan Pusat Statistik

### Ratio of Type of Guests by Classified and Non-Classified Hotels

#### Classified Hotels

1 Foreign Guests (Persons)

12 Domestic Guests (Persons)

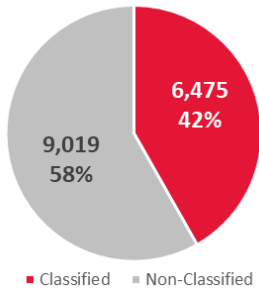
#### Non-Classified Hotels

1 Foreign Guests (Persons)

57 Domestic Guests (Persons)

## South Sulawesi

### Room Supply Breakdown



	Total Hotel Guests	Total Room Supply
10Y-CAGR	15.5%	5.5%
5Y-CAGR	30.6%	8.8%

Source: Badan Pusat Statistik

### Ratio of Type of Guests by Classified and Non-Classified Hotels

#### Classified Hotels

**1** Foreign Guests (Persons)

**36** Domestic Guests (Persons)

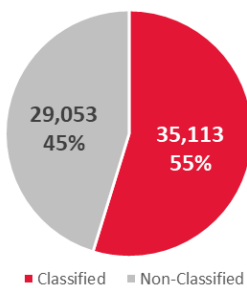
#### Non-Classified Hotels

**1** Foreign Guests (Persons)

**88** Domestic Guests (Persons)

## West Java

### Room Supply Breakdown



	Total Hotel Guests	Total Room Supply
10Y-CAGR	13.0%	6.3%
5Y-CAGR	13.9%	6.2%

Source: Badan Pusat Statistik

### Ratio of Type of Guests by Classified and Non-Classified Hotels

#### Classified Hotels

**1** Foreign Guests (Persons)

**18** Domestic Guests (Persons)

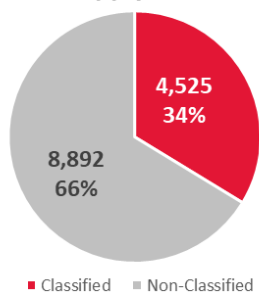
#### Non-Classified Hotels

**1** Foreign Guests (Persons)

**170** Domestic Guests (Persons)

## West Nusa Tenggara

### Rooms Supply Breakdown



	Total Hotel Guests	Total Room Supply
10Y-CAGR	20.1%	10.2%
5Y-CAGR	22.0%	15.1%

Source: Badan Pusat Statistik

### Ratio of Type of Guests by Classified and Non-Classified Hotels

#### Classified Hotels

**1** Foreign Guests (Persons)

**3.6** Domestic Guests (Persons)

#### Non-Classified Hotels

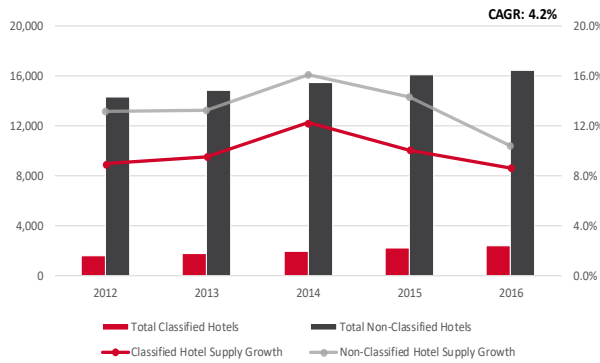
**1** Foreign Guests (Persons)

**1.9** Domestic Guests (Persons)



## Hotel Supply Indonesia – Overall

FIGURE 6: CLASSIFIED VS. NON-CLASSIFIED HOTEL SUPPLY



Source: Badan Pusat Statistik

### Supply

In 2016, Indonesia counted a total hotel supply of 18,829 hotels, of which 87.3% are non-classified hotels. While classified hotels recorded a strong 5-year CAGR of 10.1% from 2012 to 2016, non-classified hotels increased only by 3.4%.

From 2012 to 2016, West Nusa Tenggara recorded the most significant increase in hotel supply (both classified and non-classified hotels), followed by East Java. West Nusa Tenggara, hosting the island of Lombok, is a relatively new destination for tourists and its proximity to Bali as well as its natural, untouched landscape has attracted a growing number of hotel projects.



## Hotel Supply Indonesia – Key Markets

### Existing Hotel Supply – Branded

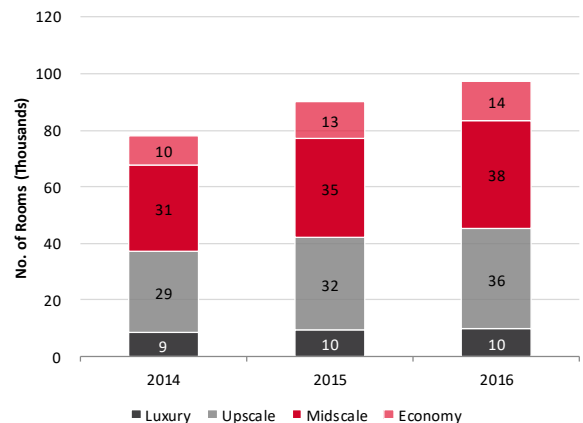
This year, we focused on the following ten key cities which play a key role in Indonesia’s tourism industry:

- Bali
- Bandung
- Medan
- Lombok
- Jakarta
- Semarang
- Bintan
- Makassar
- Surabaya
- Yogyakarta

In 2016, branded hotel rooms in the upscale and midscale segment dominated the existing supply throughout the cities with an almost equal percentage share, while the luxury segment, counting for 10.2% of total room supply, ranked last.

From 2015 to 2016, branded hotel rooms in the upscale segment showed the greatest growth of 10.2%, followed closely by the midscale and economy segments, which increased by 8.4% and 7.1%, respectively. Lombok, Surabaya and Makassar recorded the strongest year-on-year increase.

FIGURE 7: EXISTING BRANDED SUPPLY – 10 KEY CITIES (BY SEGMENT 2014 – 2016)



Source: HVS Research

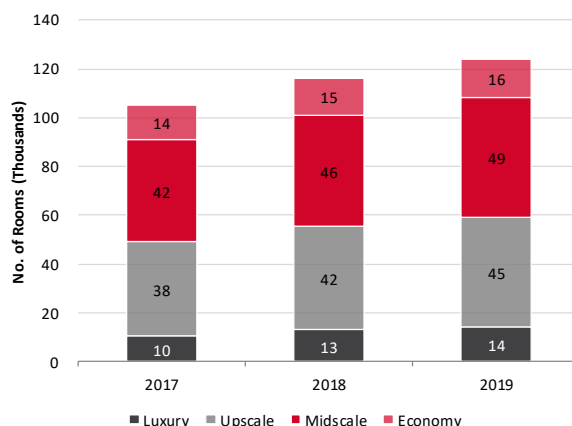
## Future Supply

Amongst the ten key markets analysed in this report, branded room supply will increase by 26,957 rooms distributed amongst 144 hotels.

The future branded hotel supply in Indonesia's key cities is expected to grow significantly. With an anticipated CAGR of 13.8% from 2016 to 2019, the luxury segment will increase its branded room supply by approximately 4,500 rooms. Looking at absolute numbers however, the midscale segment will continue to be Indonesia's strongest hotel segment.

Please note that our analysis only includes projects that are currently under construction or have been announced with a confirmed opening date.

**FIGURE 8: FUTURE BRANDED ROOM SUPPLY BY SEGMENT (2017-2019)**



Source: HVS Research

Figure 9 highlights the strong increase in branded room supply in Indonesia's key destinations. While Bintan shows the highest CAGR from 2017 to 2019, the absolute number of additional rooms (288) is limited compared to other destinations.

More than 8,000 rooms will be added in Bali and Jakarta. While branded, future hotel supply in Bali is concentrated on the upscale and midscale segments, the capital's hotel market will see a surge in the luxury and midscale segments.

In Surabaya, branded hotel operators such as Accor and Archipelago International in particular, are gearing up for the rise in travel demand. Notably, the midscale segment is on the rise in the outlook for 2017-2019, accounting for 46.6% of total incoming room supply.

**FIGURE 9: FUTURE BRANDED ROOM SUPPLY BY CITIES (2017-2019)**

Markets	Existing Hotel Supply (2016)	New Room Supply (2017 - 2019)	Total Future Supply by end 2019	CAGR (2017 - 2019)
Bali	30,952	8,882	39,834	9.0%
Bandung	8,514	2,294	10,808	7.9%
Bintan	640	288	928	20.4%
Jakarta	31,515	8,297	39,812	8.0%
Lombok	964	161	1,125	8.0%
Makassar	4,459	618	5,077	3.3%
Medan	2,422	904	3,326	14.1%
Semarang	2,990	793	3,783	7.7%
Surabaya	8,124	2,944	11,068	10.0%
Yogyakarta	6,537	1,687	8,224	10.1%
<b>Total</b>	<b>97,117</b>	<b>26,868</b>	<b>123,985</b>	<b>8.6%</b>

Source: HVS Research



## Spotlight Performance – Key Markets

Although demand increased in the majority of our analysed key cities from 2015 to 2016, , new room supply put pressure on the average rate in Indonesia's key markets. Despite a significant amount of additional branded hotel supply in 2016, Yogyakarta, Medan and Lombok recorded an increase in both occupancy and ADR. Bandung, Bintan and Surabaya's hotel performances, on the other hand suffered in 2016, with a drop in occupancy between 3.5% to 4.5% points and ADR decreasing between 5% and 10%.

Looking ahead, Bali, Bintan and Lombok are the three key markets where we expect the strongest three-year RevPAR compound annual growth rate from 2017 to 2019. Due to Jakarta's importance as a corporate tourism destination, we included the capital in our analysis below.

### Bali

#### Present

Bali's hotel performance has not slowed down in 2016. Throughout the segments, overall hotel demand increased, however, at the expense of a slight decrease in ADR in the upper upscale segment.

#### Future

With a solid existing supply and a strong pipeline in place, we expect new destinations within Bali to arise. For instance, beachfront land from Canggu to Pantai Kelating is likely to see transformation in the coming years. Our hotel performance outlook remains positive for Bali as the increase in supply is expected to be absorbed by the continuous surge of tourist arrivals. Furthermore, Bali is gearing up development of the airport to successfully welcome delegates of IMF and World Bank for their annual meeting in October 2018.

### Lombok

#### Present

The emergence of Lombok and its transformation into a popular leisure destination has been a hot topic over the past few years. In 2016, occupancy surged in Lombok amongst the analysed hotels and supported by a strong increase in ADR, RevPAR increased by over 10% year-on-year.

#### Future

The two additional parking spaces at Lombok's international airport are to be inaugurated by the end of 2017 to further boost tourism arrivals on the island. While we expect occupancy and ADR to grow in the next three years, the rise in awareness of Lombok as an international resort destination will be hindered until the Mandalika project is completed.

### Jakarta

#### Present

The positive demand growth in Indonesia's capital, particularly from domestic guests, has not fully translated into a rise in performances in branded hotels. While overall occupancy increased slightly in 2016, average rate was on a downward trend. Amongst our sample, the luxury segment was impacted the most.

#### Future

Within the next three years, more than 8,000 hotel rooms will enter Jakarta and we expect hotel occupancy to drop. The risk of average rate further deteriorating, especially in the luxury market, is high due to the additional incoming supply.

In 2018, Jakarta will host, together with Palembang, the Asian Games, an event that will hopefully bring the spotlight back to the capital.

### Projects expected to support tourism growth

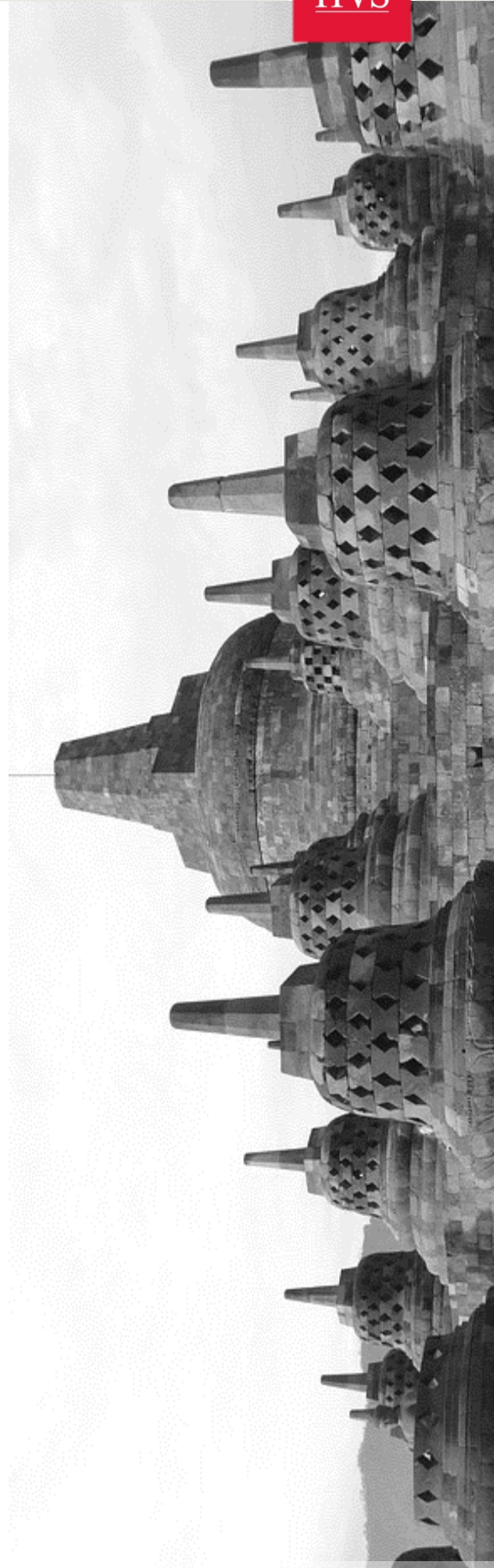
- ❑ Expansion of Ngurah Rai airport
- ❑ Development of Cruise Terminal in Benoa Bali
- ❑ Bukit Pandawa project comprising 350 hotel rooms, residential sites and retail
- ❑ Addition of airplane parking spaces
- ❑ Mandalika Project:
  - 10,500 hotel rooms
  - 1,500 residential units
  - 4 retail complexes
  - Race Circuit
  - Water Park
  - Marina & Eco Park
- ❑ Expansion of Soekarno-Hatta Airport
- ❑ Construction of MRT and LRT line to connect the city with its outskirts
- ❑ Asian Games 2018

**FIGURE 10: CURRENT AND FUTURE OUTLOOK BRANDED SUPPLY**

Key Markets	Demand CAGR 2014 - 2016	Supply CAGR 2014 - 2016	Demand Outlook CAGR 2017 - 2019	Supply Outlook CAGR 2017 - 2019	Occupancy 2016 vs. 2015	ADR 2016 vs. 2015	RevPAR		RevPAR Index		RevPAR CAGR 2014 - 2016	RevPAR Outlook CAGR 2017 - 2019
	2014 - 2016	2014 - 2016	2017 - 2019	2017 - 2019			2015	2016	2015	2016	2014 - 2016	2017 - 2019
Bali	11.9%	8.4%	9.3%	9.0%	↔	↘	IDR 988,400	IDR 1,032,200	1.8	1.9	6.8%	4.4%
Bandung	-0.9%	10.2%	7.9%	7.9%	↗	↘	IDR 471,500	IDR 427,100	0.9	0.8	-3.9%	-7.6%
Bintan	-0.7%	0.0%	6.6%	20.4%	↘	↘	IDR 921,700	IDR 763,500	1.7	1.4	-7.3%	2.5%
Jakarta	12.3%	10.8%	2.8%	8.0%	↗	↘	IDR 848,700	IDR 763,300	1.6	1.4	-2.8%	-3.6%
Lombok	5.5%	20.0%	10.3%	8.0%	↗	↗	IDR 387,000	IDR 438,000	0.7	0.8	-2.9%	12.4%
Makassar	26.7%	25.1%	8.1%	3.3%	↗	↗	IDR 215,600	IDR 232,900	0.4	0.4	6.4%	-6.2%
Medan	11.3%	1.9%	8.1%	14.1%	↗	↗	IDR 385,400	IDR 421,800	0.7	0.8	6.1%	-12.2%
Semarang	6.0%	5.1%	10.8%	7.7%	↘	↗	IDR 457,700	IDR 466,400	0.8	0.9	7.7%	-5.9%
Surabaya	19.5%	25.1%	3.4%	10.0%	↘	↘	IDR 373,600	IDR 332,200	0.7	0.6	-14.2%	-6.9%
Yogyakarta	-2.0%	17.0%	8.3%	10.1%	↗	↗	IDR 407,000	IDR 428,700	0.7	0.8	-0.9%	-14.9%
<b>Average of 10 Key Markets</b>	<b>11.4%</b>	<b>11.5%</b>	<b>8.2%</b>	<b>5.7%</b>	<b>↗</b>	<b>↗</b>	<b>IDR 545,700</b>	<b>IDR 530,700</b>	<b>1.0</b>	<b>1.0</b>	<b>-0.5%</b>	<b>-3.8%</b>

Source: HVS Research

Note: 2015 RevPAR Index in this article differs from the RevPAR Index published in the Indonesia Hotel Watch 2016 due to a larger sample size.



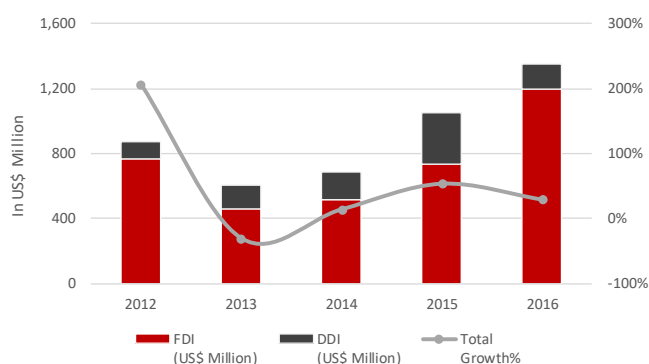




## Investment

Indonesia, as one of the MINT economies (Mexico, Indonesia, Nigeria and Turkey), is considered an attractive country for long-term investors due to its favorable demographic profile and the unprecedented growth in the country's middle class. As highlighted earlier, the tourism industry plays an essential role in Indonesia's economy, drawing incremental domestic and foreign investment every year. According to the Indonesia Investment Coordinating Board (BKPM), domestic direct investment (DDI) in the tourism industry<sup>1</sup> reached US\$160 million in 2016, while foreign direct investment (FDI) reached over sevenfold of DDI at US\$1.2 billion. Notably FDI surged 62.9% and total investment rose 30.0% in 2016 compared to 2015.

**FIGURE 11: TOURISM INDUSTRY INVESTMENT REALISATION**



Source: BKPM 2017

The soar in tourism investment realisation is attributed to both historical and expected future growth of tourism arrivals, as well as abundant government support for investment. Four of ten Special Economic Zones (SEZs), with vital infrastructure and business procedure to be implemented in the region, are focused on developing and promoting tourism.

Within the designated scope of tourism products for investment, investors are able to benefit from tax allowance, import duty facility, and infrastructure support.

While new hotel developments are on the rise in the country, hotel transactions in Indonesia remain sporadic. The hotel transaction market outside Jakarta and Bali is dominated by domestic buyers and most transfers of hotel ownerships are not publicly announced.

Noteworthy transactions in the past 18 months were:



### **Pullman Jakarta – July 2017**

- Transaction Price undisclosed
- Sold to Strategic Hospitality F&L REIT



### **Anantara Ubud, Bali – February 2016**

- Transaction Price of approx. IDR560 billion
- IDR8 million per key
- Sold to Minor International and Wijaya Karya Realty (JV 50|50)
- New Hotel Development project with additional 30 branded residences

### Criteria for Investing in Indonesia

- ✓ The Perseroan Terbatas (PT) is the most common form of business organisation and one in which foreign investors are restricted under the Investment Law.
- ✓ Investment in infrastructure requires a joint venture company with an Indonesian partner holding at least 67% equity.
- ✓ Minimum total investment of IDR10billion (US\$1.2 million) including working capital for one year, machinery and others, excluding land and buildings
- ✓ Minimum of US\$300,000 or 25% of total investment must be issued and paid-up capital
- ✓ Debt-to-equity ratio up to 3:1 permitted

<sup>1</sup>Tourism Investment refers to hotel, resort and restaurant investments according to BKPM

# Concluding Remarks and Outlook



After a sluggish start to the year 2017, Indonesia's economy is expected to pick up following a stronger 5% GDP growth in the second quarter.

Achieving successful development of its infrastructure is a key challenge Indonesia faces today.

While the government has aspirations to connect the country by air, sea as well as rail, infrastructure must be improved sooner rather than later for tourism arrival targets to be reached.

Tourism arrival numbers in Indonesia are on an upward trend and overall, the country has great potential to develop additional destinations other than Bali and Jakarta. Yet, the target of 20 million international visitor arrivals by 2019 appears ambitious.

This year, we analysed the supply and demand by province to highlight the importance of domestic tourism in Indonesia's provinces. With the exception of Bali, the country is highly dependent on domestic tourism, largely driven by the governmental and the corporate segment. However, leisure tourism supports provinces such as DI Yogyakarta and Jawa Barat particularly on the weekends, with a great variety of food and shopping options the regions have to offer.

Following strong domestic tourism growth over the past five years, HVS has identified three provinces to look out for over the next 12 months:



## **East Nusa Tenggara**

Owing to its beautiful natural scenery, Indonesia's most southern tip has potential to develop sustainable resorts. Over the past five years there has already been a positive trend for both domestic and foreign arrivals, with a strong growth rate in classified hotel rooms.



## **West Sulawesi**

With a strong demand surge in domestic arrivals as well as an increase in non-classified hotel supply, there is an opportunity for West Sulawesi's natural and cultural tourism development.



## **North Maluku**

Backed by the tourism ministry, foreign investors are eyeing Morotai Island, which not only benefits from its natural landscape but also its underwater relics of World War II. International and domestic tourists are gaining interest for North Maluku, showing strong growth rates in both classified and non-classified hotels.





## 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 in 2015. 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 over 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 four of the main annual industry events in the region, namely the China Hotel Investment Conference (CHIC), Hotel Investment Conference - South Asia (HICSA), Tourism, Hotel Investment & Networking Conference (THINC) Indonesia and THINC Sri Lanka. Additionally, HVS publishes a wide range of leading research reports, articles and surveys, which can be downloaded from our online library ([HVS.com/Library](http://HVS.com/Library)).

**HVS SINGAPORE** has worked on a broad array of projects that include economic studies, valuations, feasibility studies, 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.

Notable contributions were made by **Ho Mei Leng, Jeremy Teo, Kyu Baek Kim, Jill Gu, Xiaomei Zhong** and **Deepika Thadani** from our Singapore and new Delhi offices.

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