

Hotel

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The eruption of Mount Agung, in Bali, led to a spillover of hotel guests to Surabaya in early 2018. Some hoteliers revealed that several MICE activities that were previously planned to be held in Bali were partially shifted to Surabaya. Meanwhile, the month of Ramadan, followed by Eid al-Fitr, making a long holiday from mid-May to mid-June, changed the timing for business travel mainly facilitated by the government.

Forecast at a glance



Demand

The hotel industry will continue to be propelled by MICE activities, ultimately from government and corporate sources.



Supply

Through 2020 in Surabaya, 2,904 additional rooms will come online, consisting of 1,133 3-star hotel rooms, 1,167 4-star hotel rooms and 604 5-star hotel rooms.



Occupancy

The year-to-date occupancy (up to May 2018) was recorded at 55.8%, which is a 4% increase compared with the same period last year. The competition amongst hotels will likely remain intense in Surabaya. Thus, we predict occupancy over the next two years to slightly drop to around 55.5%.



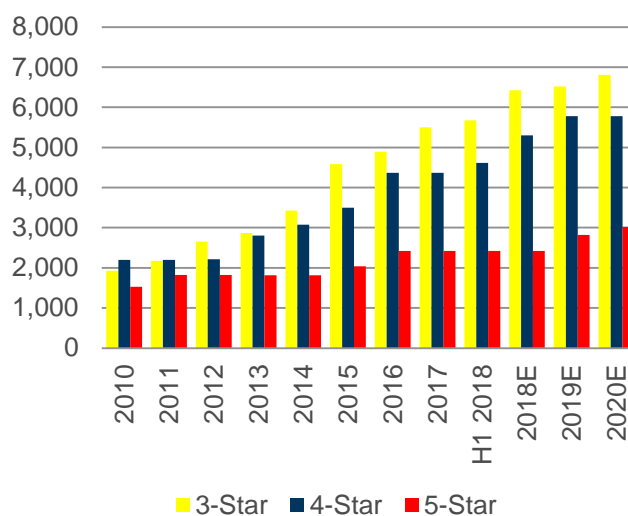
Room Rate

The monthly ADR of hotels in Surabaya has been stable over the last three years. We expect the ADR to hover around USD46 over the next two years.

Supply

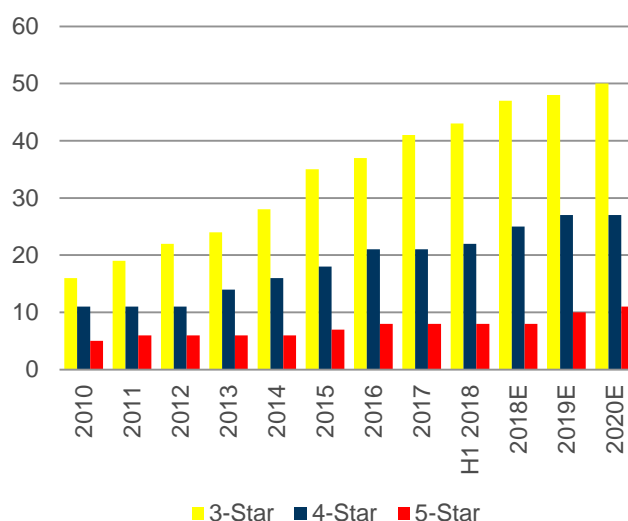
In H1 2018, there were three new hotels that began operation, comprising of 426 rooms in 3-star hotels (with two hotel projects providing 177 rooms) and one 4-star hotel project with 249 rooms.

Cumulative Hotel Rooms



Source: Colliers International Indonesia - Research

Cumulative Hotel Projects



Source: Colliers International Indonesia - Research

NEW HOTEL PROJECTS DURING H1 2018

| HOTEL NAME | STARRED RATING | STR CHAIN SCALE RATE | LOCATION | REGION | NO. OF ROOMS | OPENING TIME |
|--------------------------------------|----------------|----------------------|------------------|----------------|--------------|---------------|
| Great Hotel | 3-star | Undefined | Jl. Diponegoro | South Surabaya | 90 | March 2018 |
| Batiqa Hotel | 3-star | Undefined | Jl. Darmokali | South Surabaya | 87 | May 2018 |
| Novotel Samator Surabaya Timur Hotel | 4-star | Upscale | Jl. Kedung Baruk | East Surabaya | 249 | February 2018 |

Source: Colliers International Indonesia - Research

NEW PIPELINE

| HOTEL NAME | STARRED RATING | STR CHAIN SCALE RATE | LOCATION | REGION | NO OF ROOMS | PROJECT STATUS | PROJECTED COMPLETION TIME |
|---|----------------|----------------------|-------------------------|------------------|-------------|--------------------|---------------------------|
| One Galaxy Hotel | 3-star | Undefined | MERR II C | East Surabaya | 110 | Under Construction | 2018 |
| Continent My Tower – Rungkut | 3-star | Undefined | Rungkut | East Surabaya | 134 | Under Construction | 2018 |
| Palm Park Hotel Surabaya | 3-star | Undefined | Jl. Kapas Krampung | Central Surabaya | 101 | Under Construction | 2018 |
| Life Hotel | 3-star | Undefined | Jl. Sumatera | East Surabaya | 100 | Under Construction | 2019 |
| Yello Rungkut | 3-star | Undefined | Rungkut | East Surabaya | 168 | In Planning | 2020 |
| Arum Hotel | 3-star | Undefined | Jl. Gunung Anyar | East Surabaya | 120 | In Planning | 2020 |
| Mercure @Praxis | 4-star | Upscale | Embong Sonokembang | Central Surabaya | 288 | Under Construction | 2018 |
| Grand Dafam Kayun | 4-star | Midscale | Kayun | Central Surabaya | 169 | Under Construction | 2018 |
| Swiss-Belhotel Darmo Surabaya | 4-star | Upscale | Darmo | Central Surabaya | 226 | Under Construction | 2018 |
| Harris HR Muhammad | 4-star | Upper Midscale | Jl. HR Muhammad | West Surabaya | 168 | Under Construction | 2019 |
| Four Points by Sheraton Surabaya, Pakuwon Indah | 4-star | Upscale | Jl. Puncak Indah Lontar | West Surabaya | 316 | Under Construction | 2019 |
| The Westin Surabaya | 5-star | Upper Upscale | Jl. Puncak Indah Lontar | West Surabaya | 204 | In Planning | 2019 |
| AKR Signature Gallery - Hilton Hotel | 5-star | Upper Upscale | Jl. Gubeng | East Surabaya | 200 | Under Construction | 2020 |
| The Trans Luxury Hotel | 5-star | Undefined | Jl. Ahmad Yani | South Surabaya | 200 | In Planning | 2020 |

Source: Colliers International Indonesia - Research

Supply growth from 2018 onward has declined, compared with that in 2015-2017. This is in part due to the downturn in the overall hotel performance in Surabaya, which resulted in the limited financial support

for hotel development, as there is already oversupply in Surabaya.

The projected hotel supply in 2018 comes from delayed projects that were planned to be operational in 2016-

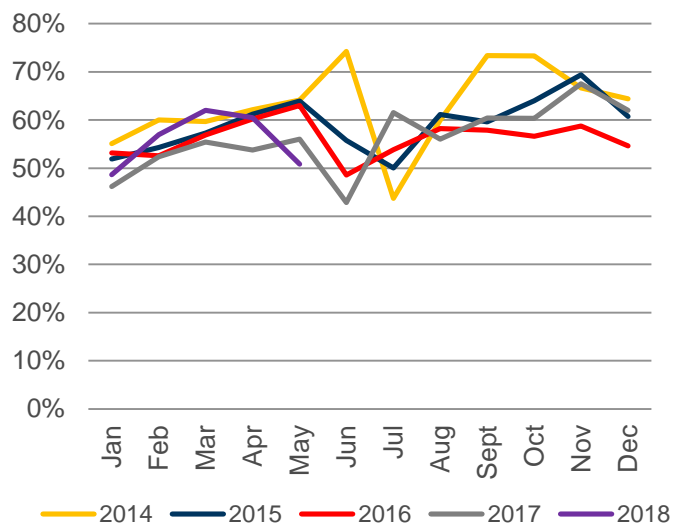
2017. These hotel projects were postponed due to various issues, including a delay in construction, financial or permitting issues.

Most hotel projects in Surabaya are located in Central Surabaya, despite the fact that this area already has so many existing hotels. This is because Surabaya remains the central business area, where government offices and most commercial office buildings are located. The city centre area is also considered a melting pot, especially for guests coming in from eastern Indonesia.

Meanwhile, the southern and western parts of Surabaya cater to hotel guests mainly coming from industrial locations outside Surabaya, such as Sidoarjo and Gresik, as they are accessible from the toll road.

Performance

Average Occupancy Rate (AOR)



Source: STR

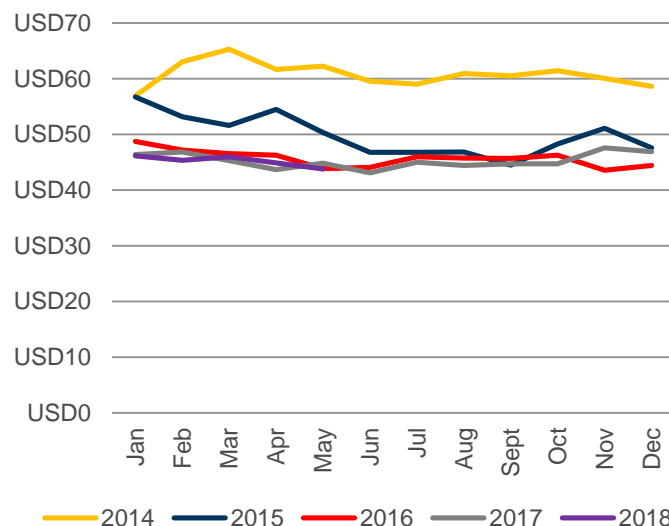
Occupancy in Surabaya was good during the first quarter of 2018, benefiting from the spill-over of guests from Bali, shifting their location due to the eruption of Mount Agung. Several MICE events previously planned to take place in Bali were relocated to Surabaya, as it is the closest and most comparable destination after Bali.

On the other hand, Surabaya, which has been known as a peaceful area, was disturbed by terrorist bombings in early May. This pushed several countries such as the UK, the US, Australia and France to issue travel warnings for Surabaya. Thankfully, security measures were able to control the situation and the condition on the ground returned to normal after several days. The tense atmosphere after the bombing was reflected in the increasing security measures in spots where people

gather, such as in malls, hotels, airports and office buildings.

The downswing in hotel performance in May is more likely due to the slow month of Ramadan, highlighted by lower business activity, particularly from the government. After the long Eid al-Fitr holiday, we expect to see market performance to rebound, and this has been the trend over the last couple years.

Average Daily Rate (ADR)



Source: STR

The ADR figures for the first half this year are likely to be similar to the numbers recorded in 2016 and 2017. The market remains price-sensitive, so that hoteliers would rather keep their rates steady, prioritising occupancy. Hotels need to maintain a competitive rate in order to continue attracting guests, especially with private corporations and the government as the major demand in Surabaya.

We have seen an increasing number of people using online travel agents, (OTA) as they offer a simpler processes, more practical use, competitive pricing and better promotions. Even now, the government and private corporations are booking through OTA.

Competition in the accommodation business is not only amongst hotel operators but also from apartment units offered for lease, a comparison of which is available below.



GENERAL COMPARISON OF 3-STAR HOTEL ROOMS VERSUS APARTMENT UNITS IN SURABAYA

| | HOTEL | APARTMENT |
|---------------------|--|--|
| Room Size | 20 - 30sqm (depend the room type) | Approximately 20 to 60 sq m |
| Room Type | 1 BR with different size depending on hotel rate | 1BR, 2BR or 3BR ranging from 21 to 57 sq m |
| Room Rate (IDR)/day | 300,000 - 400,000 (most affordable room type, depending upon the season) | No standard price |
| Room Capacity | Maximum two | Not regulated |
| Kitchen | No | Yes |
| Breakfast | Yes | No (yes for serviced apartment) |

Source: booking.com

COMPARISON OF 3-STAR HOTELS AND APARTMENTS IN EAST SURABAYA

| | Swiss-Belinn Manyar | Educity Apartment |
|--------------------------------|---------------------|---|
| Room size (sq m) | 24 | 47 |
| Room type | 1BR | 3BR |
| Room capacity | 2 | 7 |
| Room rate (IDR/day) | 655,000 | 650,000 |
| Facilities | | |
| Kitchen | No | Yes |
| Breakfast | Yes | No |
| Swimming Pool & Fitness Centre | Yes | Yes |
| Remarks | - | Located in a superblock area (Pakuwon City) |

Source: booking.com

COMPARISON OF 3-STAR HOTELS AND APARTMENTS IN WEST SURABAYA

| | Whiz Prime Darmo Harapan | Supermall Mansion Orchard Tower | Supermall Mansion Tanglin Tower |
|--------------------------------|--------------------------|--------------------------------------|--------------------------------------|
| Room size (sq m) | 24 | 25 | 29 |
| Room type | 1BR | 1BR | 1BR (with living room) |
| Room capacity | 2 | 3 | 3 |
| Room rate (IDR/day) | 350,000 | 380,000 | 449,000 |
| Facilities | | | |
| Kitchen | No | Yes | Yes |
| Breakfast | Yes | No | No |
| Swimming Pool & Fitness Centre | Yes | Yes | Yes |
| Remarks | - | Located above Supermall PTC Surabaya | Located above Supermall PTC Surabaya |

Source: booking.com

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