Horwath HTL

Hotel, Tourism and Leisure *Celebrated 100 years in 2015*

Hotel & Branded Residences

BALI

February 2017

HOTEL & BRANDED RESIDENCES UPDATE

Quantity over quality: be careful what you wish for.

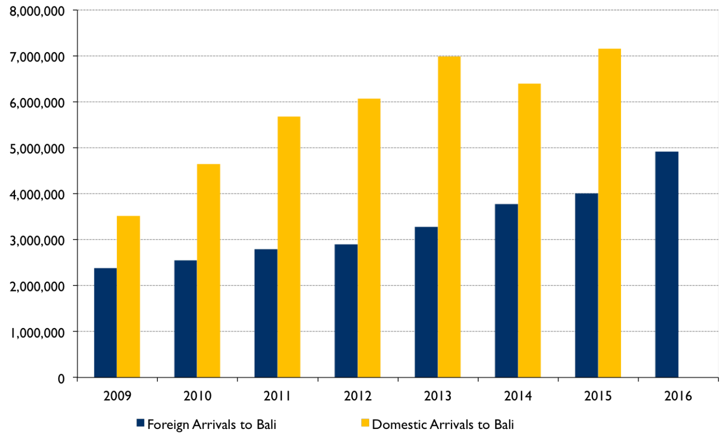
After a very challenging 2015 for Bali, occupancy was up by more than 4% in 2016 bringing a whiff of fresh air and hope… but at what cost? Hotels' enjoyment of solid occupancy across categories (excluding luxury) was driven by increasing foreign direct arrivals, a slowing in new hotel openings and a further slashing of rates. With the Thai government banning 'zero-dollar tours' this has been an opportunity for Bali to swoop in and attract these poor yielding groups to fill rooms. With the government's ambitious arrivals targets, it is foreseeable that the volume of such tourists is likely to increase but the long term benefits to the destination are arguable. Rates will continue to decline, Bali's infrastructure will continue to be stressed and higher yielding more discerning guests may be turned off. It is a tight rope that is being walked with a quantity over quality policy.

With the explosion in budget accommodation, private villa rentals and huge numbers of new rooms in all hotel categories in the last 5 years it is easy to see how volume bums in beds relieves immediate mortgage pressures for hotel owners. However, hotel ownership and destination management is not a short term game. Nurturing a destination, the maintenance of infrastructure and the development of long term sustainable development goals are essential to ensure Bali continues attracting people from all corners of the globe and across all rate categories.

BALI TOURISM ARRIVALS

2015 recap: domestic market up 12% y-o-y to around 7.1 million and foreign arrivals also up 6% y-o-y to 4 million bringing the total to over 11 million for the first time.

Foreign arrivals surged year end 2016 up by a significant 23% to 4.9 million. This was helped by the lack of political and natural hiccups, visa-free access ramping up and more direct flights to Bali which smashed the 4.2 million arrivals' target for 2016.



Source : BPS Indonesia

With Indonesia's central administration continuing their efforts to attract more foreign arrivals, the government boosted the Ministry of Tourism's budget from IDR 300 billion in 2015 to IDR 6.1 trillion in 2016. It is understood that around 80% of the budget was allocated for tourism promotion, and partly to finance tourism campaigns abroad.

Indonesia's leisure tourism is still largely concentrated on the island of Bali, which attracted more than 30% of foreign tourist arrivals in 2015. In 2016 with foreign arrivals just under 5 million year-end, it is clear that Bali remains the number 1 destination for holidaymakers. E-commerce providers including Traveloka, Pegipegi and Blibli report "Bali" as their most searched destination followed by Bandung and Jakarta.

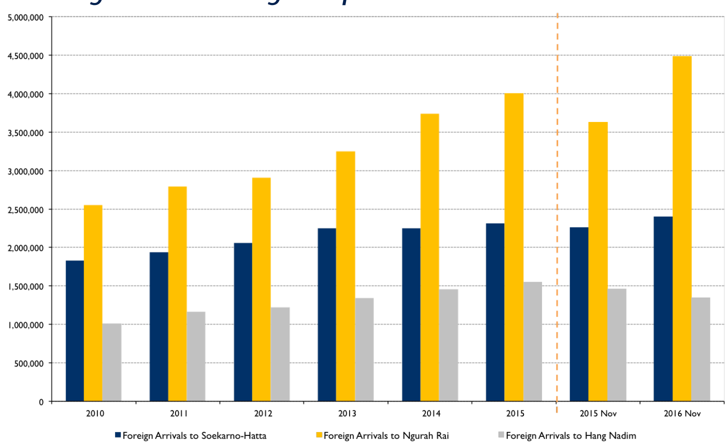
The island is expecting another boost in air connectivity from Garuda Indonesia in 2017. As China's importance as a source market grows overtaking Singapore, Malaysia and snapping on the heels of Australia; Garuda Indonesia plans to open a new route from Bali to Chengdu in China. The direct flight will start in January and is scheduled to fly four times a week. In an effort to tap into this vast and growing Chinese market, Sriwijaya Air has also confirmed four main cities will be added to their daily flight routes: Hangzou, Nanjing, Wuhan and Changsa. The Ministry of Tourism has also recognized Eastern Europe as an emerging market to Bali with increased arrivals recorded, assisted in part by LOT Polish Airlines launching direct flights from Warsaw to Denpasar in 2016.

NGURAH RAI

Ngurah Rai International Airport remains the top foreign direct arrivals contributor for Indonesia, followed by Soekarno-Hatta, Jakarta and Hang Nadim, Batam. From January to November 2016, Ngurah Rai recorded 6% growth y-o-y, with Bali arrivals making up a whopping 40% of total arrivals to Indonesia. Batam recorded the highest growth rate of 9% y-o-y, meanwhile, Jakarta remains flat impacted by the global and local economic malaise.

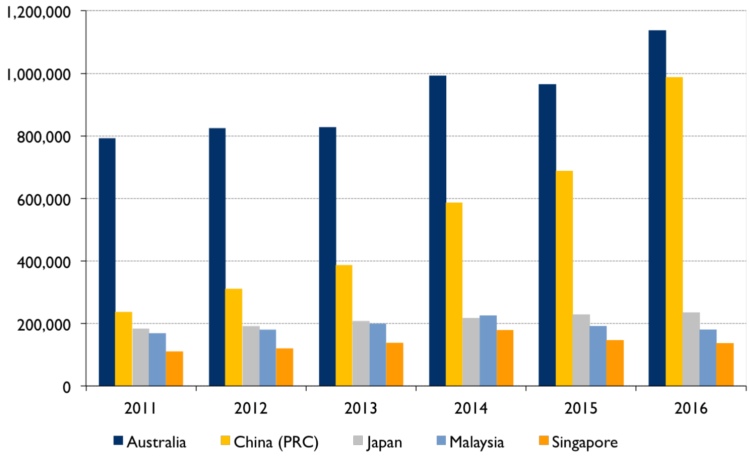
Soekarno Hatta's Terminal 3 Ultimate limped into operation in August 2016, serving domestic flights by national carrier Garuda Indonesia only. The goal of serving international flights (with the exception of budget airlines) by Q2 2017 seems optimistic. The government's next project will be to improve the public transportation that will connect Jakarta city center with the airport.

Foreign Arrivals to Big 3 Airports



Source : BPS Indonesia

NATIONALITY MIX



Source : BPS Indonesia

Following the signing of a decree waiving visa requirements for a total of 169 countries, including Australia (which was politically excluded for many months), year-end 2016 Australia remains the number one foreign source market to Bali making up 23% of total foreign arrivals, up 18% over the previous year.

Arrivals from the UK grew a significant 32%, France by 26% and Germany was up a noteworthy 28% y-o-y, helped by improved European connectivity through daily direct flights via Dubai.

China continued its strong arrivals growth year-end, up almost 300,000 people y-o-y (43%) to just under 1 million tourists. It was the 2nd fastest growth market by percentage and the largest by volume. With more flights scheduled to connect Bali and cities in China, we expect this volume to explode further and China to become the most important arrivals source market to Bali in Q1 2017.

Other markets to note:
- South Korean arrivals fell, as did Singaporean arrivals year-end 2016, down by 2 and 7% respectively;
- Growth from India was 58% y-o-y and likely to increase further in 2017 with Garuda inaugurating the first direct link between India and Indonesia in December 2016 ("direct" flights linking Mumbai to Jakarta via Bangkok thrice weekly);
- Arrivals from the USA increased by a strong 27%, perhaps helped by investmests in Times Square billboard advertising made by the Ministry of Tourism for the first time in 2016;

• The Russians are back, up nearly 30%;
• Regionally, there is no significant change in the source mix with the ASEAN market growing a small 3% y-o-y and the other Asian market (non-ASEAN) falling 5%.

Top 5 Foreign Mkts YTD Sep 2016 (% total)	
Australia	23%
China	20%
Japan	5%
UK	4.5%
India	4%

Top 5 Regional YTD Sep Mkts 2015	
North Asia*	31%
Australia + NZ	25%
Europe	22%
ASEAN	9%
Americas	6%

Top 5 Growth Mkts YTD Sep 2016 (total increase)	
China	298,393
Australia	151,387
India	68,222
UK	53,622
USA	36,582

Source : BPS Statistics Indonesia

**North Asia = China, Taiwan, Japan, South Korea*

KEY FACTORS AFFECTING BALI 2016

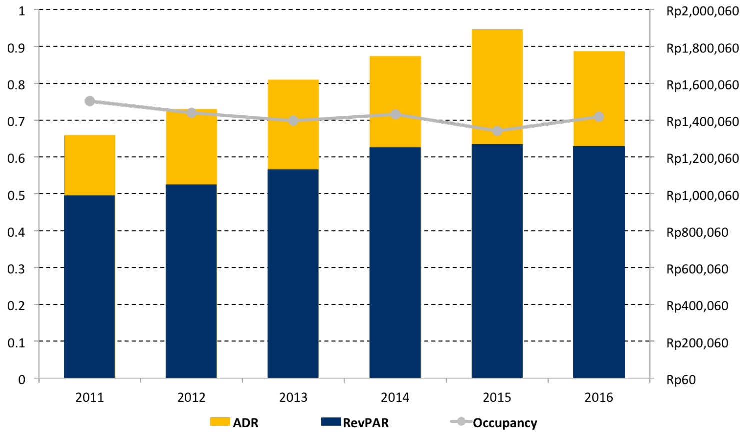
Lower spend per visitor: a 2016 survey by the Bank of Indonesia highlights that the typical Chinese tourist spends around one quarter of that spent by a typical European or Australian tourist. With the proportion of Chinese tourists increasing the economic benefits of each new tourist is reducing.

Shorter length of stay: the average length of stay in Bali YTD September 2016 fell to 3.11 days, down from 3.20 days y-o-y. The sub-market suffering the greatest was Denpasar, dropping from 4.53 to 2.73 days YTD September 2016. This is a double-whammy for hotels, with lower yield per tourist and a shorter length of stay.

Delayed hotel openings: Owners / investors are delaying the opening of new properties as market performance continues to endure the pressure of new rooms and poor rates. Supply growth in 2015 and 2016 is estimated at around 5%, much lower than the 14% increase recorded in 2014. The pipeline of new hotels remains massive but the delays are allowing the forces of supply and demand to work their magic.

Increased occupancy and decreased ADR: the following sections will highlight performance across categories year-end 2016 but it is very interesting to note that the above demographic shift in arrivals is causing hotels to lower rates to achieve marginal bumps in occupancy BUT in most cases with reduced RevPAR.

Hotel Performance 2011 – 2016 (IDR)



Source : BHA and Horwath HTL

The above graph highlights performance across Bali since 2011 with some telling results to YE 2016:

- IDR ADR increased y-o-y until 2016 (whereas USD ADR has decreased y-o-y since 2012);
- occupancy has fluctuated from a peak in 2011 to a low year-end 2015; and most importantly;
- IDR RevPAR increased from 2011 to 215 before dipping slightly in 2016 (whereas USD RevPAR has decreased over the same period, remaining flat in 2016).

There are some small improvements YTD September 2016 however:

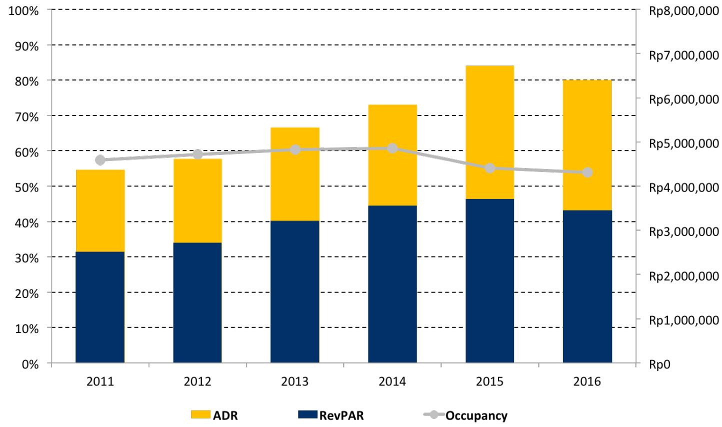
	2015	2016
Occupancy	-5% pts	-4% pts
ADR (IDR)	8%	-6%
ADR (USD)	-5%	-5%
RevPAR (IDR)	1%	-1%
RevPAR (USD)	-11%	0%

Occupancy has been solid all year, as shown in the 4% points increase year-end 2016. ADR in IDR and USD tells a contrary story, increasing 8% and falling 5% respectively. This, of course plays into RevPAR which also shows opposite results, up in IDR and down significantly in USD.

Performance by segment

Luxury (> USD 350): On the back of solid performance improvements recorded between 2011 and 2014, the last 2 years have been gloomy in the Luxury segment. All performance matrices are showing a slip in 2016, with RevPAR suffering a 6% fall on the back of an 11% fall in 2015. Although arrivals to the island have been steadily increasing this year, the shift of nationality and weaker spending power has forced hotels in this segment to rethink their pricing strategy. With the huge luxury resort pipeline, it is believed that it will take many years for the Luxury segment to rebound from this downfall and it is arguable that it will also require a rethink of the central government's quantity over quality tourism strategy.

Luxury 2011 – 2016 (IDR)

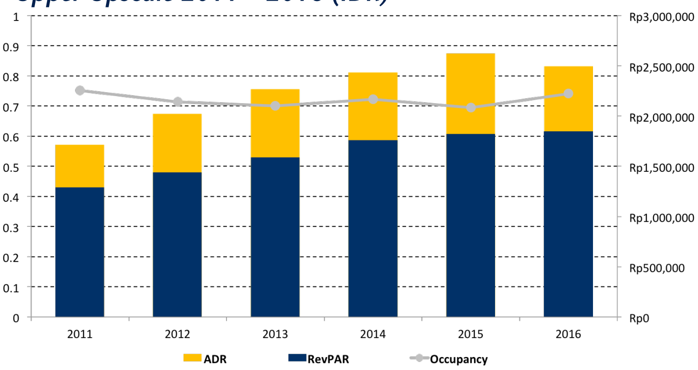


Source : BHA and Horwath HTL

Luxury	2015	2016
Occupancy	-6% pts	-1% pts
ADR (IDR)	15%	-5%
ADR (USD)	-1%	-4%
RevPAR (IDR)	4%	-7%
RevPAR (USD)	-11%	-6%

Upper Upscale (USD 151 – 349): This segment shows more promise as 2016 occupancy performance shows a 5% increase. ADR was sacrificed to keep occupancy rate buoyant amidst the pressure of new supply and changing arrivals demographics in 2016. With an estimated 74 new hotels opening in the next four years, arrivals growth will need to continue growing at similar rates to the 23% y-o-y figure if this segment is to balance occupancy and ADR with a resultant increase in RevPAR.

Upper Upscale 2011 – 2016 (IDR)

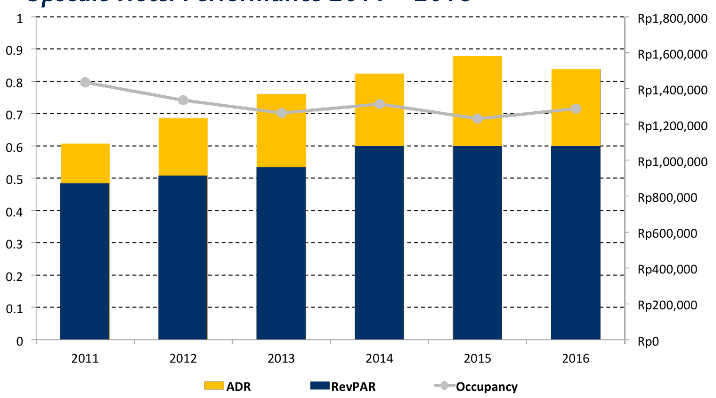


Source : BHA and Horwath HTL

Upper Upscale	2015	2016
Occupancy	5% pts	5% pts
ADR (IDR)	8%	1%
ADR (USD)	-4%	-4%
RevPAR (IDR)	4%	1%
RevPAR (USD)	-8%	3%

Upscale (USD 101 to 150): A quantity over quality tourism strategy begins to pay dividends in this market segment where the rate is between USD 100 and 150. By year-end 2016, the Upscale segment enjoyed a reasonable 4% bump in occupancy at the expense of a comparable fall in rate (both USD and IDR) with a consequent status quo performance in RevPAR. If hoteliers hold fast on ADR in 2017, the forecast increase in arrivals should allow them to boost RevPAR for the first time since 2014.

Upscale Hotel Performance 2011 – 2016

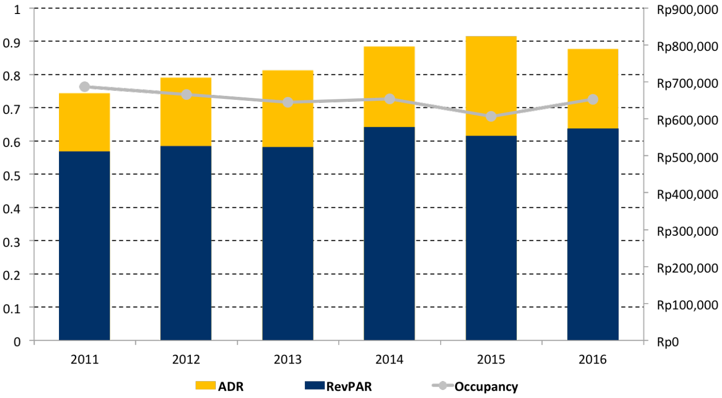


Source : BHA and Horwath HTL

Upscale	2015	2016
Occupancy	5%	4%
ADR (IDR)	7%	-5%
ADR (USD)	-6%	-4%
RevPAR (IDR)	-	-
RevPAR (USD)	-12%	1%

Midscale (USD 40 – 101): Having the strongest domestic component amongst segments plus the price point most attuned to the mass market, hotels within the Midscale enjoyed the brightest year. Occupancy grew 8% (last year it dropped 6%) whilst ADR only fell marginally with the resultant RevPAR up between 5 and 6% YTD September. In the future, although the Midscale category will continue to face the heaviest pressure from forecast new supply (~ 40% of total) it is also the best placed to absorb the increased volume tourist base.

Midscale Hotel Performance 2011 – 2016



Source : BHA and Horwath HTL

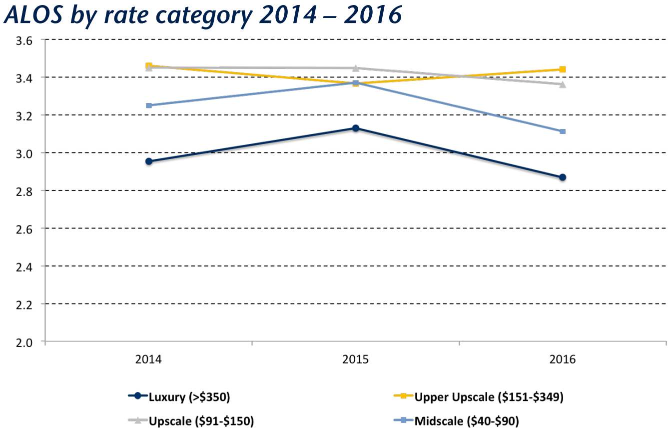
Midscale	2015	2016
Occupancy	6%	6%
ADR (IDR)	3%	-4%
ADR (USD)	-9%	-3%
RevPAR (IDR)	-4%	3%
RevPAR (USD)	-15%	4%

RevPAR Summary by Rate

2016 RevPAR	USD	IDR
Luxury	-6%	-7%
Upper Upscale	4%	1%
Upscale	1%	-
Midscale	4%	3%

Average Length Of Stay

ALOS by rate category 2014 – 2016



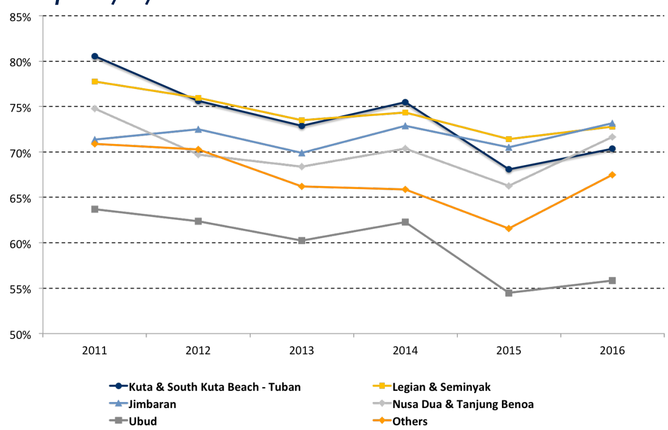
Source : BHA and Horwath HTL

Year-end 2016 we have witnessed a fluctuation in average length of stay depending on rate categories. In the Luxury, Upscale and Midscale markets, ALOS is down but it was up slightly in the Upper Upscale market. As seen in the graph the shortest is Luxury with 2.9 days, down from 3.1 days in 2015. The largest drop was 0.3 days in the Midscale category.

Performance by Location

Occupancy

Occupancy by Location 2011 – 2016



Source : BHA and Horwath HTL

With arrivals up, occupancy performance across all areas has improved. Interestingly in each area, except Others and Nusa Dua there was a uniform increase in occupancy of 2%. Nusa Dua and Others both enjoyed 6% increases in 2016, both having also dropped 4% in 2015 y-o-y.

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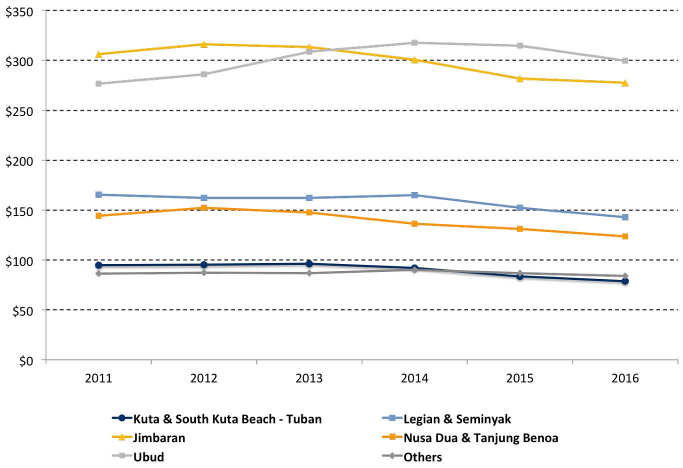
Average Daily Rates

ADR by Location 2011 – 2016 (USD)



Source : BHA and Horwath HTL

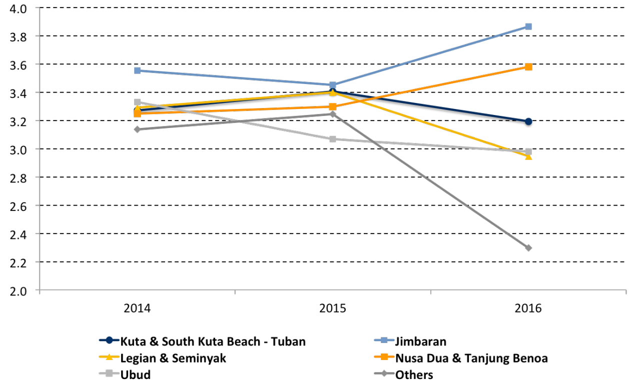
As discussed above, the strong arrivals growth has not been enough to maintain hotel rate performance. Hotels have been adjusting their rate strategy in response to the changing arrivals demographics and the results of which are felt across Bali in each of the listed sub-markets. Jimbaran weathered the storm the strongest with a small 1% fall in USD ADR, followed by Others. In each of the submarkets Nusa Dua / Benoa, Kuta & Legian / Seminyak, USD ADR levels fell the furthest, a high 6%. As the mass market is more price-sensitive a longer recovery time will be required to push rates back up following the slashing currently underway.

RevPAR Summary by Location

2016	USD	IDR
Kuta/Tuban	-3%	-4%
Jimbaran	2%	2%
Ubud	-2%	-4%
Legian/Seminyak	-4%	-5%
Nusa Dua/T. Benoa	2%	1%
Others	6%	5%

Average Length of Stay

ALOS by area 2014 – 2016



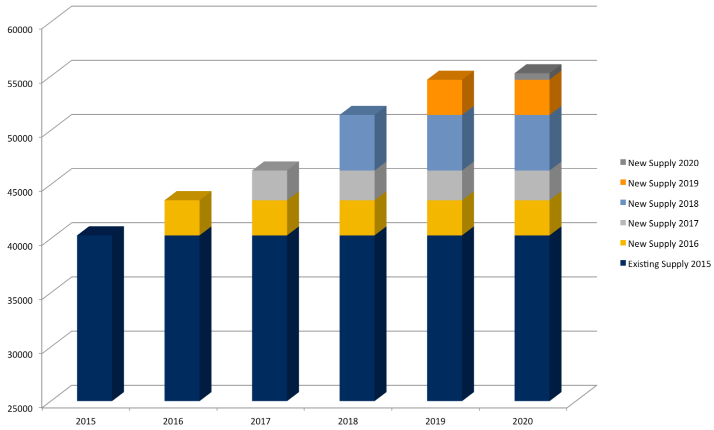
Source : BHA and Horwath HTL

It is the Others market (the less densely populated accommodation areas) that exhibits the weakest average length of stay (2.3 days only) which may indicate that it is a side-trip and not the main destination for a tourist's Bali holiday. This is to be read with care however, as it dropped significantly in 2016. The other market where ALOS dropped in 2016 was Legian/ Seminyak down 0.5 days to 2.9 days. Jimbaran and Nusa Dua/ Benoa enjoyed increases in ALOS in 2016, with the Jimbaran sub-market enjoying the longest length of stay of 3.9 days.

LOOKING FORWARD: PIPELINE

In 2015, Horwath HTL recorded a total of 335 hotels and more than 40,000 rooms in operation ranging from luxury to economy. It is understood that a further 12 hotels opened in the first 9 months of 2016 or an additional 1,600 rooms. Within our database another 74 hotels are expected to open between 2017 and 2020 representing a 20% increase over current hotel stock. Our figures are believed to be conservative with other secondary sources indicating inventory increases of around 25%.

Rumored/Under Development to 2020

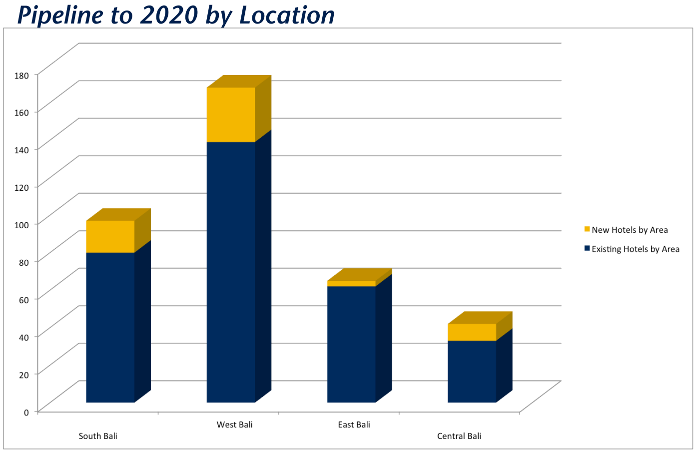


Source : BHA and Horwath HTL

West Bali (Kuta, Tuban, Legian, Seminyak, Canggu, Tanah Lot and Tabanan) remain the preferred development spot with around 50% of the total new supply expected within these areas.

Inventory in Central Bali is expected to increase by around 24% by 2020 adding more pressure to a weakening Ubud market performance. Ubud is transforming from an area known for its luxury and tranquillity into a busy yoga, healthy living, food & beverage entertainment zone with accommodations matching every price point and an access road that is well past its prime. As new midscale properties open in Ubud we expect that the areas average rate will continue to adjust to its new dynamic. We have no new developments on file for North Bali although the rumoured new airport development near Singaraja will likely change this should it come to fruition.

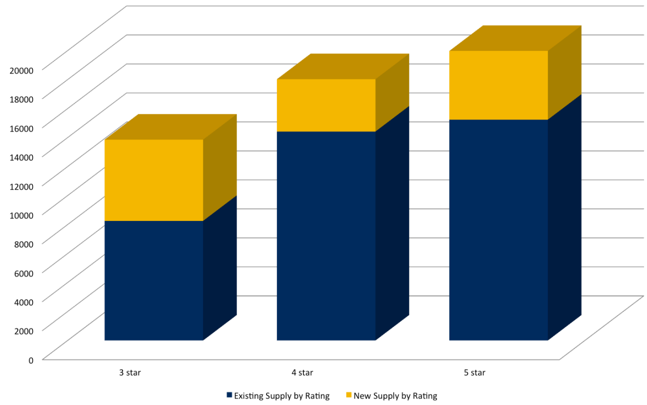
Pipeline to 2020 by Location



Source : BHA and Horwath HTL

The 2017 to 2020 pipeline is dominated by 3 star products representing about 38% of total new supply and more than 5,600 rooms across Bali. Less investment cost with a typically faster return period appear the safest option for investors at the moment. Shifting market dynamics should play well for this segment although the existing plethora of options and very low rates should raise concerns about the potential returns for this segment.

Pipeline to 2020 by Star Rating



Source : BHA and Horwath HTL

The last word…

As mentioned above, a 2016 survey conducted by Bank Indonesia (BI) shows that the average daily spend of tourists fell a disturbing 34% from USD 190 to USD 126 between 2014 and 2015. On top of that, average length of stay over the same period also dropped 6% from 8.19 days to 7.66 days per stay. The same survey shows that among the top 5 Bali source markets, Australia is the highest spender (almost 4 times higher than China) with typically much longer ALOS. In other words, 1 Australian tourist spends the same per day as 4 Chinese tourists.

When the government focuses on increasing the number of visitor arrivals, it makes sense to aggressively campaign Mainland China because it is only a short to medium haul from Indonesia with increasing direct flights and a very large population giving it the greatest potential for growth. It is essential however to foster other markets simultaneously to balance quantity and quality of foreign arrivals. The Thai experience is one to learn from, having aggressively targeted arrivals growth over the last decade they have now shifted focus to increasing yield per tourist.

Breakdown of segment and spending patterns

2015	Average Spending	%
Backpackers	US$30 – US$499	27.75%
Middle Class	US$500 – US$965	31.36%
Upper Middle	US$966 – US$2,868	37.39%
Luxury	Above US$2,868	3.55%

Source: Bank Indonesia

BALI HOTEL RESIDENCES

Last year, island resort-grade real estate faced volatility in both pricing and absorption rate, with developers softening sales prices to secure transaction volume in a time of economic recovery. Nevertheless, a positive outlook for hotel residences is expected as new developments are branching out from the midscale and upscale segments into new products which are being priced at lower entry points.

SUPPLY OVERVIEW

Key Projects by Area

Jimbaran & Kuta	
Condominiums / Apartments	517 units
Villas	113 units
Total	**630 units**
Uluwatu & Pecatu	
Condominiums / Apartments	445 units
Villas	156 units
Total	**601 units**
Nusa Dua	
Condominiums / Apartments	339 units
Villas	39 units
Total	**378 units**
Seminyak	
Condominiums / Apartments	108 units
Total	**108 units**
Ungasan	
Villas	73 units
Total	**73 units**
Tabanan	
Villas	11 units
Total	**11 units**

Source: C9 Hotelworks Market Research

In light of the current economic situation and an oversupply of three and four star hotels, properties have been facing tighter profit margins which has in turn affected the sales of residences in the segment. Since unit owners of these properties typically invest in financial returns, hotel performance is essential to entice new buyers.

Although investors have previously benefitted from guaranteed yields, the sector is now facing volatility from the developer's side as operators are finding it harder to deliver the promised yield. That said, the market is seeing more rebranding within the past few years, with operator changes now becoming more commonplace. Another trend is that new developments are shifting their sales strategy to limiting commitments to purchasers by lowering sales prices and eliminating guaranteed yields.

Similarly, some notable recently launched projects are moving towards the luxury segment, as developers expect demand to be less susceptible to an economic downturn. This is reflected in some of the newer project offerings including the Residences at Mandarin Oriental, The Sterling at Worldhotel Dreamland Resort and Bali National Golf Villas which will be managed by Shangri-La Hotels & Resorts.

Viewing the macro real estate market, one of the highest level issues in 2016 that is extending into this year is the Indonesia's tax amnesty program. This has gained widespread adoption from domestic businesses and high net worth individuals. While it has created a certain level of short term pain in terms of liquidity, on the flip side it is unleashing new investment into the property sector.

Moving into the overseas buying market the amnesty has created a larger degree of uncertainly with foreign owners, especially in Bali's significantly nominee segment. It's still too early to see the impact this will have on units as they come into the resale market under this type of structure but presently sentiment remains mixed.

One final trend seen during last year had been in a rising number of land transactions, most notably in South Bali. Pricing levels on a broad basis peaked in 2014/2015, and this year sellers have been trading property at off peak levels of 10-25%, which is moving the market towards more rationale values and should spur new development opportunities.

DEMAND OVERVIEW

Geographic Source Markets

Buyers of hotel residences are mainly Indonesian investors for all product tiers. However, we have noted a preferences for properties yielding high investment returns in the mid to upscale segments, whereas the presence of lifestyle investment is more prevalent in ultra-luxury products such as the Bvlgari Residences.

Presently, a large number of project marketing and sales offices are based in Jakarta and Surabaya with limited promotion outside the country. The lack of international exposure coupled with complex foreign ownership issues has continued to be an inhibitor to broader overseas buyers.

Nevertheless, recent destination exposure of Bali towards Chinese tourists through media channels and direct traffic has increased interest for all real estate segments. Sales of multiple units per transaction in the midscale segment and single property buyers in the luxury segment are rising.

Foreign Property Ownership Regulation

While the current government has talked about wider reforms in foreign property ownership, this remains a talking point with no firm legislation yet.

Carrying forward from 2015, a new regulation which was expected to ease restrictions on foreign ownership of properties in Bali has left little impact in attracting new investment as the revised law only grants legal foreign residents the "right of use" (Hak Pakai) for a maximum of 80 years. The practical application of this has not gained widespread acceptance. Furthermore, the value must exceed IDR 2 billion for apartments and IDR 3 billion for landed houses, whereby management of Hak Pakai properties face many restrictions on rentals as owners must transfer the rights to another party should they leave the country for more than one year.

Additionally, developers mainly target domestic buyers due to their bigger market size. Thus, most projects are registered under "right to own" (Hak Malik) which are eligible for Indonesians only. Therefore, foreign buyers with no residency are still pushed towards a general lease agreement, nominee agreement, or a PMA (Penanaman Modal Asing) model, which allows ownership of properties under a company's name and is subject to tax.

PROPERTY OVERVIEW

Condominium / Apartment Projects

Project Name	Location	Total Units	Launch Year
New World Grand Bali Resort	Pecatu	217	2015
Alila The Cliff Uluwatu	Uluwatu	56	2013
The Himana Condotel & Residence	Jimbaran	100	2013
Alila Seminyak	Seminyak	108	2012
Avani Nusa Dua	Nusa Dua	339	2013
Ayana Residences	Jimbaran	79	2012
Lexington Klapa Resort	Pecatu	128	2011
Springhill Villas & Resort	Jimbaran	148	2013
The Sterling at Worldhotel Dreamland Resort	Pecatu	44	2016
Golden Tulip Jineng	Kuta	190	2013

Source: C9 Hotelworks Market Research

Villa Projects

Project Name	Location	Total Units	Launch Year
New World Grand Bali Resort	Pecatu	88	2015
Banyan Tree Residences	Ungasan	73	2006
Bvlgari Residences	Uluwatu	5	2009
Waka Gangga Residences	Tabanan	11	2014
Alila Villas Uluwatu	Uluwatu	23	2009, 2014
Springhill Villas & Resort	Jimbaran	113	2013
Worldhotel Villas	Pecatu	40	2016
Bali National Golf Villas (Phase I)	Nusa Dua	7	2015
Bali National Golf Villas (Phase II)	Nusa Dua	32	2016

Source: C9 Hotelworks Market Research

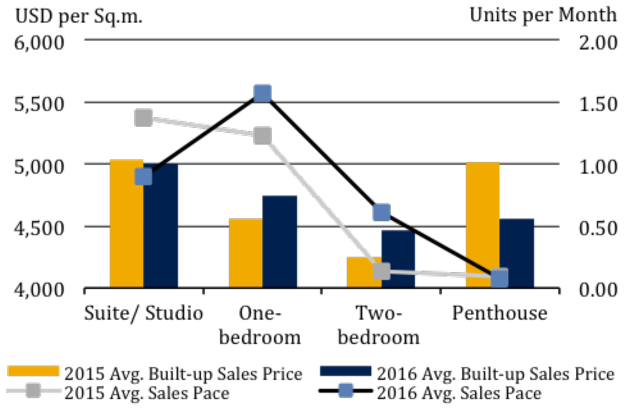
CONDOMINIUM/APARTMENT PROJECTS

Overall the average built-up sales price market-wide dropped by 6% in 2016 to USD4,446 per square meter, while the sales absorption rate picked up to 3.17 units sold per month compared to last year's average of 2.46. One-bedroom units are the most popular configuration.

Currently the market is experiencing a price drop and strong push in volume sales due to soft economic conditions. Developers are now dropping unit prices in exchange for no guaranteed yields, with new projects such as The Sterling at Worldhotel Dreamland Resort and Springhill Villas & Resorts adopting this practice. This strategy is resonating with both developers and investors, whereby putting less pressure on operators and allowing buyers to obtain a lower pricing point. Another factor contributing to a decrease in the average market price is the sellout of some legacy developments.

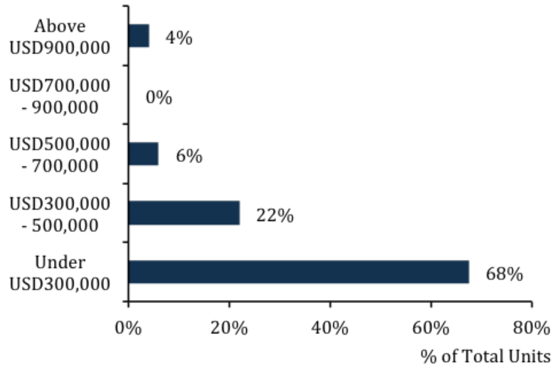
While supply remains dominated by midscale and upscale segments with new projects entering the lower pricing tier, the rising popularity in two-bedroom units is notable. However, one-bedroom units remain the most popular with an absorption rate averaging 1.57 units per month. This is also reflected in increases of built-up sales price for both room types, whereas penthouses have seen a 9% decrease from last year and have the lowest absorption rate in 2016.

Price and Absorption Rate by Unit Type



Source: C9 Hotelworks Market Research

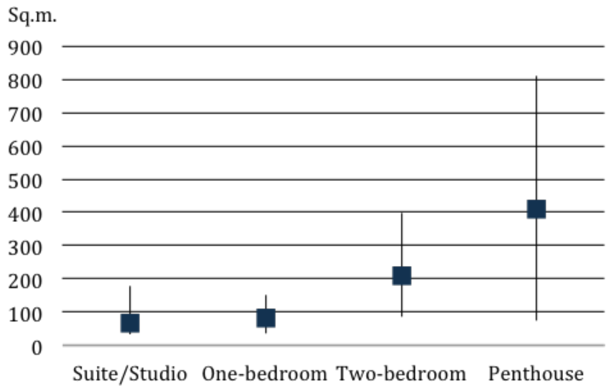
Price per Unit



Source: C9 Hotelworks Market Research

Units priced under USD300,000 increased 18% in supply compared to the previous year.

Built-up Size by Unit Type



Source: C9 Hotelworks Market Research

Suites and studio units have the largest inventory, representing 69% of total supply.

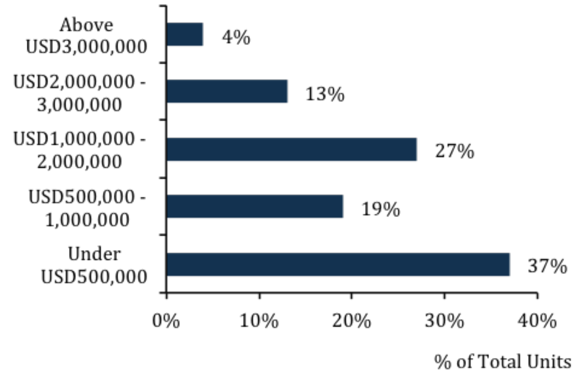
VILLA PROJECTS

Bukit Pandawa is expected to become a major competitor of Nusa Dua as an integrated resort, which will feature the Residences at Mandarin Oriental and other international brands.

The average built-up sales price for villas is USD4,314 per square meter in 2016, which is lower than that of hotel condominiums/apartments. The 13% y-o-y drop has been driven by a reduction in prices of launched projects as a consequence of a slowdown in sales. There has also been some project cancellations in this tier.

As a result of lower prices, the overall sales absorption rate is rising with transactions broadly averaging 1.95 villas per month compared to 1.02 last year. The increased pace has been stimulated by three-bedroom villas, which has reversed its position in 2016 to become the fastest selling configuration.

Price per Villa



Source: C9 Hotelworks Market Research

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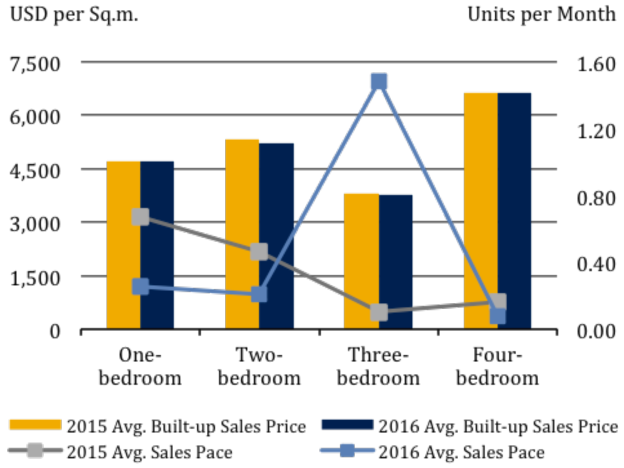
More products priced above USD 2 million are expected as pipeline projects edge upward.

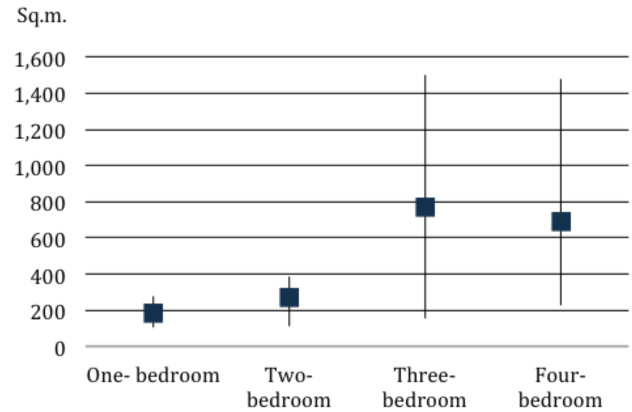
Price and Absorption Rate by Villa Type



Source: C9 Hotelworks Market Research

Three-bedroom configurations have the lowest average built-up sales price at USD3,774 per square meter.

Built-up Size by Villa Type



Source: C9 Hotelworks Market Research

The built-up size of three-bedroom villas has the highest increase compared to last year, with an average of 37% additional built-up area.

RESALE MARKET

Average built-up sales prices in the resale market are 32% lower for condominium/apartment units and 7% higher for villas when compared to the primary segment.

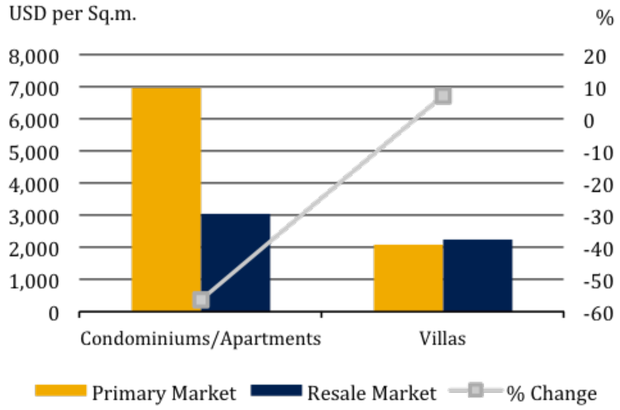
Currently, the majority of resale hotel residences are in three and four star properties, with condominiums/ apartments and villas resale markets averaging USD3,045 and USD2,235 per square meter, respectively.

Secondary prices for well situated villas have reflected capital appreciation over the original sales price because many villa projects offer freehold ownership, which commands higher pricing than leasehold projects. With a land component in the transaction, owners have benefited on the resale value which has been stimulated by the land market valuation. Despite an appreciation for villas, the inventory available in the resale market is substantially lower than that of condominium/apartment units because owners typically invest for lifestyle purposes, especially for luxury properties and typically hold for longer periods.

On the other hand, condominium/apartment units have more frequent transactions in the resale market but at a significant discount. A number of units currently in the market have leasehold terms ranging between 26 and 80 years, whereby the discount also ranges according to the remaining years in the original leasehold period. Price reductions for units in the last 30 years of tenure can be as high as 78% off the original sales price, whereas units with longer leasehold years remaining have rates discounted from 27% to 56%.

Viewing the performance of condominium/apartment units and villas in the resale market, the former type is lucrative for short to mid-term investment as they require less capital to purchase and can produce an equal ROI to villa projects, whereas the latter is more favorable for long term investment as buyers often benefit from capital gains of a property sale.

Resale vs. Primary Sales



Source: C9 Hotelworks Market Research

FORWARD OUTLOOK

With the global economy remaining volatile, the market for hotel residences is expected to follow suit. However, we forecast greater traction for condominium/apartment projects as opposed to villas due to their lower ultimate pricing point. Because condominium/apartment developments have lower capital values and are easy for hotel operators to generate income from hotel operations, the structure is more suitable for investment purposes. We are also seeing a growing demand in the lifestyle investment sector as new villa developments are escalating towards the luxury segment.

Looking into to the future, if the plan for a new airport in Singaraja and four toll roads to connect North and South Bali materialize a new market cycle will ensue. The capacity to tap tourism will push more developments of hotel residences into areas outside South Bali and the creation of a new broader real estate markets which have significantly lower underlying land cost basis.

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