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IN FOCUS: UBUD, BALI

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Over the past decade, Ubud has developed into a niche deluxe hotel market, and an array of boutique hotels and exclusive villas have sprung up among the scenic rice fields and along the valleys surrounding Ubud. Despite the development of new hotels and visitor attractions in the area, Ubud remains one of the most interesting areas of Bali and the numerous surrounding scenic and historic sites contribute to the uniqueness of this destination. This is owing to the fact that many of the hotel developments in Ubud tend to incorporate local culture and nature into their designs, preserving temples on site and conserving as much greenery as possible.

Hotel Demand Patterns

Bali Visitation

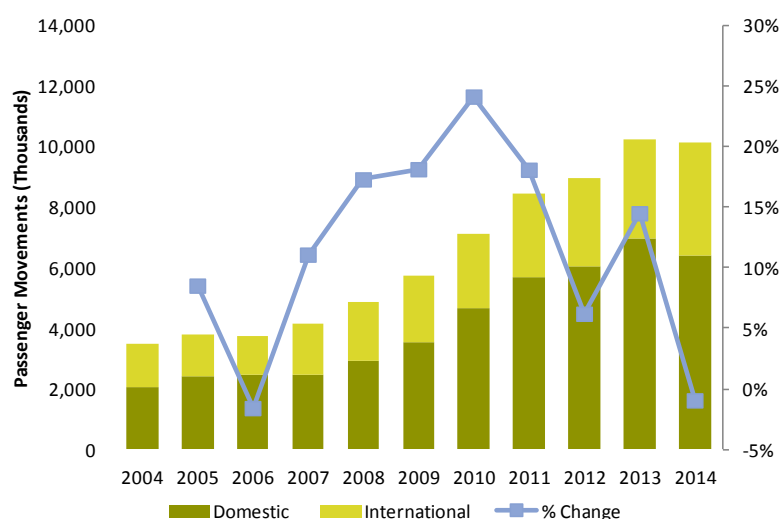
As one of Asia's key resort destinations, Bali has enjoyed virtually uninterrupted growth in visitor arrivals over the past decade. Since 2004, international tourism arrivals have increased from 1.5 million to 3.8 million visitors in 2014, translating into a compound annual growth rate of 10%.

Domestic arrivals to Bali have also grown at an average rate of 12% per annum, increasing from 2 million arrivals in 2004 to 6.4 million in 2014. Domestic arrivals dipped for the first time in 2014 due to political uncertainty, whereby government travel declined in face of the 2014 presidential elections. Now that the elections have concluded and there is increased optimism about Indonesia's future, domestic travel is expected to rebound in 2015.

Despite the global financial crisis in 2009, Bali's tourism market has shown great resilience and continued to grow from 2008 to 2010, despite the severe economic troubles leading to decreases in outbound travel from several of its key feeder markets. There were multiple reasons for Bali's resistance to the global economic downturn and these include a brand-named tourism product and ease of access from major feeder markets. A key change in demographics also played an important role as tourist arrivals from countries less affected by the recession, such as China and Australia, begun to surge in view of Bali's affordability as a destination.

In 2011 the Indonesian government's launched its 'Wonderful Indonesia' campaign, which aimed to increase Indonesia's presence on the international tourism stage. The new concept placed emphasis on Indonesia's unique and "wonderful" aspects of nature, culture, people, cuisine and value for money. The campaign was successful in growing Indonesia's visibility in non-traditional feeder markets such as China, South Korea and Japan. This international marketing movement,

CHART 1: BALI VISITATION 2004-14



Source: Bali Government Tourism Department

Year	Domestic	% Change	International	% Change	Total	% Change
2004	2,038,186	—	1,458,309	—	3,496,495	—
2005	2,408,509	18.2	1,386,449	-4.9	3,794,958	8.5
2006	2,474,787	2.8	1,260,317	-9.1	3,735,104	-1.6
2007	2,484,644	0.4	1,664,854	32.1	4,149,498	11.1
2008	2,898,794	16.7	1,968,892	18.3	4,867,686	17.3
2009	3,521,135	21.5	2,229,945	13.3	5,751,080	18.1
2010	4,646,343	32.0	2,493,058	11.8	7,139,401	24.1
2011	5,675,121	22.1	2,756,579	10.6	8,431,700	18.1
2012	6,063,558	6.8	2,892,019	4.9	8,955,577	6.2
2013	6,976,536	15.1	3,278,598	13.4	10,255,134	14.5
2014	6,392,460	-8.4	3,766,638	14.9	10,159,098	-0.9

Compound Annual Growth
Rate 2004 -14

12%

10%

11%

Source: Bali Government Tourism Department

combined with the constant promotion of Bali to emerging regional markets and the successful hosting of the ASEAN Summit in November 2011 led to a further boost in international, and domestic, tourism demand for Bali.

In 2014, 10.2 million visitors visited Bali, just over one third of these arrivals were international travelers, which increased by 14.9%. Domestic arrivals represent the majority of visitors to Bali with 6.4 million arrivals. Domestic arrivals to Bali showed a decrease of 8.4% whilst international arrivals increased by nearly 14.9%, most likely a result of increased direct flights to Bali from key regional markets making the connecting flight from Jakarta unnecessary. Ngurah Rai International Airport is the main international gateway to Bali and the third busiest airport in Indonesia, behind Surabaya's Juanda International Airport and Soekarno-Hatta International Airport in Jakarta.

Ngurah Rai International Airport is 13km south of the Denpasar metropolitan area, 2km north of Jimbaran and approximately 25km Southwest from Ubud. Ngurah Rai International Airport serves 10 domestic airlines, including Garuda Indonesia, Indonesia AirAsia and Lion Air. It also serves 37 international airlines, including KLM Royal Dutch, Hong Kong Airlines, Eva Air, Thai Airways, Singapore Airlines and Virgin Australia including direct long-haul gateway cities in Europe, Australia, the Middle East and North America.

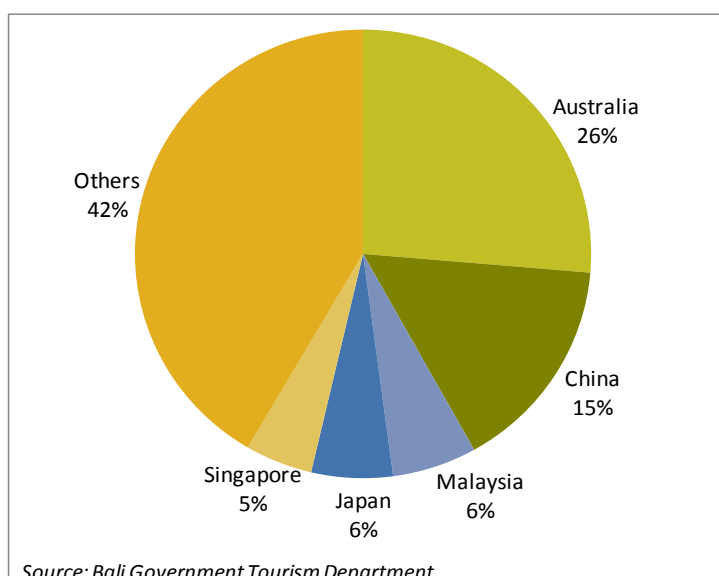
Ngurah Rai International Airport underwent a US\$263 million renovation project that was completed in September 2013 in advance of the Asia Pacific Economic Cooperation forum's Bali summit. Ngurah Rai's international terminal now covers more than 15,000 m² while the domestic terminal covers 70,000 m². As of 2014, the airport can handle 25 million passengers per year compared to a capacity of 6 to 7 million passengers prior to the expansion. By contrast, the airport expansion underway in Asia Pacific's second main island resort, - Phuket, Thailand - will increase that airport's capacity to a mere 12.5 million passengers. Bali will be able to handle double this and is increasingly positioning itself as a connecting point to other, more far flung, island destinations in Indonesia.

With a new terminal and increased airport capacity, airlines are adding more direct routes to Bali. In 2014, Garuda Indonesia launched an additional three weekly flights from Denpasar to Beijing, and the airline will also offer chartered services to various other cities in China, highlighting the importance of this market for Bali's tourism growth.

Source Markets

In 2014 the top feeder market was Australia, with approximately 992,000 arrivals, corresponding to 26% of total arrivals. Historically, Australia has been the main feeder market for the Bali tourism industry due to Australia's proximity to Bali as well as the consistent strengthening of the Australian Dollar (AUD). However, in the second half of 2014, the AUD weakened against the Indonesian Rupiah as a result of international investor sentiment, which has seen a return in confidence of the USD and the resulting shift away from AUD backed bonds. Additionally, there has been some recent political tension between Jakarta and Canberra as a result of several Australian citizens who have been incarcerated for alleged drug trafficking offences. As a result, Indonesia has placed on hold a previous initiative to offer visa-free entry to Australian citizens. In light of these circumstances, the Australian market is not expected to see strong arrival growth in 2015. While Australia is a major market for Bali, the slowdown in growth is unlikely to affect the hotel market in Ubud. This is due to the Australian market's preference for beach destinations in the southern part of the island such as Kuta and Legian.

CHART 2: BALI INTERNATIONAL FEEDER MARKETS - 2014



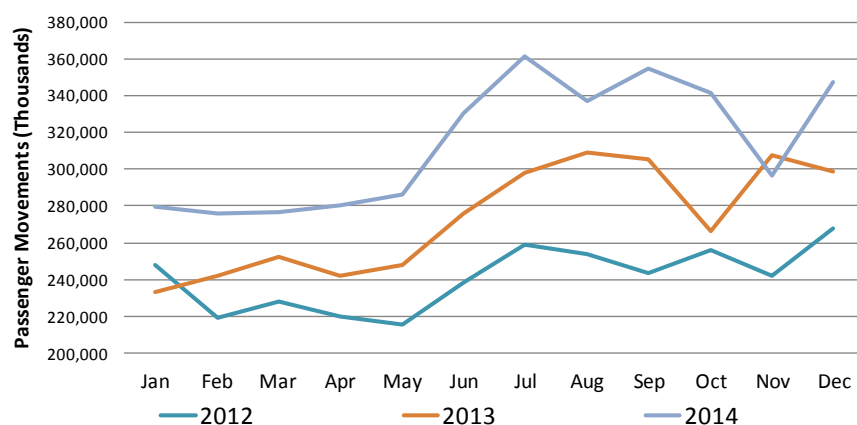
China, the second largest feeder market in 2014, contributed 15% of total arrivals to Bali, a result of the Bali Tourism Board's decision to focus on aggressive marketing in this region. China has seen phenomenal levels of growth in the last year, growing 51% from approximately 387,500 visitors in 2013 to 586,300 visitors in 2014. While the Chinese anti corruption policies have had an adverse effect on the luxury travel market and destinations around the world, most noticeably in the gaming and retail focused destinations in Macau, Singapore and the US, Bali has not yet experienced a decline in visitation from China. This, alongside the increased flight availability from key cities in China to Bali and the recent implementation of visa-free entry for Chinese visitors to Indonesia, will likely see an even stronger growth in the Chinese market. This is beneficial for Ubud, which in recent times has seen an increased interest from the Chinese market as a secondary destination on top of the traditional beach resort scene that Bali has to offer.

Malaysia, Japan and Singapore conclude the top five feeder markets at approximately 6%, 6% and 5% of total international arrivals respectively. Growth in these markets has remained relatively consistent with the exception of Japan. Deflation, falling wages, depreciation of the Yen and rising sales taxes have discouraged consumer expenditure, causing Japanese outbound travel to decline. Bali has witnessed this effect first hand with the Japanese slowing to 4% growth in 2014, compared to 10% the year before. The decrease in overall visitation from Japan has had some visible effect on hotel performance in Ubud which counts Japanese tourists as an important market segment.

While not individually represented in the top five feeder markets overall for Bali, Europe (specifically Germany, Netherlands, France & the United Kingdom) and the United States are key segments in Ubud. Many of these markets see Ubud specifically as a destination and spend the entirety of their visit in Ubud, as opposed to an add-on to a beach holiday. While economic and political climates in Europe and the US have not fully recovered, Bali – and Ubud - has seen continued increases in arrivals from these markets.

Seasonality and Average Length of Stay

CHART 3: BALI SEASONALITY 2012-13



Source: Bali Government Tourism Department

Bali benefits from a tropical and warm climate all year round. The high season tends to be during the months of July through August which coincides with the cooler weather in Bali. July is usually the peak month thanks to school holidays in the top three market feeders, namely, Australia, China and Japan occurring in this month. However, arrivals during the summer months can also fluctuate depending on the timing of Ramadan, which shifts slightly each year.

Christmas and New Year, as well as the Chinese golden weeks, also see very strong demand and hotels in Bali and

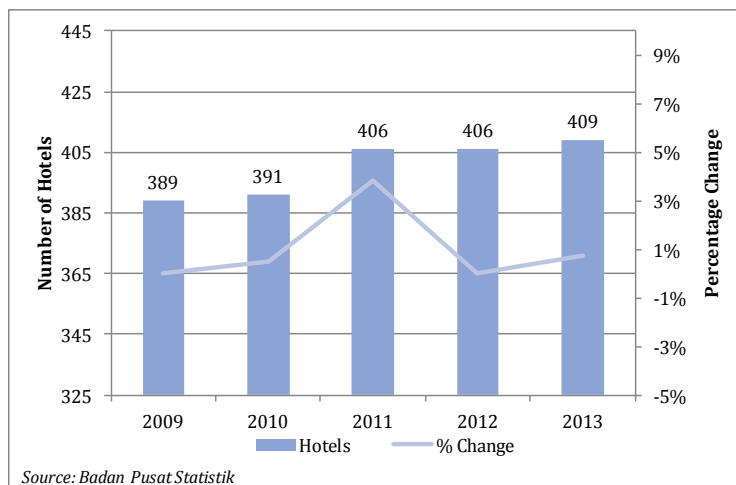
Ubud often record maximum occupancy over these periods. The shoulder months are from April to June and September owing to the term breaks in school for Australia and Japan. While seasonality in Ubud generally follows the typical pattern for Bali as a whole, Ubud enjoys cooler weather due to the higher elevation and abundance of natural vegetation. As such, the climate is generally more moderate and accommodating year round.

The average length of stay among hotels in Ubud differs according to market. European and long-haul markets typically see average stays of between seven and nine nights, with long stay guests of up to two weeks. Regional Asian clientele, from China, Japan and South-East Asia, have a significantly shorter average length of stay of two to three nights, as Ubud is often just one component of a multi-district Bali itinerary. As such the market wide average length of stay in Ubud hovers between three to four nights which is likely to decrease gradually in the face of the growing arrivals from the short-stay Asian markets.

Hotel Supply

The town of Ubud is located in the centre of the Gianyar Regency and comprises of fourteen small villages, each governed by their own village committees. The town centre of Ubud itself is composed of a few intercrossing streets and alleyways replete with restaurants, museums and arts and crafts shops. Ubud gained traction amongst the international community with the 2006 publication of “Eat, Pray, Love” by Elizabeth Gilbert. The novel, which remained on the international bestsellers list for 187 weeks, and the 2010 film adaptation starring Julia Roberts, featured Ubud as a key setting and introduced Ubud to the world. As the popularity of Ubud as a destination increased, so did the number of hotels.

CHART 4: TOTAL HOTEL SUPPLY, UBUD (GIANYAR)

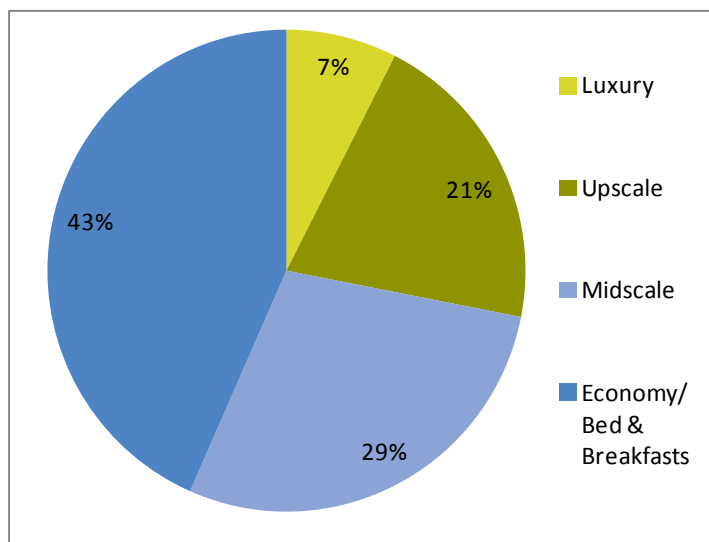


Besides the large cluster of hotels in Central Ubud, situated around the town centre and the iconic monkey forest, other hotels are concentrated in the valleys along Jalan Raya Sanggingan, Jalan Raya Kedewatan and Jalan Raya Sayan. Due to the large geographical dispersion of hotels, quantifying the actual hotel supply in Ubud is subjective as there are many hotels that are not within the Ubud town perimeters but close enough to warrant being considered part of the destination. Some of these hotels are located along the outskirts of Central Ubud while some are located significantly afar from Ubud. For example, there are hotels in Payangan district located approximately 10 kilometres north of Central Ubud that are still considered part of ‘Ubud’ for marketing purposes. As such, it is more appropriate to consider that all hotels in the Gianyar district serve Ubud and are part of Ubud’s hotel supply.

According to the Gianyar Central Bureau of Statistics (*Badan Pusat Statistik Kabupaten Gianyar*), there was an estimate of 409 hotels in Gianyar district as of 2013. Unlike other regions of Bali, Ubud has not seen a strong increase in hotel supply but rather experienced a gradual increase.

Only a small portion of hotel supply in Ubud is at the luxury level, either in the form of large sprawling resort compounds or independent luxury villas characterized by more unique, private resort experiences. These sprawling resorts, such as the Four Seasons Sayan and the Chedi Club at Tanah Gajah, are less common in Ubud as opposed to seaside resorts in other areas of Bali, mainly due to the lack of large buildable areas. The luxury resorts and villas in Ubud maintain room rates that are competitive with luxury resorts along the more popular beach destinations. A large portion of supply lies in the upscale resort segment, at 21% of total supply as well as the midscale segment at 29%. The hotels in the upscale and midscale segments are typically small, independent resorts or villa compounds close to Central Ubud.

CHART 5: UBUD CURRENT HOTEL SUPPLY DISTRIBUTION



At 43% of total supply, the most significant portion of hotel supply in Ubud still lies in the economy and bed & breakfast segment. Hotels in this segment offer budget no-frills accommodation in Ubud and are often private residences, bungalows or cottages that have been converted to function as a hotel. As such, these hotels are generally small in size, under 15 rooms, and are positioned for a budget-conscious traveler.

However, in view of limited availability of land along the popular coastal regions of Bali and the increasing awareness of Ubud as an important tourist destination, many hotel developers have begun to set their eyes on this area. In addition, Ubud is an ideal twin destination to not only increase length of visits to Bali but also encourage repeat visitors with a more layered tourism offer.

Hotel Pipeline

Ubud is slated to see branded developments over the coming years. The majority of the new entrants will be positioned at the Luxury and Upscale level, emphasizing the need for quality accommodation in Ubud.

The Ritz-Carlton Reserve Mandapa is slated to open in early 2015 with a total of 60 rooms. Alongside the Ritz-Carlton will be the Swiss-Belhotel Ubud, offering 21 villas. In 2016, several new hotels are expected to enter the market including the Melia Ubud, the Westin Ubud and Golden Tulip Resort Ubud. In 2017 and 2018, there are a further three hotels expected to open including the Aloft Ubud.

Several of these hotels are second Bali properties for the brands. This further reaffirms Ubud as an increasingly important market for Bali, as operators consider the demand for Ubud strong enough to warrant a second Bali hotel. Despite this, Ubud is still the second destination with beach locations being crucial for a new operator entering Bali. As new brands enter Ubud, it will continue to mature and become an important destination in its own right.

While there is evident wide-spread development in Ubud, it is unlikely that this will match the pace of coastal resort developments in the South. Ubud's geography is dominated by rolling rice paddies and steep ravines and the natural hilly contours will limit the amount of buildable space. Additionally, many luxury hotels and resorts have agreements with landowners of adjacent and facing land parcels to prohibit any other form of hotel development in order to preserve the view and serenity of the scenery, a key to the Ubud experience. The lack of buildable land as well as the steadily appreciating cost of land in Central Ubud will limit the amount of development here and it is likely that hotel developers will look towards surrounding areas for future projects, continuing to expand the competitive zone of Ubud.

Hotel Performance

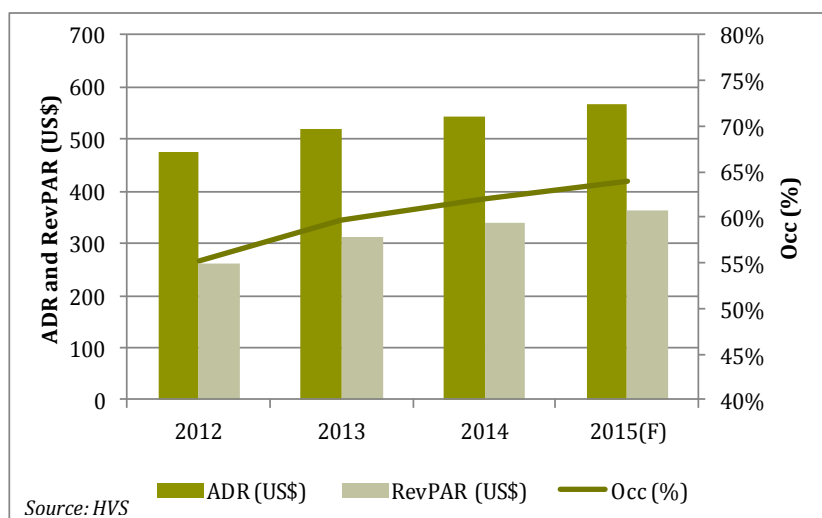
Occupancy in the Ubud luxury segment has grown at a healthy rate over the last three years achieving levels of 55%, 60% and 62% in 2012, 2013 and 2014 respectively. This is largely due to the lack of new supply in the luxury sphere in recent years, and increased demand. Similarly, average daily rate has grown, increasing from US\$475 in 2012 to US\$520 in 2013 and further to US\$545 in 2014. This has been driven partly by the increasing awareness of Ubud for the honeymoon market, and as a luxury resort destination in itself. Going forward, we expect that the Ubud luxury resort market will continue to increase in all-round RevPAR performance. Ubud is undergoing a transformation in the luxury segment with many new world class luxury resorts slated to open in 2015 and beyond. This helps to bolster Ubud's image as a premier luxury destination, comparable to beachside resorts in Seminyak and even Uluwatu. The growing appeal and visibility of luxury properties in Ubud will appeal to repeat visitors to Bali who crave a luxury experience but might want to explore other areas of Bali. Additionally, the European market is continuing to recover from the recent economic and political instability with consensus and progress being made in both the Greece debt crisis and the Ukraine-Russia border conflict. The resurgence in confidence among key European markets and the resultant long-haul luxury travel will help boost occupancy rates in Ubud in 2015. In terms of average rate for the luxury segment, Ubud is expected to see an average rate growth of approximately 4% which is supported by the increasing reputation of the destination's luxury product and more willingness to pay among

CHART 6: UBUD HOTEL PIPELINE

Proposed Property	Number of Rooms	Estimated Opening Date
Ritz Carlton Reserve Mandapa	60	2015
Swiss Belhotel Ubud	21	2015
Bisma Eight	38	2015
Padma Resort Ubud	149	2015
Melia Ubud	49	2016
The Westin Ubud	107	2016
Golden Tulip Resort Ubud Bali	80	2016
Solis Ubud by Capella Hotel Group	108	2017
Waldorf Astoria Ubud	100	2018
Aloft Ubud	148	2018
Total	860	

Source: HVS Research

CHART 7: UBUD LUXURY HOTEL PERFORMANCE – OCCUPANCY, AVERAGE RATE AND REVPAR (2012 – 2015F)

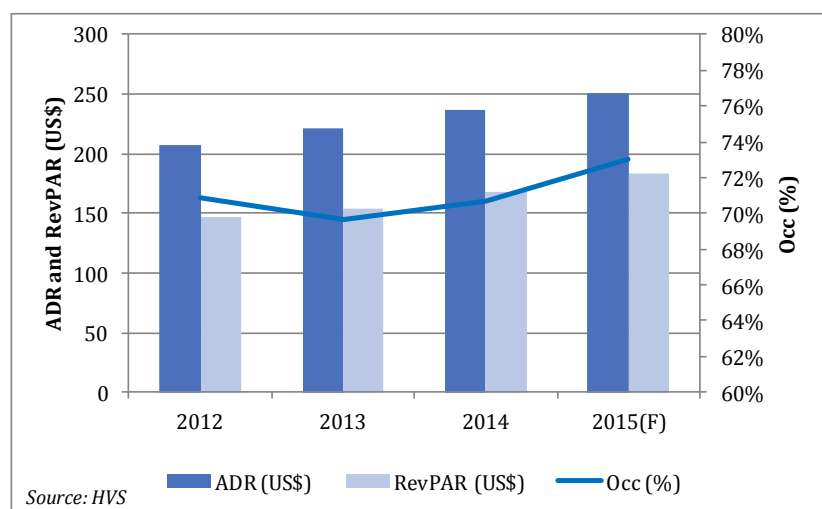


consumers. The luxury market still has much room to grow, in terms of average rate, as it is still playing catch-up to other premier luxury resorts in the south of Bali where average rates may exceed US\$600.

At the upscale level, occupancy has remained relatively stable hovering between 70-71% from 2012 to 2014 as demand has kept pace with increases in supply. In terms of average daily rate, the upscale market has seen consistent year-on-year growth of approximately 6.5%. Average rates reached US\$210 in 2012, US\$220 in 2013 and US\$235 in 2014.

However, moving forward, occupancy rates in the upscale segment are also anticipated to grow. Besides the resurgence in the European market, the increase in occupancy in the upscale market will be strongly supported by the increased interest in Ubud amongst the Chinese market. First time Chinese visitors often travel to Bali on packaged tours which bring them to popular beach areas such as Nusa Dua, Jimbaran or Seminyak. However, it has been a recent and growing trend for returning Chinese visitors to Bali to explore secondary destinations, such as Ubud, during their repeat trips to Bali. While there are substantial amounts of new supply expected to enter the market, the ever increasing arrivals to Ubud is likely to be able to sustain occupancy growth.

CHART 8: UBUD UPSCALE HOTEL PERFORMANCE – OCCUPANCY, AVERAGE RATE AND REVPAR (2012 – 2015F)



Another key trait among Chinese tourists is that with prior travel experience to Bali, they are now turning towards direct and Online

Travel Agent bookings as the preferred method of travel as it offers them more flexibility and control over their itinerary. Hotels in the upscale segment, as well as the luxury segment, are expected increase emphasis on these online distribution channels, as opposed to wholesalers, yielding higher average rates. This dynamic shift from a traditionally stronger wholesale market to one that is direct and OTA focused will see rates in the upscale segment increasing by around 6% in 2015, in line with historical growth rates from 2012 to 2014.

With a strong cultural and historical appeal, increased destination awareness and a pipeline of internationally recognized hotels, we believe that Ubud has tremendous potential going forward. However it is our opinion that while growth is encouraged and welcomed, it should also be managed in a sustainable way, both financially and environmentally. Should development in Ubud run unchecked, the very characteristics that make Ubud such an inviting destination may be destroyed.



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