Hotel, Tourism and Leisure

MARKET REPORT

Kuala Lumpur: *Upper Upscale & Luxury Market*

MAY 2019

Kuala Lumpur, being the commercial capital city of Malaysia, has the largest hotel market in the country and is home to the largest number of upper upscale and luxury properties.

The development of international 5-star hotels in the city started in the mid-1980s, with mainly domestic managed properties. During the next two decades, the market witnessed the entry of high profiled international brands such as the Mandarin Oriental, Ritz Carlton, JW Marriott, Westin, Le Meridien and Hilton.

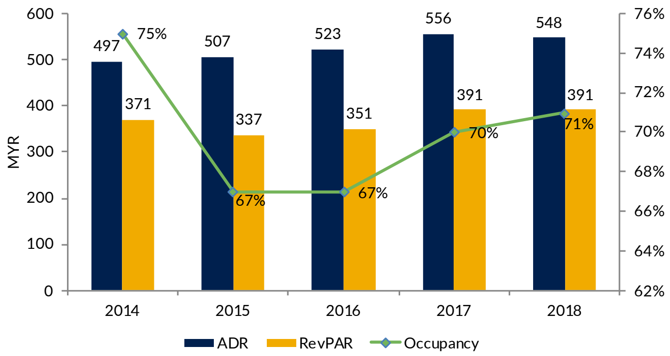
The supply pace slowed down after the Grand Hyatt opened in 2012 but a new wave of luxury hotels is set to enter the market after the opening of the St Regis in 2016 as well as the recent opening of the Four Seasons, Banyan Tree, Alila and W Hotel in 2018. Brands which are expected to enter the market over the next 5 years include the Equatorial, Conrad, Kempinski, SO Sofitel, Jumeirah, Park Hyatt and the Regent.

Bukit Bintang and KLCC have seen larger supply of top-tier properties as these two areas attract the most number of high-end business and foreign leisure travellers, given the high density of Grade A offices and high-end shopping options.

In contrast, KL Sentral, being mainly a business-centric location, captured significant level of corporate-based demand. Nonetheless, KL Sentral has become popular with developers and hotel management companies due to corporate shift in demand.

The average performance of the top 13 hotels (by ADR) in Kuala Lumpur city centre in the last 5 years is as follows:

Occupancy, ADR and RevPAR, 2014 – 2018



Source: Horwath HTL

Key observations:

- Stable supply before 2018: In 2016, the St. Regis is the only addition since the Grand Hyatt opened in 2012. However, in 2018, 4 hotels; the Alila, Four Seasons, Banyan Tree and the W Hotel, opened.

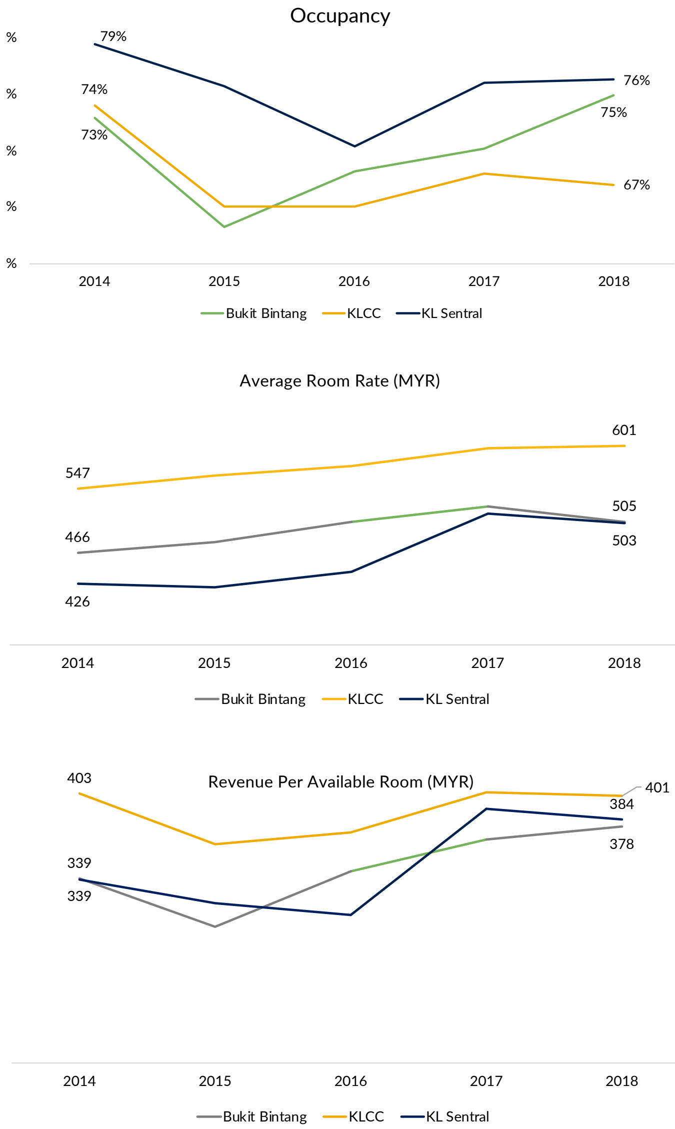
- Stagnant demand growth in 2014 and 2015: Demand growth for the overall market declined. This is largely attributed to negative RND growth in 2015. Contributing factors included a hit in tourism after the twin tragedies from Malaysia Airlines in 2014, and the oil and gas crisis in 2015, which saw a large drop in demand from oil and gas companies – a major contributing demand source for competitive hotels.

- Performance rebound since 2016: As the corporate market recovers from the oil and gas crisis, RND rebounded from 2016 onwards with 2017 generating the highest Y-o-Y at 6%. Occupancy leaped by 3 percentage points to 70% in 2017. The growth continued in 2018 to 71%.

- Recovering rate growth: Despite a lower-than-inflation rate growth in overall compound annual growth rate in ADR at 2.5% over the last 5 years, the market generated ADR growth in 2017 by 6%, driven mostly by the significant ADR growth amongst the KL Sentral market hotels. As the corporate market recovers, coupled with the opening of multiple internationally branded luxury properties, the rate ceiling should be pushed higher over the mid- to long-term.

Historical performance of the top 13 hotels is further segregated by locations as follows:

Historical Performance Comparisons by Location, 2014 – 2018

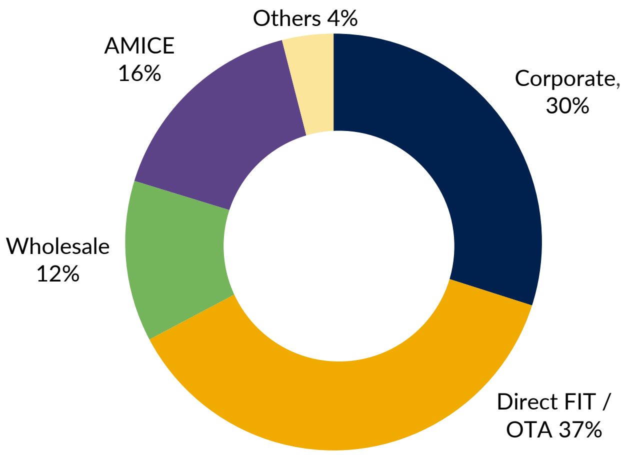


Source: Horwath HTL

Through comparisons of historical performance levels in the sub-markets, we have the following findings:

- In 2016, occupancy levels for KLCC hotels dipped to levels below that of Bukit Bintang and KL Sentral. The 2015 Y-o-Y RND was hit the hardest in KLCC, declining by about 12%. In turn, occupancy fell to a 5-year low of 65%. Contributing factors included the fall in demand from oil and gas companies, which affected both KLCC and Bukit Bintang competitive hotels (where KLCC was more affected) as well as the soft tourism market. Despite the overall market improving in 2016 and 2017, KLCC occupancy levels were not able to overtake Bukit Bintang and KL Sentral.
- The KLCC market has consistently achieved higher ADRs than Bukit Bintang and KL Sentral markets. KLCC is considered the "iconic" and prestigious in Kuala Lumpur and appeals to most high-end leisure guests and corporate guests from the oil and gas sector. KLCC is also the location of some of the city's ADR leaders, the Mandarin Oriental, Grand Hyatt and the Four Seasons Hotel. Hotels in KLCC have generally recorded better RevPARs.
- In 2017 and 2018, the KL Sentral market RevPAR overtook the Bukit Bintang market. This was largely on the back of strong occupancy performances driven by healthy corporate demand. KL Sentral is popular among corporate guests for its location outside of the traffic gridlock associated with the city centre, leading to increased capitalization on rate growth potential.

Market Segmentation, 2018



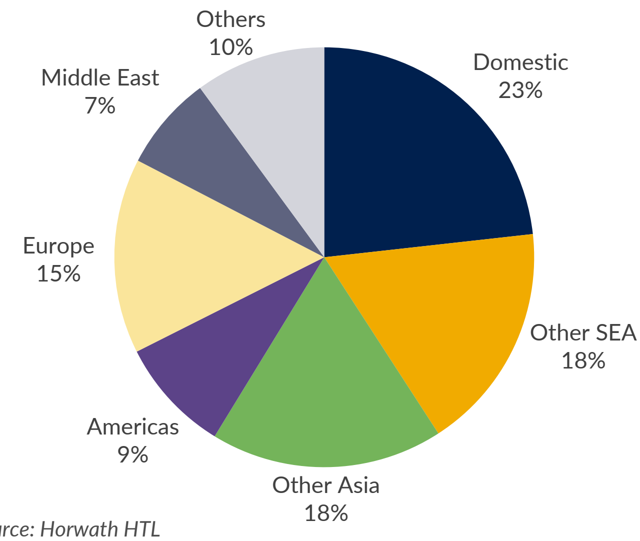
Source: Horwath HTL

Demand Segmentation Comparison by Location, 2018

	Bukit Bintang	KLCC	KL Sentral
Corporate	26%	31%	29%
Direct FIT /OTA	41%	30%	47%
Wholesale	15%	15%	5%
MICE	13%	19%	16%
Others	5%	5%	4%

Source: Horwath HTL

Nationality Segmentation, 2018



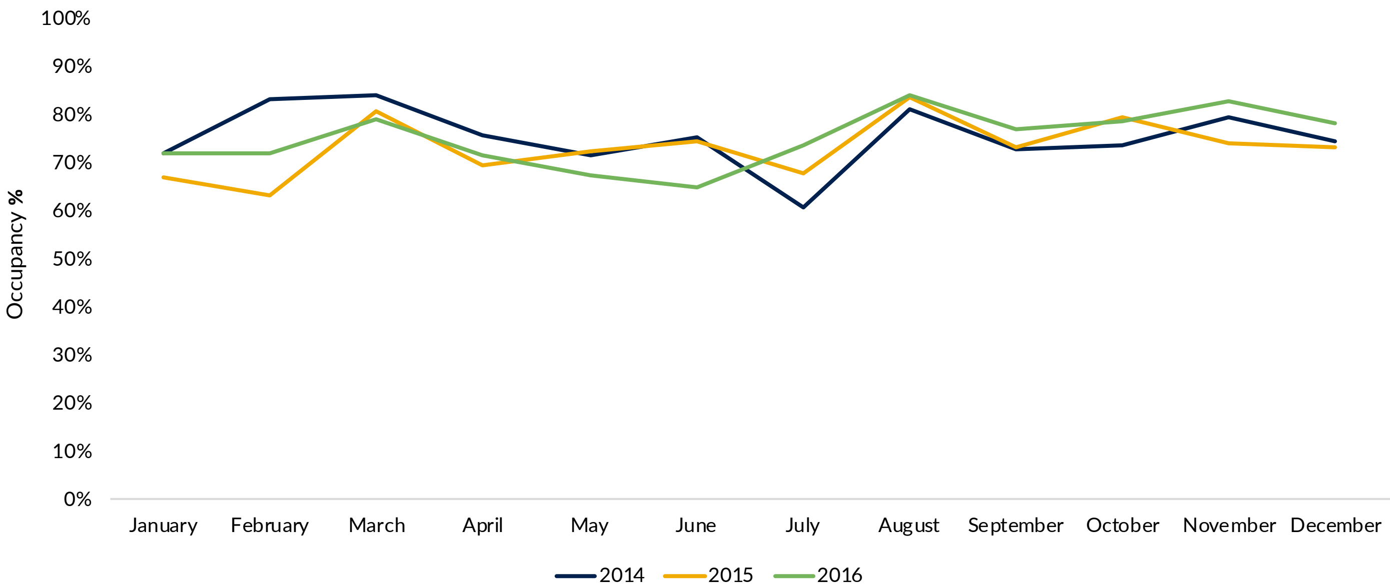
Source: Horwath HTL

Nationality Segmentation Comparison by Location, 2018

	Bukit Bintang	KLCC	KL Sentral
Domestic	27%	19%	26%
Other SEA	17%	16%	21%
Other Asia	17%	20%	15%
Americas	12%	6%	10%
Europe	13%	17%	15%
Middle East	11%	8%	1%
Others	3%	14%	12%

Source: Horwath HTL

Seasonality patterns



Source: Horwath HTL

In recent years, seasonality patterns have become less pronounced. Occupancy levels have become increasingly stable compared to previous years, potentially due to a diversification in market and nationality mix. Corporate demand, which is relatively stable throughout the year, has seen a recovery which could have led to an overall more stabilised occupancy. Furthermore, a wide capture of different nationalities in the leisure segment ensures that demand is relatively stable throughout the year due to the different holiday periods for different countries. However, traditionally, there are still certain peak periods for leisure demand. These months include March, August and December, all of which are months where major school and public holidays tend to fall on.

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