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INDONESIA HOTEL WATCH

INDONESIA OVERVIEW

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Unprecedented Growth in Asia's Rising Powerhouse

Rich in natural resources and experiencing an era of dynamic economic progress, Indonesia is a market not to be missed. Tourism arrival is expected to increase from the current 250 million in 2012 to an estimated 400 million by 2023 based on a 5% compound annual growth rate. An additional 100,000 guestrooms will be required, translating to an estimated 700 to 800 hotels to be built in the next decade, creating tremendous opportunities for developers, investors, financiers, hotel management groups, airlines companies, travel agencies, consultancies and other stakeholders.

The concentration of Indonesia's international tourist arrivals still revolves between the nation's capital city Jakarta and the world-renowned destination of Bali. However, there is growing interest in Indonesia's second and third tier markets, with many market players taking note of their massive potential. Stakeholders such as hotel operators, investors, developers and the government sectors are closely following the new investments 'hot spots' of Indonesia.

Economy to mid-scale hotel properties are the key target segments for many stakeholders' growth expansion plans in the coming years. Hotel chains such as Accor, InterContinental Hotels Group, as well as Indonesia's domestic hotel groups such as Archipelago International and Tauzia have indicated their intentions of strengthening the presence of their economy to mid-scale brands in such emerging markets.

Overall, Indonesia's tourism industry, can expect strong long-term potential, bolstered by rising demand for domestic and regional travel, resulting in a diversification of destinations and hotel product offerings.

Economic Updates

In January 2013, the International Monetary Fund (IMF), forecasted global economic growth at 3.2%, with some major economies of Asia registering a drop in GDP growth. A combination of five ASEAN countries- Indonesia, Malaysia, Philippines, Thailand and Vietnam registered 5.7% growth in 2012. Despite the global uncertainty, Indonesia was able to register a strong growth of 6.3% in 2012, brought about by robust domestic and regional demand and investments. Economic activity and foreign direct investments have increased tremendously throughout Indonesia, due to the tremendous economic potential that the vast country holds- on the back of strong GDP compound annual growth rate (CAGR) of 5.9% from 2008 to 2012.

Indonesia's GDP is predominantly generated in Java which accounts for more than 50% of the country's GDP. The capital city, Jakarta accounted for the largest distribution of the country's GDP at 16.32% in 2011, followed by East Java at 14.68%

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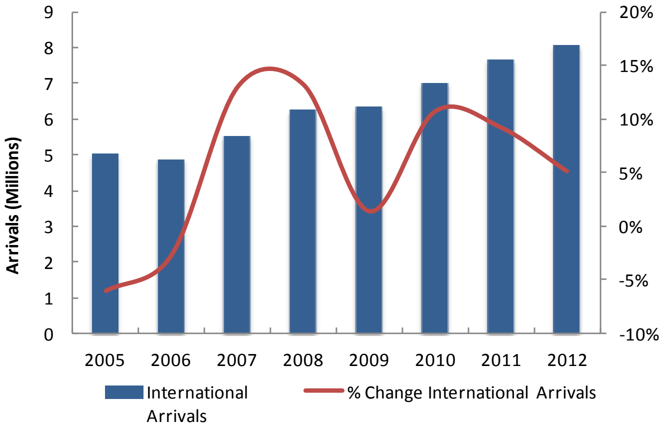
FIGURE 1: GDP DISTRIBUTION BY PROVINCE, INDONESIA

Province	2010	2011
Jakarta	16.28 %	16.32 %
East Java	14.71	14.68
West Java	14.58	14.30
Central Java	8.40	8.28
Riau	6.53	6.87
East Kalimantan	6.08	6.49
North Sumatra	5.21	5.22
Banten	3.24	3.19
South Sumatra	2.98	3.02
South Sulawesi	2.23	2.28
Remaining Provinces	19.76	19.35
Total	**100.00**	**100.00**

Source: Badan Pusat Statistik Indonesia

Indonesia at a Glance

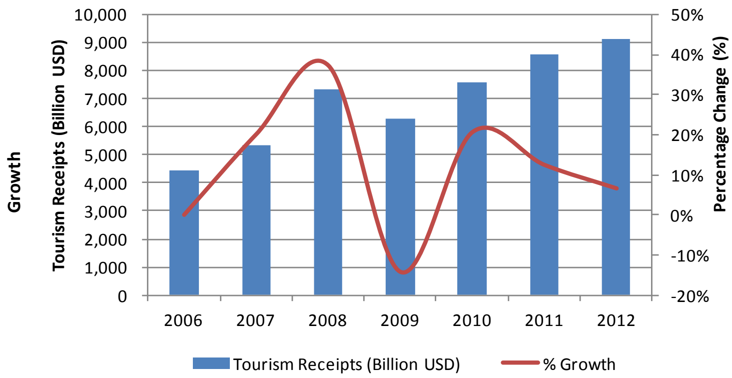
International Arrivals (2005 – 2012)



Source: Badan Pusat Statistik Indonesia

- *International arrivals have grown on average by 7.0% between 2005 and 2012.*
- *Consistent growth from 2005 to 2012 due to strong branding of Indonesia as a tourist destination.*

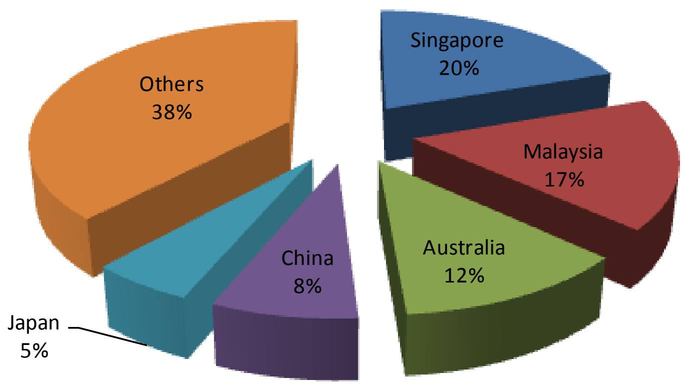
Tourism Receipts – (2006 – 2012)



Source: Ministry of Tourism and Creative Economy

- *Tourism receipts reached USD9,121 billion in 2012, a 7% growth over 2011.*
- *Tourism receipts grew by a compound average rate of 13% between 2006 and 2012, and strong growth is expected to continue.*

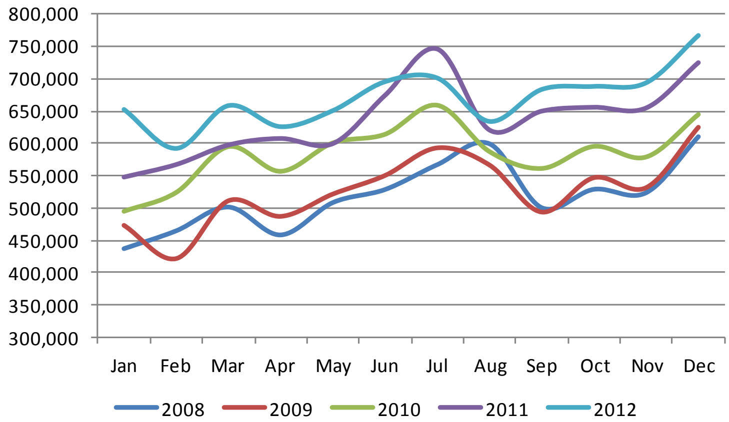
Top 5 Feeder Markets - Country of Origin, 2011



Source: Badan Pusat Statistik Indonesia

- *The main driver behind overall demand growth was constituted by the Asia market (80% of total arrivals in 2011).*
- *Singapore is the largest arrival source market to Indonesia (20%).*

Seasonality of Arrivals (2008 – 2012)



Source: Badan Pusat Statistik Indonesia

- *International arrivals are relatively stable throughout the different months of the year.*
- *High season demand occurs during the Christmas period and the summer months.*
- *The Ramadan month tends to be the low season period.*

Tourism Market Performance and Trends

Tourism concluded strongly for Indonesia in 2012 as international visitor arrivals surpassed the target set for the year of eight million, achieving a record breaking 8.04 million international arrivals last year; this translates to a 5.16% increase over from 2011. Of this, Bali's Ngurah Rai International Airport saw 2.9 million international tourist arrivals and Jakarta's Soekarno-Hatta International Airport registered 2.0 million international tourist arrivals.

Thus, the concentration of Indonesia's international tourist arrivals still revolve between the nation's capital city Jakarta and the world-renowned beach destination Bali. Port of entry Bandung Husein Sastranegara registered the highest year-on-year growth in 2012, followed by Yogyakarta Adisucipto and Balikpapan Sepinggan, achieving 27.3%, 22.4%, 7.8% growth respectively.

Domestic tourist arrivals saw 245 million trips made in 2012, an increase of 3.48% from 2011.

FIGURE 2: INTERNATIONAL VISITOR ARRIVALS- TOP 10 PORT OF ENTRIES WITH HIGHEST VOLUME IN 2012

Port of Entry	2011	2012	YOY % Change
Ngurah Rai	2,788,706	2,902,125	4.1%
Soekarno-Hatta	1,933,022	2,053,850	6.3%
Batam	1,161,581	1,219,608	5.0%
Tanjung Uban	337,353	336,547	-0.2%
Polonia	192,650	205,845	6.8%
Juanda	185,815	197,776	6.4%
Husein Sastranegara	115,285	146,736	27.3%
Tanjung Balai Karimun	104,397	107,499	3.0%
Tanjung Pinang	106,180	103,785	-2.3%
Tanjung Priok	65,171	66,168	1.5%
Indonesia Total	**7,649,731**	**8,044,462**	**5.2%**

Source: Badan Pusat Statistik Indonesia

The year 2013 is set to be an even better year for Indonesia's tourism with the Ministry of Tourism and Creative Economy targeting nine million international visitors; a 12% increase from 2012. Furthermore, 255 million of domestic trips are expected in 2013, an increase of 4.08% from 2012. Indonesia will be under the spotlight this year with the hosting of a string of prolific international events such as the APEC summit, WTO Ministerial Meeting and the Miss World Pageant.

Since 2005, Indonesia's international arrivals have seen consistent year-on-year growth of at least 5% except for 2009. From five million international arrivals in 2005, to now 8.04 million in 2012, this translates to a CAGR of 7.0%. In 2009, the tourist arrival figures of most cities were affected negatively by the global economic downturn. However, the Indonesia tourism market remained resilient and registered an increase of 1% from 2008. The global economic crisis in 2008 and 2009 saw less people travelling long distance, resulting in the country focusing its tourism efforts on short and medium-haul markets. Indonesia will continue to focus its expansion of tourists from these source markets until the year 2015.

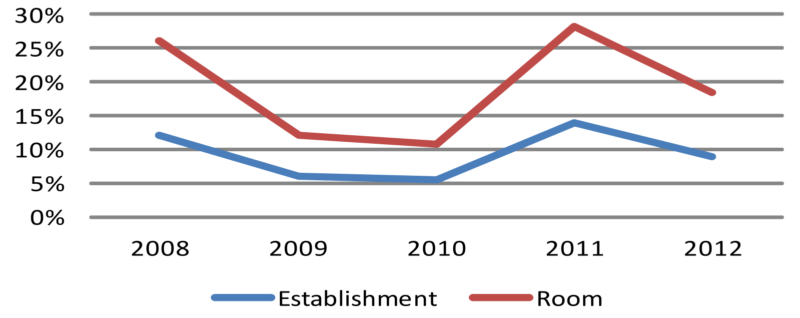
The top source markets for Indonesia have remained consistent over the years, with ASEAN accounting for the majority of visitor arrivals. In 2011, visitor arrivals from the Middle East grew by the largest percentage at 19% from 144,661 arrivals in 2010 to 175,885 in 2011. This large increment can be attributed to the growing popularity of Indonesia, especially in areas such as West Java, to Middle Eastern visitors.

Arrivals from ASEAN countries grew by 8% from 2010, accounting for approximately 43% of arrivals in 2011, while arrivals from the rest of Asia grew by 13%, to account for approximately 37% of total arrivals in 2011. China has quickly become one of the largest feeder markets for Indonesia, growing at a compound annual growth rate of 36% between 2002 and 2011, and accounted for approximately 8% of total international arrivals into Indonesia making it the fourth largest source market, followed by Japan at 5%.

Indonesia Hotel Market Supply

From 2008 to 2012, Indonesia's classified establishments and subsequent rooms' supply have been consistently growing between 5% to 14%, which translates to a CAGR of 8.6% for both the number of establishments and the number of rooms. The opening of new hotel developments surged in 2011, when both establishments and rooms grew at approximately 14% each, compared to the year before.

FIGURE 3: ANNUAL GROWTH- ESTABLISHMENTS AND ROOMS, INDONESIA, 2008-12



CAGR Establishments 2008-2012	8.6%
CAGR Rooms 2008-2012	8.6%

Source: Badan Pusat Statistik Indonesia

DKI Jakarta, West Java, Central Java, East Java and Bali are the top five provinces with the highest number of classified establishments and rooms in Indonesia in 2012. Jakarta, the capital of Indonesia presents with the highest at 172 rooms per establishment, while Indonesia registers 96 rooms per establishment.

FIGURE 4: TOP FIVE PROVINCES WITH HIGHEST NUMBER OF CLASSIFIED ESTABLISHMENTS AND ROOMS IN 2012

	2011		2012	
Province	**Establishments**	**Rooms**	**Establishments**	**Rooms**
DKI Jakarta	162	28,783	175	30,135
West Java	199	16,732	208	18,643
Central Java	131	8,736	139	9,756
East Java	90	9,311	98	10,039
B a l i	199	22,794	218	24,215
Indonesia Total	**1,489**	**142,481**	**1,623**	**155,740**

Source: Badan Pusat Statistik Indonesia

Indonesia's Tourism Economy

According to the World Travel and Tourism Council, the total contribution of travel and tourism to Indonesia's GDP was IDR736,259 billion or 8.9% of GDP in 2012. The total contribution of travel and tourism encompasses revenue generated from hotels, airlines, airports, travel agents and various services that deal directly with tourists, investments made in the tourism industry such as the construction of new hotels, government initiatives such as tourism marketing and supply chain of the travel and tourism industry.

FIGURE 5: TRAVEL AND TOURISM CONTRIBUTION, INDONESIA, 2002-2013F

Year	Travel & Tourism Contribution (in Billion Rupiah)	% of GDP
2002	208,881	11.4
2003	213,582	10.6
2004	240,217	10.4
2005	287,572	10.3
2006	322,953	9.6
2007	385,990	9.7
2008	491,608	9.9
2009	561,240	10
2010	588,845	9.1
2011	659,246	8.8
2012	736,259	8.9
2013F	835,268	9.0
CAGR 2002-12		**13.4%**

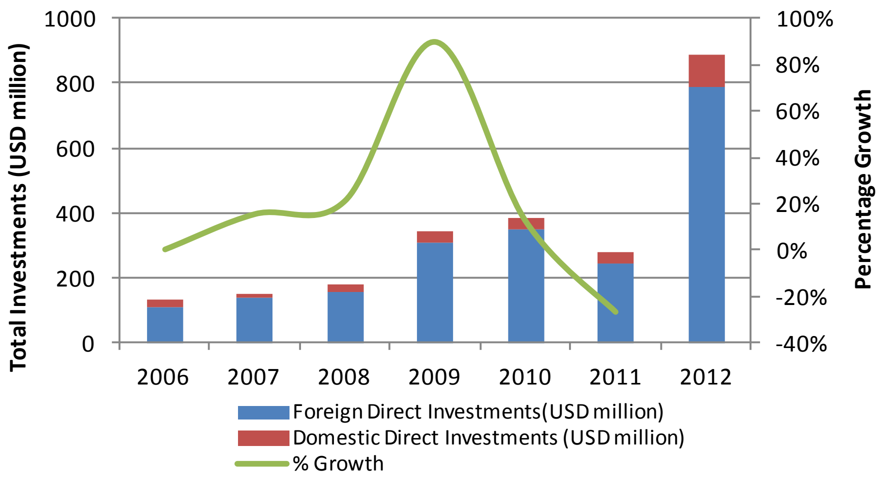
Source: World Travel & Tourism Council

Between 2002 and 2012, the total contribution of travel and tourism grew at a compound average annual growth rate of 13.4%. This strong growth can be attributed to increased marketing promotion by the Ministry of Tourism, higher discretionary spending by a strongly growing middle-class in the region and in the county, as well as a rapidly growing route network by international and domestic flight carriers. By 2013, this contribution is forecasted to rise by 8.3% to IDR835,268 billion and tourism employment will be anticipated to comprise 8.0% of total employment in Indonesia.

Tourism Investment

Tourism investment in Indonesia grew by more than 210% from 2011 to 2012. The growth in tourism investment in aligned with the country's positive economic growth. Additionally, the Indonesian government has been instrumental in streamlining investment procedures and promoting investment opportunities and potential of Indonesia within the region, resulting in a favourable investment environment.

FIGURE 6: TOURISM INVESTMENTS, INDONESIA, 2006-2012



Source: Indonesia Investment Coordinating Board

Foreign direct tourism investments grew by 225% between 2011 and 2012, or at an annual compound average growth rate of 38% between 2006 and 2012. Indonesia's tourism investments are mainly focused on the development of fully-integrated resort sites, as such properties help to boost the construction of tourist facilities such as hotels and the development of the surrounding environment through social and cultural aspects. Mid-tier resort and city hotel investments are at the moment still predominantly domestically driven, however, that is changing rapidly in the short term.

Transportation Infrastructure

In line with Indonesia's IDR4,000 trillion Accelerated and Expansion of Indonesia's Economic Development Plan (MP3EI), the country's transport infrastructure will undergo several improvements and additions to boost the country's infrastructure and connectivity. Part of these improvements include improving inter-island connectivity and to upgrade the country's railways, roads, airports and seaports. This new round of developments will be focused on less-densely populated areas, particularly eastern Indonesia, as opposed to more densely populated areas such as Jakarta and Bali.

Air Transportation

Indonesia boasts good international accessibility, with the major ports of entry being the Soekarno-Hatta International Airport in Jakarta and the Ngurah Rai International Airport in Bali. The country has more than 300 airports, most of which are operated the state-owned PT Angkasa Pura I and PT Angkasa Pura II.

As part of the government's MP3EI initiative, a total of 24 new airports will be opened by 2015. In 2013, 12 new airports spread across the archipelago will begin operations, with the majority of the new projects to be located in eastern Indonesia. North Sumatra will see the opening of the Kuala Namu International Airport, which will replace the Polonia International Airport in Medan, while Indonesia's prime diving destination Raja Ampat in Papua will benefit from the opening of the Waisai Airport. Other new but smaller airports slated to open in 2013 include Muara Bungo Airport in Jambi, Saumlaki Baru in Maluku, the Pekon Serai Krui Airport in Lampung, Bawean Airport on Bawean island near East Java amongst others.

Several existing airports will be upgraded later this year, including the expansion of the Soekarno-Hatta International Airport in Jakarta and the construction of a new terminal at Ngurah Rai International Airport in Bali which will be able to handle 25 million passengers per annum upon completion in June. Other airport upgrades will include the expansion of the Juanda International Airport in Surabaya and the Komodo Airport in Flores on East Nusa Tenggara.

Cruise Tourism

Cruise sector in Indonesia is becoming one of the major contributions to the development of tourism economy and infrastructure in Indonesia. As the world's largest archipelago, this attributes to the many wonders of gateways that Indonesia is able to leverage through its cruise industry. With over 17,000 islands forming the nation, cruises are able to access the many remote exotic islands throughout the archipelago when it is currently still restricted by land or air transport.

Cruise calls and passengers figures have significantly firmed up over the past years in Indonesia, and are still targeted to soar even higher in the coming years. A total of 306 cruise calls have been confirmed for

2013, an astonishing 43% increase from 2012; bringing about the highest record of 146,000 passengers, a 28% increase from 2012. The Ministry of Tourism and Creative Economy has committed to 320 calls in 2014, and thus targeting 500,000 passengers by 2015.

FIGURE 7: CRUISE CALLS, INDONESIA, 2009-2013F

Year	Cruise Calls	Passengers
2009	135	68,566
2010	189	94,166
2011	176	112,412
2012	214	113,781
2013 Forecast	306	145,936

CAGR 2009-2013(F) Calls Forecast	23%
CAGR 2009-2013(F) Passengers Forecast	21%

Source: Ministry of Tourism and Creative Economy

Cruise ships will be covering some 115 locations this year in Indonesia including new destinations like Sabang in Aceh, Belawan in North Sumatra; compared to covering only 70 locations in 2012. West and East Nusa Tenggara are the most popular destinations, followed by Bali and Java; with 75, 45 and 38 cruise calls respectively.

The nation is currently developing 15 harbours as cruise ports in locations such as in Aceh (Sabang); Ambon; Bali (Benoa, Celukan); Belawan; Jakarta; Karimunjawa; Komodo Island; Kumai; Lombok (Lembar); Makassar; Semarang and Surabaya. The cruise port in Benoa Bali is undergoing development to be a turn-around port which can accommodate international cruise to the Island.

Government Initiatives

Indonesia's Ministry of Tourism and Creative Economy has spearheaded a new initiative to focus on 16 key tourism markets and seven segments of special interest within the country until 2014.

These destinations will be developed to help maximize the growth of tourism and to improve the quantity and quality of international tourists coming to Indonesia. These destinations will be highlighted at various travel tradeshows and sales missions, while familiarisation trips for travel consultants and media will be organised. Additionally, the Ministry of Tourism and Creative Economy will increase marketing efforts pertaining to these areas through traditional and social media channels.

FIGURE 8: 16 TOURISM DESTINATIONS, INDONESIA

Area	Province
Lake Toba	North Sumatra
Kepulauan Seribu - Thousland Islands	Jakarta
Old Town	Jakarta
Borobudur	Central Java
Bromo-Tennger-Semeru	East Java
Kintamani-Lake Batur	Bali
Menjangan, Pemuteran	Bali
Kuta, Sanur, Nusa Dua	Bali
Rinjani	West Nusa Tenggara
Komodo Island	East Nusa Tenggara
Ende-Flores	East Nusa Tenggara
Tanjung Putting	Central Kalimantan
Toraja	South Sulawesi
Bunaken	North Sulawesi
Wakatobi	Southeast Sulawesi
Raja Ampat	West Papua

Source: Ministry of Tourism and Creative Economy

About HVS

HVS is the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries. Established in 1980, the company performs 4500+ 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 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

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