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Horwath HTL™

Hotel, Tourism and Leisure *Celebrating 100 years*

Hotel & Branded Residences

LOMBOK

December 2015

What to say about Lombok that hasn't already been said?! In 30 words of less: still nothing new on the south coast; tourism arrivals edge up; hotel performance is solid; roads are improving; and there are a couple of new small hotels dotted around.

LOMBOK TOURISM ARRIVALS

The growth in tourism arrivals to Lombok in the last 10 years has been solid, from a low total of under 400,000 in 2004 to about 1.6 million in 2014. This equates to around 15% YOY and the growth has been evenly spread between domestic and foreign guests. For perspective Bali grew from 3.6 to 10 million over the same period and Bintan grew from 300,000 to a slightly larger 460,000. Ying and yang.

The growth in international arrivals to Lombok rose with an average annual growth rate of about 26% between 2009 and 2014. The dramatic impact of new airlift was seen with the addition of new low cost carrier routes in 2014 and the resultant 33% increase in international arrivals. That is almost the definition of pent up demand.
Similarly to Bali, the number of domestic arrivals is significantly higher than that of international arrivals. This is unlikely to change given the volume of domestic tourists and the commercial centre of Mataram. Between 2009 and 2014, domestic arrivals grew at an average annual growth rate of 18%.
By YE 2014, total arrivals to Lombok reached about 1.6 million and YTD September 2015, total arrivals had grown another 13% YOY to 1.16 million (from 1.03).

Arrivals by Air & Sea, 2009 - 2014

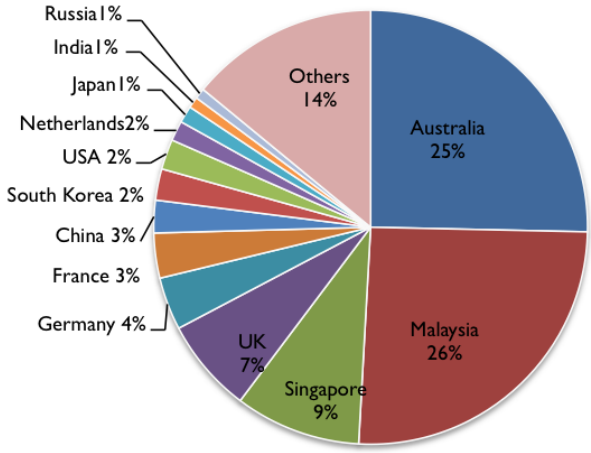
Source: BPS Indonesia

The Lombok International Airport is currently served by only three international airlines, namely Silk Air, Air Asia and seasonal charter Nordwind Airlines. In 2014, Tiger ceased operations from Singapore and Jetstar from Perth. The bankruptcy of low cost domestic airlines Tiger Mandala, Trans Nusa Air and Merparti Air has also had an impact on Lombok tourist arrivals.

There are rumours of several low cost carriers looking into the feasibility of Lombok routes as well as a rumoured Cathy Pacific direct flight from Hong Kong, which could potentially connect Lombok to other medium-haul markets outside of the Southeast Asian region.

NATIONALITY MIX

Nationaly of Arrivals to Lombok International Airport, 2014



Source: BPS Indonesia

As shown in the 2014 nationality mix chart above, Malaysia, Australia and Singapore were the top feeder markets for Lombok, accounting for more than half of the total Lombok arrivals.

Given the suspension of Jetstar from Perth, Australia in late 2014, we saw a significant drop in Australian tourist arrivals to only 3% of total international arrivals in Lombok as of YTD September 2015 from 25% in 2014. Meanwhile, despite Europeans being the key source market for the majority of hotels, it is clear from the small airport arrival numbers, that many are arriving Lombok by flights or by boat via Bali.

Arrivals from Malaysia registered the strongest growth amongst all the countries as of YTD September 2015 by

105% compared to the same period in 2014, given the Air Asia services directly connect Kuala Lumpur and Johor Bahru to Lombok. However, most of the passengers on these routes are workers commuting between Malaysia and Lombok rather than tourists coming for leisure purpose.

Top 5 Foreign Markets 2014 (% total)

- Malaysia 25%
- Australia 25%
- Singapore 9%
- UK 7%
- Germany 4%

Top 5 Foreign Markets 09/2015 (% total)

- Malaysia 48%
- Singapore 6%
- UK 6%
- Germany 4%
- China 4%

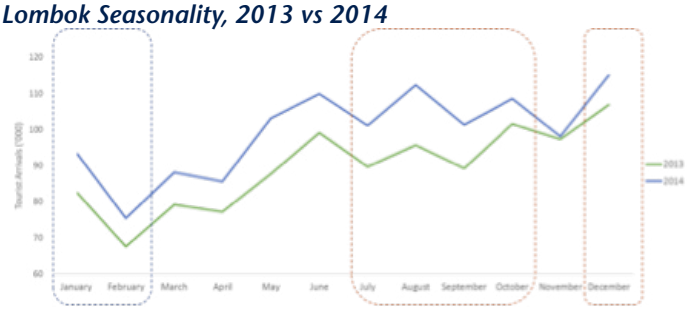
Largest Growth Markets (YOY % INC.)

- Malaysia 105%
- China 52%
- South Korea 45%
- Thailand 43%
- Saudi Arabia 38%

Source: BPS Statistics

SEASONALITY

Lombok Seasonality, 2013 vs 2014



Source: BPS Indonesia

The peak season in the market (highlighted by the orange lines) stretches from July to October, which coincides with regional and European summer holidays. Temperatures range from 24 to 30 degrees Celsius, and the average monthly precipitation is at its lowest. The festival period in the last two weeks of December also constitutes the high season.

The shoulder period stretches from April to June and November to mid-December. April to June is typically popular with honeymooners, particularly from Korea.

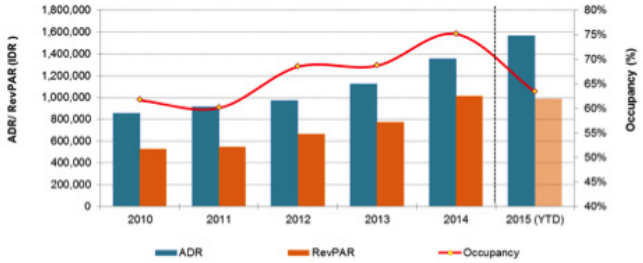
Low season is from January to early March. The low season often brings with it heave rain, monsoons and in some places high winds. As Lombok is relatively undeveloped in terms of shopping, entertainment and other supporting facilities, there are few tourists and occupancy can fall as low as 20 to 30%.

TOP TIER HOTEL MARKET

Between 2010 and 2014, the luxury and upscale hotel market has shown positive trends in both occupancy and ADR. Room night demand registered a higher CAAG rate of 10.4% than room nights available of 8.6%. ADR in local currency grew at an average rate of 12% annually in the past five years.

The robust demand growth was mainly due to induced demand from the newly opened hotels, especially in years of 2012 and 2013, and by improved air access from Perth and Singapore.

Top Tier Performance 2010 – 08/2015



Source: Horwath HTL

ADR was also on an upward trajectory. Newly opened hotels, with better quality of facilities, helped push the overall market average rate from a low base. Luxury and upscale hotel market ADR in local currency recorded double-digit growth in the past two years.

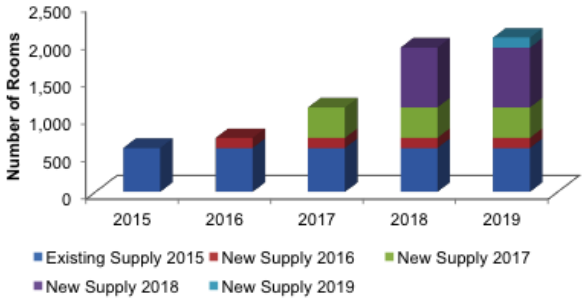
That said, overall market occupancy recorded a significant drop in occupancy YTD August 2015 mainly due to the suspension of Jetstar flights. Almost all of the top tier hotels in Lombok suffered in the first half of 2015 until the peak months in July and August, when demand picked up.

The growth trend is unlikely to continue this year, given the termination of flights as well as the continued depreciation of Indonesian Rupiah. The hotels have been adjusting their strategies by offering promotions to capture more domestic and regional demand to refill the lost demand in the Australian market.

NEW HOTEL SUPPLY

The following table shows projected inventory increases to 2019 based on confirmed and rumoured developments.

Rumoured / Confirmed Top Tier Pipeline



Source: Horwath HTL

Between 2015 and 2019, we are aware of 16 new hotels such as Sundancer, Holiday Inn, Royal Tulip and Graha Senggigi Resort that are expected to open and add approximately 1,500 rooms to the market. This figure also includes hotel expansions.

With new hotels will come new flights, and with new flights will come new people, and with new people will come new hotels and attractions and with new hotels and attractions….

MARKET OUTLOOK

Visitor arrivals in Lombok have shown a robust growth between 2009 and 2014. The rumoured addition of new direct domestic and international flights will continue to improve the number of travellers to Lombok. Although the presence of low cost airlines can be viewed as a double-edged sword, they undoubtedly benefit a market by bringing more affordable and easy access to the market as well as increasing market awareness, even if this is only for short period of time. Aside from the airport, major infrastructure improvements are being established in Lombok such as the addition or upgrade of roads, which should attract investment.

Moreover, as many upcoming hotels four to five years are regionally or internationally branded properties, it will help Lombok raise its profile.

Although corporate and meetings, incentives, conferencing, exhibitions (MICE) demand is insignificant now, many hotels have sensed the potential for wedding demand. With the opening of MICE facilities at new hotels, as well as the improvements of the infrastructure and air connectivity, Lombok is expected to capture increasing regional MICE demand, especially the demand overflow from Bali. When there are greater numbers of attractions, accommodation alternatives and dining and entertainment options, Lombok should also be able to attract more domestic travellers as Indonesian's primary expenditure while travelling is shopping followed by excursion and food.

LOMBOK HOTEL RESIDENCES

Sales pace slows due to market volatility.

Over the last five years, there has been substantial growth in the Lombok real estate market. Early hospitality-led residential projects selling condominiums/apartments and villas emerged along with tourism growth and development of hotels in the areas of Senggigi, Mataram, and the Gili Islands.

More recently, the residential development radius has expanded to South Lombok, in particular the Kuta, Selanak Blanok and Sekotong areas concurrent with the airport relocation. Another segment that has experienced traction has been land plot sales. Driven by relatively low pricing points and carrying the potential for significant capital appreciation, it has attracted mainly overseas investors.

Despite growing rapidly, project risk remains an issue in the early stages of the property cycle. Market sales pace this year has slowed as there has been an overhang of reserved unit which did not convert into transactions. Affiliating with branded hotel operators and offering products with the prospect for income and investment values are the key marketing tools for Lombok projects to boost sales performance.

There is currently a mix of both domestic and international buyers in Lombok with Indonesians viewing the property pricing points as lower than South Bali and hence having stronger upside potential. Looking forward, growth in higher quality developments with income potential and the anticipated weakening of Indonesian Rupiah create a optimistic investment outlook for overseas investors.

PROPERTY OVERVIEW

Greater demand for hotel managed residential projects while actual offerings / supply remains limited.

Villa Projects

Project Name	Location	Total Units	Launch Year
X2 Senggigi Amanah	Senggigi	2	2014
Anemalou Resort & Beach Club (phase I)	Sire Beach	18	2013
Royal Tulip Resort & Spa	Are Guling	44	2015
BASK Gili Meno	Gili Meno	15	2015

Source: C9 Hotelworks Market Research

Condominium / Apartment Projects

Project Name	Location	Total Units	Launch Year
X2 Senggigi Amanah	Senggigi	33	2014
Amarsvati Condotel Resort & Villas	Malimbu	150	2014
Sundancer Resort & Spa	Sekotong	66	2012
Anemalou Resort & Beach Club	Sire Beach	20	2013

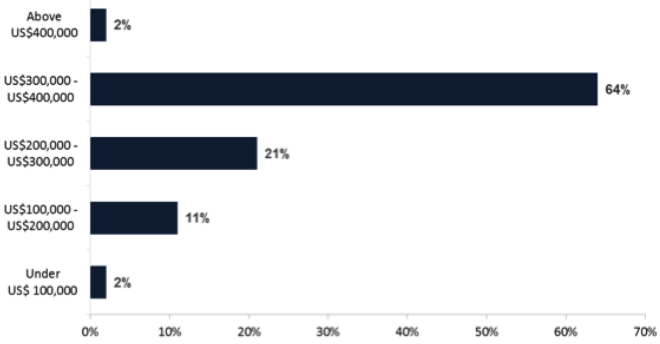
Source: C9 Hotelworks Market Research

CONDOMINIUM/APARTMENTS PROJECTS

Current Inventory

- There are 4 key projects with a total 269 units managed or branded by hotel operators are currently for sale.

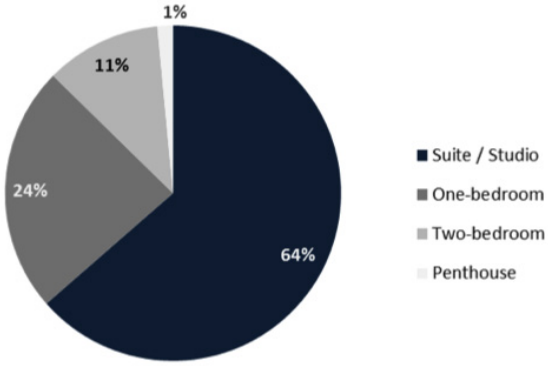
Price per Unit



Source: C9 Hotelworks Market Research

Units priced between US$100,000- US$200,000 achieved the highest monthly sales pace.

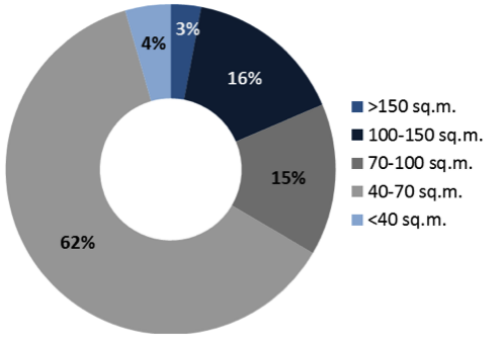
Unit Configuration Mix



Source: C9 Hotelworks Market Research

Smaller units falling within the affordable price range remain primary development inventory.

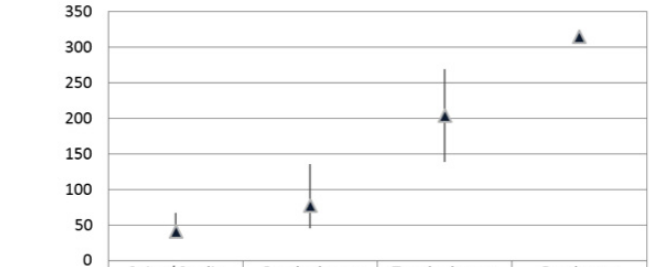
Unit Size Mix



Source: C9 Hotelworks Market Research

Units sized between 40 - 70 sq.m. also achieved the highest monthly sales pace.

Inventory Mix



	Suite / Studio	One-bedroom	Two-bedroom	Penthouse
Min (Sq.m)	33	46	140	315
Max (Sq.m)	66	135	268	315
▲ Average	41	77	204	315

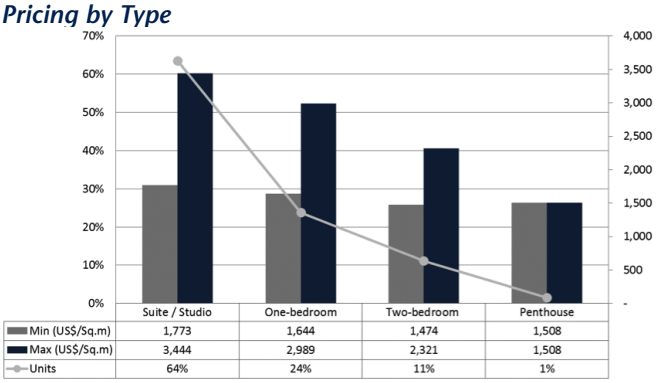
Source: C9 Hotelworks Market Research

Weighted average market-wide unit size is 72 square meters.

CONDOMINIUM/APARTMENT PROJECTS

Pricing Comparison

Pricing by Type



	Suite / Studio	One-bedroom	Two-bedroom	Penthouse
Min (US$/Sq.m)	1,773	1,644	1,474	1,508
Max (US$/Sq.m)	3,444	2,989	2,321	1,508
Units	64%	24%	11%	1%

Note: % Villas
Source: C9 Hotelworks Market Research

Market-wide average sales price per square meter is US$2,440.

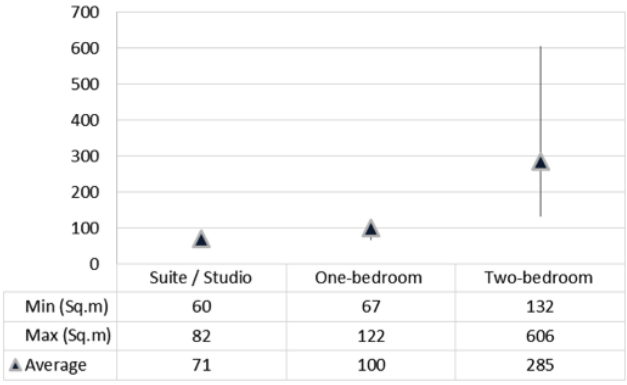
Absorption Rate

Absorption Rate by Type

Note: Monthly Sales Pace
Source: C9 Hotelworks Market Research

Market-wide average monthly sales pace stands at 1.95 units for condominiums / apartment projects.

Inventory Mix



Source: C9 Hotelworks Market Research

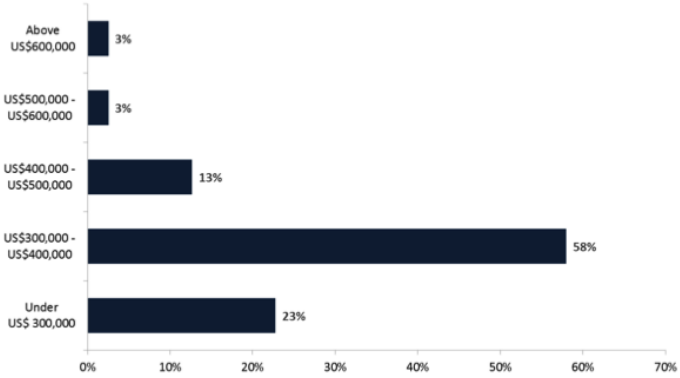
Weighted average market-wide villa size is 128 square meters.

VILLA PROJECTS

Current Inventory

- There are 4 hotel managed villa projects with a total of 79 units are reflected in this report.

Pricing Per Unit

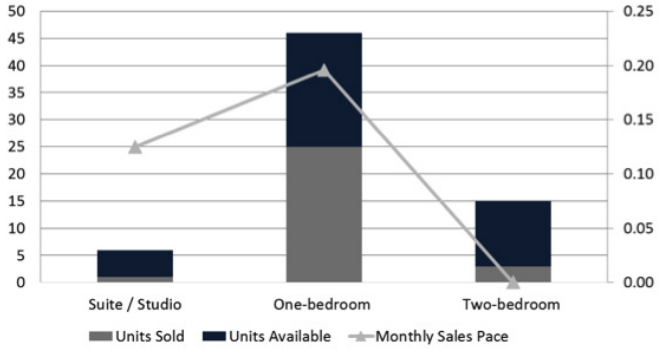


Source: C9 Hotelworks Market Research

82% of villas in the market are priced under US$400,000.

Pricing Comparison and Absorption Rate

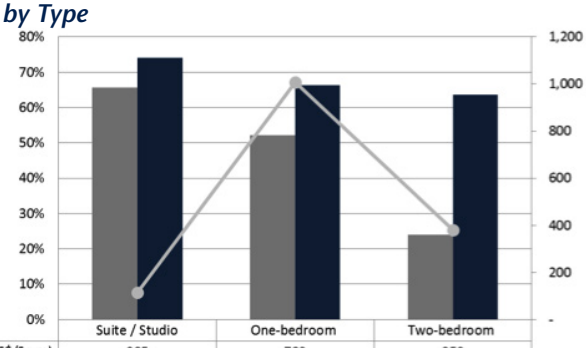
Absorption Rate by Type



Note: Monthly Sales Pace
Source: C9 Hotelworks Market Research

Market-wide average monthly sales pace stands at 0.58 units per month.

Pricing by Type



	Suite / Studio	One-bedroom	Two-bedroom
Min (US$/Sq.m)	985	782	359
Max (US$/Sq.m)	1,110	995	954
Units	8%	67%	25%

Note: % Villas
Source: C9 Hotelworks Market Research

Average sales price per square meter is US$2,578 for villas.

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