

Hotel Sector

Ferry Salanto Senior Associate Director | Research

The pickup moment in H2 2016 was a bit late due to Ramadan and Eid al-Fitr, which happened during the end of H1 and early H2 2016.

Forecast at a glance



Supply

Hotel supply in Surabaya won't be as much as in the previous years. Three-star hotels are dominating the upcoming supply, followed by 4-star hotels. Regardless, the current situation will impact ongoing and upcoming projects.



Demand

The economic condition is the biggest factor that may determine the demand. A better economic condition may create potential demand for the hotel sector in Surabaya.



Performance

Hotel performance experienced a depression. With the recent market condition, the performance of the hotel sector in Surabaya tends to decline. The unbalanced growth between supply and demand has a significant effect for this condition.

Hotel Supply

Starred Hotel

During H2 2016, there were only two new hotel projects in Surabaya, providing a total of 654 rooms or 42% of total new rooms available during 2016. The two new hotels are Fairfield by Marriott Surabaya (4-star hotel), located in Jalan Mayjen Sungkono, South Surabaya and Vassa Luxury Hotel (5-star hotel) in Jalan HR Muhammad, West Surabaya. The total number of hotel rooms in Surabaya in 2016 represents an 18% decrease from the total rooms in 2015.

The number of new hotel constructions has been quite significant in the last few years. Coupled with low visitors, the average occupancy level of hotels in Surabaya has yet to recover. Likewise, for the past two years, hotel construction activity in Surabaya has slowed down. Among several factors are the increase in material cost which also pushed landlords to evaluate construction cost. This might have an implication on the delay in project delivery. In some cases, there were several projects that have already started construction but encountered problematic permit issues which forced the developers to halt construction. The developer will reassess the plan to build a new hotel amidst the slow performance of the hotel market in Surabaya.

Central Surabaya is identical to the Central Business District of the city where most business activities are concentrated. As a business hub, the Central Business District has been the location of many hotels in Surabaya. This year, most of the newly operating hotels are located in Central Surabaya. Going forward, this region will continue to see more new hotels being built.

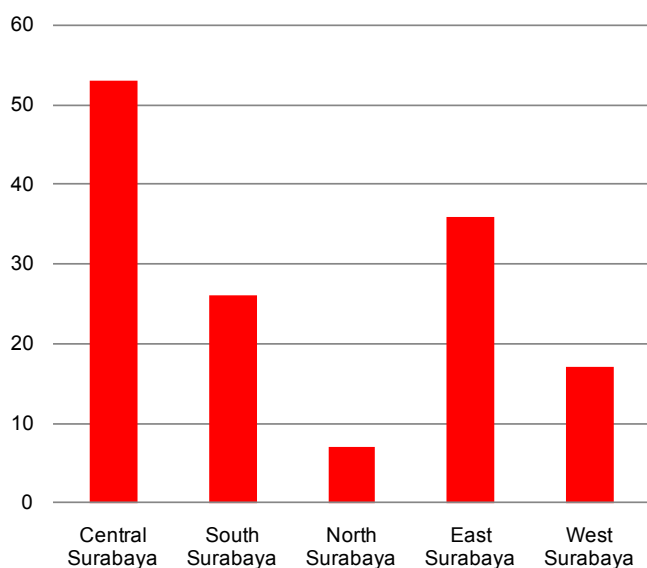
Hotel development is also moving toward East and South Surabaya due to the road infrastructure factor, namely, the MERR – Middle East Ring Road and the proximity to the airport in the outer south of Surabaya (Sidoarjo City).

Newly Operating Hotel in Surabaya During 2016

HOTEL NAME	STARRED RATING	STR CHAIN SCALE RATE	LOCATION	REGION	# ROOM	OPENING TIME
Swiss-Belinn Tunjungan	3-star	Economy Class	Tunjungan	Central Surabaya	190	H1
Premier Inn Juanda	3-star	Economy Class	Basuki Rahmat	Central Surabaya	129	H1
Ayola La Lisa - Nginden	3-star	Not define yet	Jl Raya Nginden No. 82	West Surabaya	121	H2
Total 3-star hotel rooms					440	
Mercure Grand Mirama (extention)	4-star	Upper Mid-scale Class	Jl Raya Darmo	South Surabaya	133	H1
Four Points by Sheraton Surabaya	4-star	Up-scale Class	Jl Embong Malang	Central Surabaya	293	H1
Aria Centra Hotel	4-star	Undefined	Ade Irma Suryani	Central Surabaya	173	H1
Fairfield by Marriott Surabaya	4-star	Upper Mid-scale Class	Jl Mayjend Sungkono no. 178	South Surabaya	270	H2
Total 4-star hotel rooms					869	
Vassa Luxury Hotel	5-star	Undefined	Jl HR. Muhammad No.31	West Surabaya	384	H2
Total 5-star hotel rooms					384	
Total rooms					1,693	

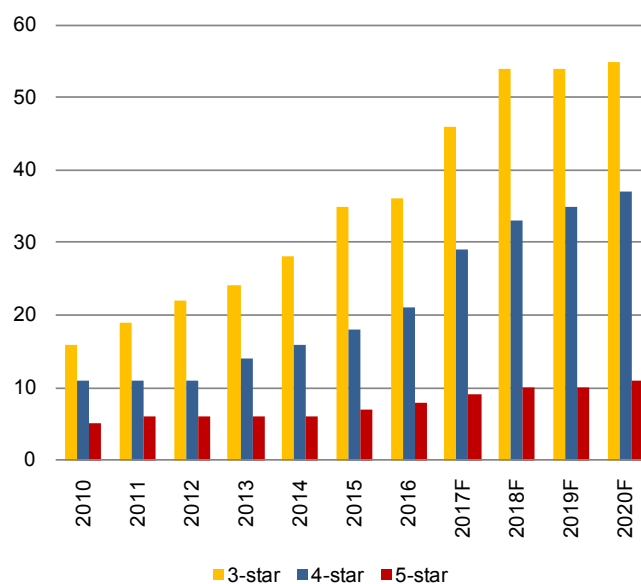
Source: Colliers International Indonesia - Research

Distribution of the Hotels Location in Surabaya (by Number of Project)



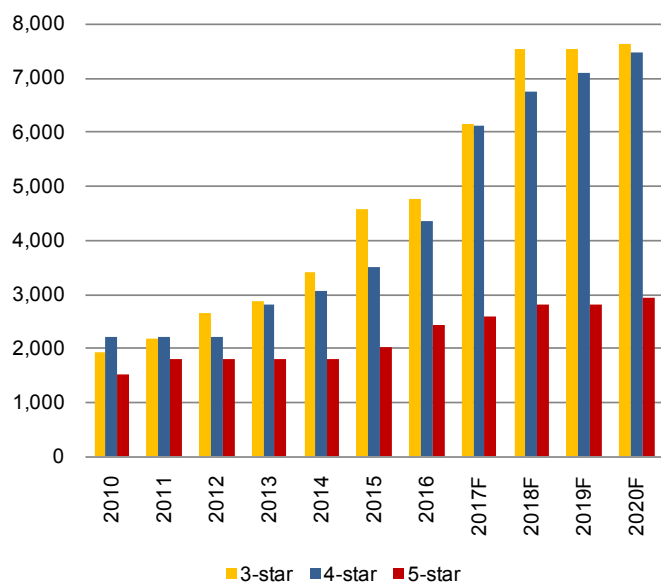
Source: Colliers International Indonesia - Research

Cumulative Supply of Star-rated Hotel Projects in Surabaya



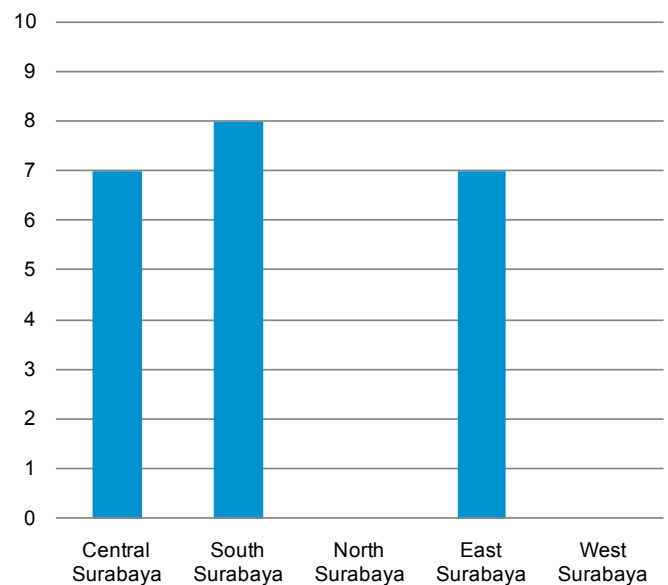
Source: Colliers International Indonesia - Research

Cumulative Supply of Star-rated Hotel Rooms in Surabaya



Source: Colliers International Indonesia - Research

Distribution of the Future Hotels in Surabaya (by Number of Projects)



Source: Colliers International Indonesia - Research

New Pipeline							
HOTEL NAME	STARRED RATING	STR CHAIN SCALE RATE	LOCATION	REGION	ROOMS	PROJECT STATUS	PROJECTED COMPLETION TIME
The Frontage	3-star	Undefined	Ahmad Yani	East Surabaya	82	Under construction	H2 2017
I&M Hotel	3-star	Undefined	Argopuro, Sawahan	South Surabaya	142	Under construction	H2 2017
Goldvitel Hotel	3-star	Undefined	Basuki Rahmat	Central Surabaya	120	Under construction	H1 2017
Prime Biz Hotel	3-star	Undefined	Gayung Kebonsari	South Surabaya	162	Under construction	H1 2017
Namira Syariah	3-star	Undefined	Jl Wisam Pagesangan	South Surabaya	142	Under construction	2017
One Galaxy Hotel	3-star	Undefined	MERR II C	East Surabaya	110	Under construction	H2 2018
Grandika Injoko Hotel	3-star	Undefined	Gayung Kebonsari	South Surabaya	150	Under planning	2018
Puncak Dharmahusada	3-star	Undefined	MERR II C	East Surabaya	400	Under construction	2018
Continent My Tower - Rungkut	3-star	Undefined	Rungkut	East Surabaya	134	Under construction	2018
Puncak CBD Hotel	3-star	Undefined	Wiyung	South Surabaya	180	Under construction	2018
Yello - Embong Sawo	3-star	Undefined	Embong Sawo	Central Surabaya	171	Under construction	2018
Total rooms 3-star hotels					1,793		
Citadines @Marvell City	4-star	Upper Midscale Class	Ngagel	South Surabaya	280	Under construction	1H 2017
Platinum Hotel	4-star	Undefined	Tunjungan	Central Surabaya	200	Under planning	2H 2017
Novotel Hotel	4-star	Upscale Class	The Samator Superblock	East Surabaya	172	Under construction	2017

continued

HOTEL NAME	STARRED RATING	STR CHAIN SCALE RATE	LOCATION	REGION	ROOMS	PROJECT STATUS	PROJECTED COMPLETION TIME
<i>continuation</i>							
Great Hotel	4-star	Undefined	Diponegoro	South Surabaya	90	Under planning	2017
Mercure @Praxis	4-star	Upscale Class	Embong Sonokembang	Central Surabaya	288	Under construction	2017
Grand Dafam Kayun	4-star	Midscale Class	Kayon	Central Surabaya	169	Under construction	2017
Swiss-Belhotel Darmo Surabaya	4-star	Upscale Class	Darmo	Central Surabaya	140	Under construction	2017
Howard Johnson	4-star	Economy Class	Ahmad Yani	South Surabaya	170	Under construction	H2 2017
Aryaduta	4-star	Upscale Class	Gubeng	East Surabaya	180	Under planning	1H 2018
Total rooms 4-star hotels					2,109		
Courtyard Marriot Surabaya	5-star	Upscale Class	Jl Pemuda	Central Surabaya	180	Under construction	2017
Signature Gallery - Hilton Hotel	5-star	Undefined	Gubeng	East Surabaya	200	Under planning	2018
Total rooms 5-star hotels					380		
Total Rooms					4,282		

Source: Colliers International Indonesia - Research

Budget Hotel

From the newly operating budget hotel class Max-One Dharmahusada in East Surabaya, there are 102 rooms. Another new hotel is Amaris Margorejo in South Surabaya, which added 146 rooms, for a total of 248 new additional rooms this semester

and making the overall rooms of all operating budget-class hotels reach 3,104.

The full-year supply review suggested that the number of new budget hotels in Surabaya declined by 48% compared to the same period in 2015.

Newly Operating Budget Hotel in Surabaya During 2016						
HOTEL NAME	STARRED RATING	STR CHAIN SCALE RATE	LOCATION	REGION	# ROOM	OPENING TIME
POP! Hotel Diponegoro - Surabaya	Budget	Economy Class	Jl Raya Diponegoro, Darmo	South Surabaya	116	H1
Evora Hotel	Budget	Undefined	Jl Raya Menur	Central Surabaya	83	H1
Favehotel Rungkut	Budget	Economy Class	Jl Raya Kedung Asem, Rungkut	East Surabaya	176	H1
MaxOne Dharmahusada	Budget	Undefined	Dharmahusada	East Surabaya	102	H2
Amaris - Margorejo	Budget	Economy Class	Jl Margorejo Indah No 114-115	South Surabaya	146	H2
Aria Centra Hotel	3-star	Undefined	Ade Irma Suryani	Central Surabaya	173	H1
Fairfield by Marriott Surabaya	4-star	Upper Mid-scale Class	Jl Mayjend Sungkono no. 178	South Surabaya	270	H2
Total budget hotel rooms					623	

Source: Colliers International Indonesia - Research

Future Budget Hotel Development in Pipeline						
HOTEL NAME	STR CHAIN SCALE RATE	LOCATION	REGION	NO. OF ROOMS	PROJECT STATUS	PROJECTED COMPLETION TIME
Amaris Hotel Surabaya - Bintoro	Economy Class	Bintoro	Central Surabaya	120	Under construction	H1 2017
Moxy Hotel	Economy Class	Mayjend Sungkono	South Surabaya	110	Under construction	2017
Batiqa Hotel	Undefined	Darmo Kali	South Surabaya	140	Under construction	2017
Surabaya River View (SRV)	Undefined	Genteng	Central Surabaya	110	Under construction	2017
Ibis Budget Surabaya	Economy Class	Jl Raya Diponegoro	South Surabaya	153	Under construction	2018
Total budget hotel rooms				633		

Source: Colliers International Indonesia - Research

Hotel Demand

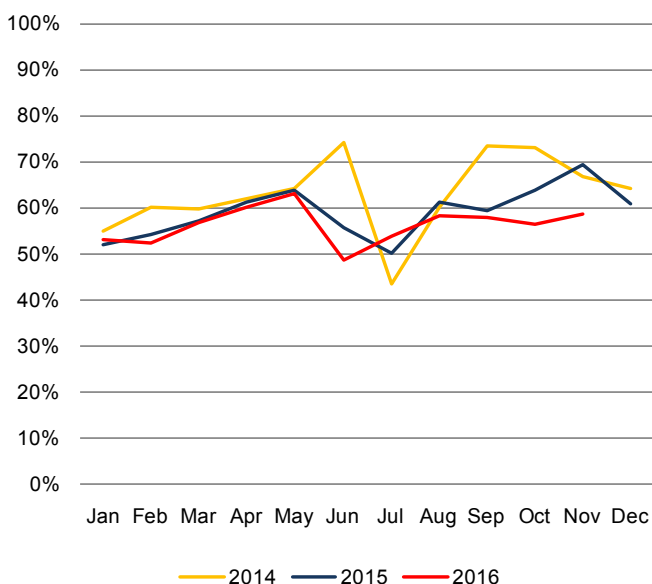
The characteristics of hotels in Surabaya are similar to those in Jakarta. As the centre of business hubs in eastern Indonesia, hotel performance in Surabaya is very likely determined by the business activity in the city. While business activity is very much determined by global economic performance, Surabaya, just like Jakarta, was impacted by the downturn in economy reflected by the declining investment value. Accordingly, this also impacted hotel performance in Surabaya, which translated into relatively low occupancy and room rate.

During H2 2016, hotel occupancy performance in Surabaya was somewhat volatile particularly from July to August, which was prone to increase, and from October to the year end, which tended to decline. In any business city, the downward trend in occupancy when approaching the year-end holiday is common as corporations reduce business activity. Furthermore, given the reduction in government spending and MICE activities, occupancy performance in Surabaya has yet to recover.

The pace of hotel supply has yet to equalise the demand for hotel rooms, and this has led to tight competition amongst hoteliers. Nonetheless, several areas like the downtown of Surabaya might see a better performance benefitting from the proximity to government offices and private corporations as well as other commercial entities.

Performance

Monthly Average Occupancy Rate in Surabaya



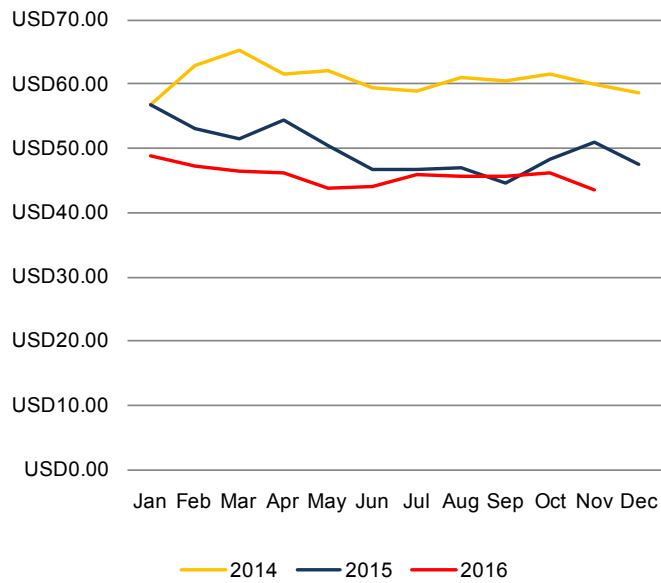
The above chart shows that hotel competition in Surabaya has become extremely high, particularly during the last three years. The average occupancy rates for 2014 and 2015 were relatively low at 66.7% and 69.4%, respectively. The AOR for 2016 was even lower with an average of 58.7%.

The AOR in November was somewhat high. When we prepared this report, the data for December were not available yet, but we anticipate a mild drop in AOR concerning the year-end pattern.

The Surabaya hotel and restaurant association (PHRI - Perhimpunan Hotel dan Restoran Indonesia) urged the local government to release hotel moratorium particularly in protecting existing and operating hotels from fierce competition, which has already led to a price war. This is good for guests.

Source: STR Global

Monthly Average Daily Rate in Surabaya



Source: STR Global

The declining ARR of hotels in Surabaya started in 2014. From the chart above, it is clearly seen that the ARR for 2015 was lower than the ARR for 2014. Likewise, the ARR for 2016 was relatively lower than in the previous year. The ebb of the ARR suggests that the hotel market needs a tightening in terms of hotel development permits. The last data in November indicated that the ARR figure at year end would drop, as seen from the pattern over the last two years.

Given the current supply and performance condition, hotel competition in 2017 will be much tighter. There are several regulations and issues that may affect hotel performance in Surabaya. The plan to increase minimum wage in Surabaya area, referring to the Circular Letter of the Ministry of Manpower in October 2016, would add to the operating burden of hoteliers.

President Joko Widodo issued Presidential Instruction number 4 year 2016 to address all government institutions to take austerity measures in cutting government spending. This includes saving operational money in an attempt to reach cost efficiency. This might affect government spending in accommodation, which may affect the decreasing cost in MICE activity.

For more information:

Ferry Salanto

Senior Associate Director | Research
+62 21 3043 6888
ferry.salanto@colliers.com

Contributors:

Nurul Soraya

Senior Research Executive | Research

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