



Source: Anantara, Desaru Coast



Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

Desaru, Malaysia

Hotel Market Overview

MARCH 2021



Source: : One&Only, Desaru Coast

Reawakening Desaru: Malaysia's once best kept secret

Located along Johor's eastern coast, Desaru is situated in the Kota Tinggi District that faces the South China Sea with nearly 22 kilometres of beachfront coastline. Desaru is located approximately 79 kilometres from Johor Bahru's city centre, about 83 kilometres from Senai International Airport (SIA), approximately 78 kilometres to Woodlands Checkpoint, 114 kilometres to Tuas Checkpoint and just short of 400 kilometres from Kuala Lumpur.

During the 1980s, Desaru was given glorified expectations on the rides of several mega projects that aimed at attracting foreign investments and visitors. However, those ambitions did not materialise. Historically, Desaru was a well-kept secret for Malaysians, and the occasional Singaporeans, to enjoy this scenic beach destination. Historically, Malaysia's tourism has been concentrated along the west coast. There was no good infrastructure to draw visitors no quality hotels and restaurants or existing nightlife to accommodate high-paying guests.

The opening of the E22 highway (Senai - Desaru) in 2011 was a turning point. Desaru was revived and once again on the tourists' radars seeking an authentic beachside experience rather than a crowded tourist town. The Desaru Coast Master Development Plan was conceived, and the Government tasked Khazanah Nasional (a sovereign entity)

with the plan to create a premium integrated destination resort. One part of this objective was to develop a lifestyle and meeting destination that possessed supporting facilities to draw visitors.

Desaru Coast master plan development

Khazanah Nasional (Khazanah) unveiled a multi-billion-ringggit development plan to rejuvenate Desaru about six years ago. With 1,618 hectares (3,998 acres) of land and a 22-kilometre coastline, the integrated resort development is planned over multiple phases. As it stands now, Desaru Coast includes four hotels, two world-class golf courses, a waterpark, riverside retail and restaurants, and a convention centre.

Phase one development covers about 2,000 acres, representing about half of the entire development's total acreage. The 27-hole golf course and the 18-hole course designed by Ernie Els opened in 2016 and 2017, respectively. The golf courses are surrounded by prime landed and low-rise condominium residences of neighbouring development. The Adventure Water Park, the entertainment lifestyle village - The Riverwalk, and the Desaru Coast Conference Centre were also developed and currently in operation.



Source: Google

All four hotels also have commenced their operations: the 365-room Hard Rock Hotel & Resort opened in September 2018; the 275-room Westin Resort opened in April 2019; the 123-key Anantara Resort & Villas opened in January 2020, and the 45-key One&Only Desaru Coast opened in September 2020. The opening of the One&Only marks Phase one’s completion, though the proposed 50 private homes of One&Only Desaru Coast are still in the planning stage.

Phase 2 of the Desaru Coast development will include the Desaru Coast International Ferry Terminal. The new ferry terminal will provide access to Desaru Coast from Singapore (Tanah Merah Ferry Terminal), and Batam and Bintan Islands in Indonesia, once completed by July 2021. The terminal will also be equipped with a Customs, Immigration and Quarantine (CIQ) office. It is located south of Desaru Coast, approximately 5 minutes’ drive from the One&Only.

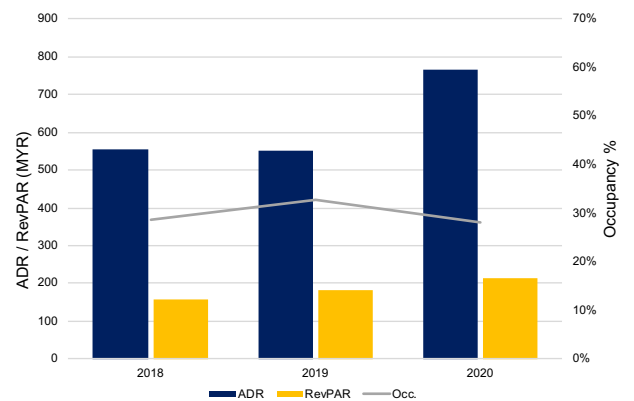
In addition to the ferry terminal, Phase 2 will also include additional retail spaces, hotels, serviced apartments and residences, as well as wellness or retirement villages. Phase 3 is still in planning, but considerations include luxury camping (“glamping”) as well as nature tours. Completing all three phases is expected over 20 years.

Desaru Coast hotel performance

The first hotel that opened in Desaru Coast is the 365-key Hard Rock Hotel that commenced its operation in September 2018. The annualised room nights available (RNA) increased significantly in 2019 as it was the first full year of opening for Hard Rock, as well as the 275-room Westin entered the market in April 2019.

Nonetheless, the room night demand (RND) growth outpaced the RNA growth, which was attributable to the ramp-up of the Hard Rock, indicating the two properties were able to induce new demand. As a result, market-wide occupancy increased from 29 percent in 2018 to 33 percent in 2019.

Desaru Coast Hotel Performance



Source: Horwath HTL



Source: Hard Rock Hotel, Desaru Coast



Source: The Westin, Desaru Coast

The market saw two additional new luxury resorts in 2020, namely the 108-key Anantara Desaru Coast in January and the 45-key One&Only Desaru Coast in September, contributing to another year of noticeable annualised RNA increase amidst the pandemic. Both resorts were able to induce pent-up demand for higher-end luxury demand and enter the market at a higher occupancy because of their unique positioning, differentiated product offerings and lower key counts.

Thus, despite the demand subdued for the Hard Rock and the Westin, the overall demand increased. However, it was not sufficient to offset the supply increase, which resulted in a 5-percentage point decline in occupancy. Because of the COVID-19 pandemic, the Hard Rock temporarily closed from April 3rd to May 31st, and the Anantara temporarily closed from April 11th to June 30th. Furthermore, the high ADR introduced by the Anantara and the One&Only properties resulted in a 39 percent ADR increase and a 19 percent RevPAR improvement.

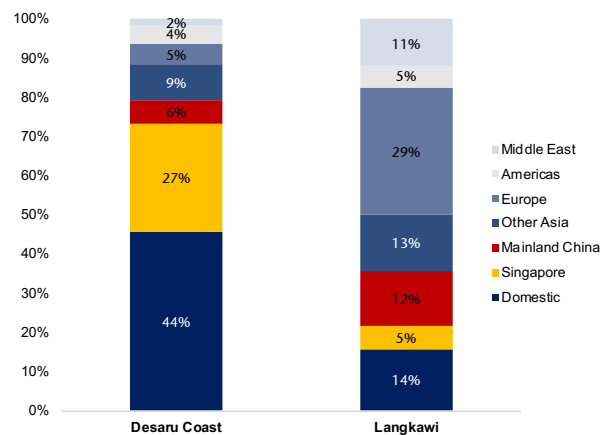
Where is Desaru Coast's lodging market compared to Langkawi?

Langkawi has been credited as the premier leisure destination in Malaysia, which Desaru Coast aims to become. Both Desaru and Langkawi luxury resort market are highly leisure-driven, and both are experiencing pent-up demand for international-standard good quality resort properties. For this reason, it is vital to understand Desaru Coast's performance insights and benchmark them against Langkawi's. It must be pointed out that 2019 was the first full year of operation for Desaru Coast.

Nationality Mix, 2019

Generally speaking, Desaru Coast relies more on the immediate markets such as the domestic and Singapore markets, where Langkawi attract more medium-long haul markets, such as Europe and the Middle East. This is mainly the combined consequences of different geographic location and international awareness.

Nationality Mix, 2019



Source: Horwath HTL

The relatively convenient access (without flying) to Desaru Coast from Kuala Lumpur and Klang Valley (the dominant market source) and the destination's pristine natural setting make it an attractive place for domestic travellers. Domestic guests also came from Johor Bahru. Desaru is one of the better beach destinations in West Malaysia, with good quality hotels. Hence, it is not surprising that Desaru is popular with domestic demand.

Desaru Coast attracts Singaporeans because of the great accessibility by land or ferry, the affordability and the



Source: Anantara, Desaru Coast



Source: : One&Only, Desaru Coast

high quality of available products. With the new CIQ ferry terminal opening in 2021, Desaru Coast is expected to welcome more guests from Singapore and Indonesia, as well as international guests using Singapore’s Changi as the arrival airport. Desaru should have a competitive edge in attracting demand from Singapore (especially for weekend trips) due to its proximity, ease and options of travel (either by car or ferry), and the availability of more seafood and shopping options.

Mainland China visitors travel to Desaru as part of multi-destination travel packages covering Singapore and Johor Bahru. This segment also includes Chinese expatriates living in Singapore that travel to Desaru for weekends or holidays. The availability of seafood and shopping in Johor Bahru or Desaru could potentially attract an increasing number of guests from China. Other Asia, mostly including Indonesia, Hong Kong and Taiwan.

The traditional western markets constitute a relatively small portion. As the Westin and the Hard Rock ramp up while leveraging their well-known brands and the new CIQ ferry terminal facilitating access from Changi Airport and increasing awareness of Desaru Coast, the market should reach more western guests. There are numerous direct air links between Singapore and Europe/USA that would benefit Desaru Coast. Travellers from these long-haul markets are likely to combine their trips to Desaru with Singapore, as the former holds little interest apart from beach and golf.

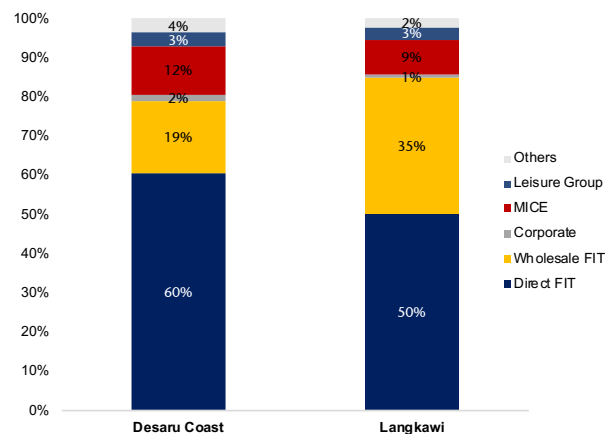
The Middle East market is considered one of the significant markets in Langkawi. The addition of the One&Only should

help the destination gain awareness in the Middle East. The low level of demand could also be due to the limited availability of free-standing villas in the market. It has been established that guests from the Middle East, especially the high-paying ones, prefer detached villas with their own pools due to the privacy these accommodation units afford them.

Market Mix, 2019

Both Desaru and Langkawi are highly leisure driven markets with negligible Corporate demand. Langkawi achieved a higher capture of Wholesale FIT because Langkawi is a more mature beach destination with much more room inventory than Desaru Coast.

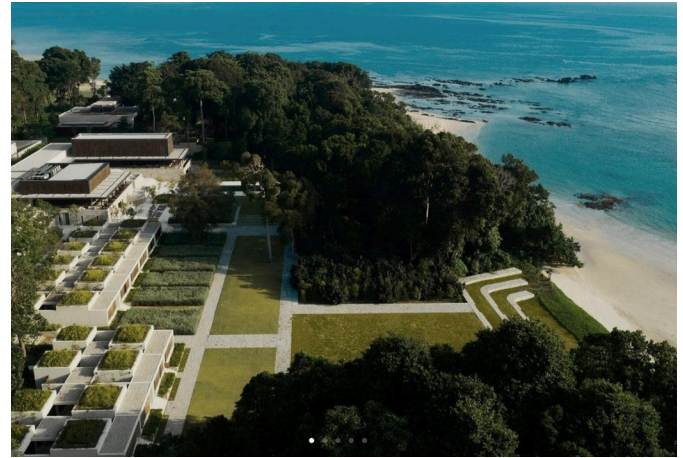
Market Mix, 2019



Source: Horwath HTL



Source: Anantara, Desaru Coast



Source: : One&Only, Desaru Coast

The Direct FITs are the largest market source for both Desaru Coast and Langkawi. Both Westin and Hard Rock brands in Desaru have an extremely high awareness amongst domestic tourists. In addition to the hotels' recreational facilities, the nearby Adventure Waterpark, Desaru Coast Riverside, and the beach access of both resorts attracts holidaymakers, especially couples and families with young kids. Being a popular beach destination for residents in the southern part of West Malaysia and its proximity to Singapore, Desaru Coast has tremendous potential in attracting Direct FIT demand.

Given the limited inventory, particularly before the addition of the Anantara and One&Only, Desaru Coast did not have sufficient resorts and rooms, nor established its name in the marketplace to attract wholesale agents' interests. However, wholesale FIT still captured almost one-fifth of the RND as it is still dominantly driven by leisure demand, and wholesalers play an integral role in marketing the destination.

There is potentially corporate demand in Desaru Coast as Pengerang is less than 45 minutes' drive away, while the Pasir Gudang and Senai industrial hubs are approximately one-hour's drive away. However, the corporate demand is mainly captured at the lower-priced hotels in the marketplace (i.e., hotels outside of Desaru Coast).

As it is difficult to attract enough corporate demand, resorts were aggressive in attracting MICE demand to fill up the weekday occupancy when leisure demand was low. The hotels benefited from the Desaru Coast Convention Centre, which offers 1,252 SQM of meeting space.

Due to the relative proximity of Pengerang and Pasir Gudang and Senai industrial hubs, Desaru Coast has been able to target MICE demand with aggressive meeting package rates. In addition, the less hassle of travelling in large numbers by road is also another reason why the Desaru Coast has been quite successful in capturing this demand segment, in contrast to Langkawi. The low contribution from Leisure Group was expected as Desaru Coast has yet to become a favourite in Malaysia for tour operators.

Seasonality

As leisure demand dominates both the Desaru Coast and Langkawi market, climate and source markets play significant roles in dictating seasonality.

Desaru Coast demonstrated strong seasonality with monsoon winds and plenty of rain between November and February. Despite the rainy season, there is a slight bump at the end of December and early January due to the holidays. As Desaru Coast is heavily reliant on domestic and Singaporean source markets for now, it is distinctly impacted by the travel patterns of leisure guests and holiday schedules in Malaysia and Singapore. June to August tend to be the peak months as leisure demand becomes particularly strong due to school holidays.

Average Length of Stay (ALOS)

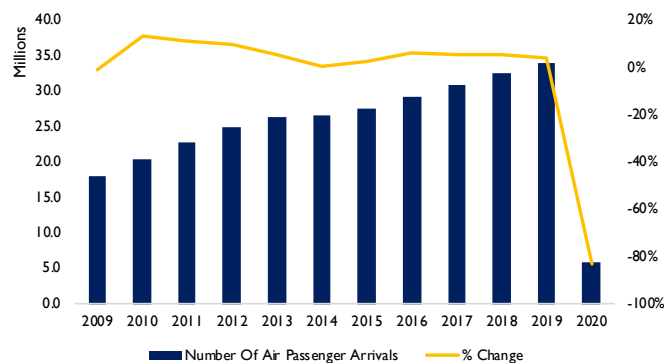
Desaru Coast is predominately a weekend leisure market. Domestic guests and guests from Singapore tend to stay an average of approximately one to two nights. International guests tend to stay longer at between two and four nights. Guests in Langkawi tend to stay an average of approximately three nights due to the higher content of the foreign guest mix.

	Desaru Coast	Langkawi Luxury Market
Land Access from Kuala Lumpur and Singapore	<ul style="list-style-type: none"> At least 4 hours' drive from KL city At least 1.5 hours' drive from Tuas Checkpoint At least an hour from Woodlands Checkpoint 	<ul style="list-style-type: none"> 5 hours' drive from KL city centre to Kuala Kedah At least 8 hours from Tuas Checkpoint Ferry from Kuala Kedah to Langkawi takes one-hour and 15 minutes
Sea Access	<ul style="list-style-type: none"> Changi Ferry Terminal – Tanjung Belungkur: 30 minutes Tanah Merah Ferry Terminal – Desaru Coast: 60 - 75 minutes 	<ul style="list-style-type: none"> Kuala Perlis – Kuah (Langkawi): 45 minutes ferry ride Kuala Kedah – Kuah (Langkawi): 1 hour 15 minutes
Air Access	<ul style="list-style-type: none"> Senai International Airport approx hour's drive Changi Airport could serve destination with drive time of approx two hours (assuming fast clearance at Woodlands Checkpoint). Arriving at KLIA/klia2, transit and connect to Senai International Airport with a flight time of 35 minutes 	<ul style="list-style-type: none"> Langkawi International Airport is between 15 minutes (Cenang Beach) and 45 minutes to the luxury hotels in the north of Langkawi Arriving at KLIA/klia2, transit and connect to Langkawi with a-40 minutes flying time

Accessibility

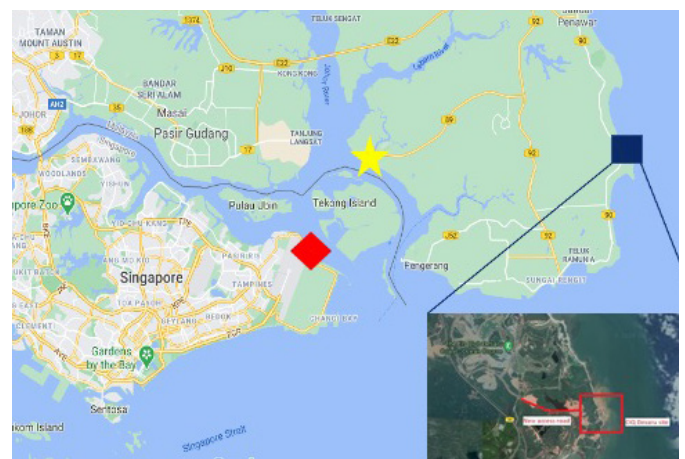
The one main advantage that Desaru holds over Langkawi is its proximity and easy accessibility to Singapore. In addition to the Senai International Airport, Desaru Coast will also be served by Changi Airport, one of the busiest airports in the world for international traffic.

Singapore Changi Airport Passenger Arrivals, 2009-2020



Source: Singapore Department of Statistics

Changi Airport not only achieved steady growth in air passenger arrivals each year prior to the Covid-19 pandemic, but also composed a highly diversified network. In addition, Singapore plans to construct a fifth terminal in the next decade, which could handle a capacity of 50 million passengers annually. With the fifth terminal addition, Changi Airport could cater to more than 135 million passengers annually.



Source: Google maps

New CIQ Ferry Terminal

Included in phase 2 of the Desaru Coast development will be the currently under-construction Desaru Coast International Ferry Terminal. Upon completion in July 2021, the dedicated terminal will provide Desaru Coast direct access to Singapore, Batam and Bintan Islands in Indonesia.

The new terminal will link Tanah Merah Ferry Terminal directly to Desaru that will cut out the road transfer time of 40 minutes between Tanjung Belungkor (marked by the yellow star) and Desaru. The road distance between the new terminal to the centre of Desaru Beach is approximately 8 kilometres, providing travellers from Singapore with a quicker and more convenient option to Desaru.

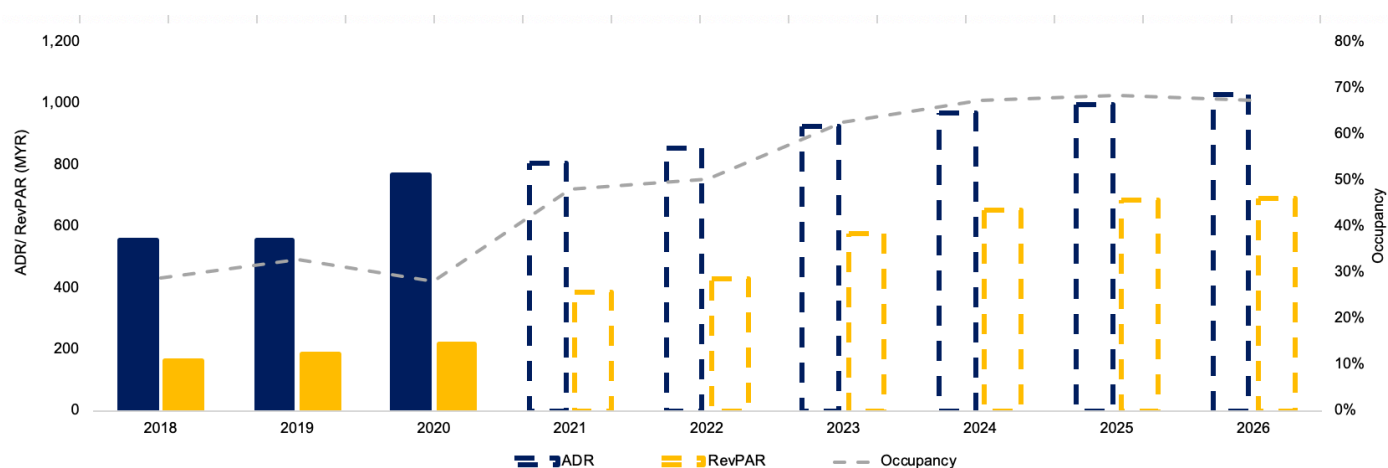
	Desaru Coast	Langkawi Luxury Market
Destination	<ul style="list-style-type: none"> Mainland beach destination is misunderstood due to legacies from the 1980s. Reinvention of the destination may pose challenges. 	<ul style="list-style-type: none"> An island destination that instantly conjures holiday destination. High profile, well established destination.
Lodging Market	<ul style="list-style-type: none"> An up-and-coming destination with only a handful of hotels and resorts in the market. Have strong brands to 'fly the flag' for the destination – Westin and Hard Rock. A popular and crowd-puller water theme park. 	<ul style="list-style-type: none"> An established destination, with an abundance of lodging supply to meet the various types of guests. A few iconic properties – The Datai, The Andaman and the Ritz-Carlton – to enhance the profile of the destination.
Monsoon Weather	<ul style="list-style-type: none"> Northeast monsoon season (November - February) brings heavy rains and rough seas, though still enjoys plenty of sunshine. However, due to its location further south, the impact of the Northeast Monsoon is less severe. 	<ul style="list-style-type: none"> Minimal rainfall from January to March, mild rainfall from April to August, and southwest monsoon from September to October.
Supporting Facilities	<ul style="list-style-type: none"> Desaru is not a duty-free shopping destination, with the nearest shopping malls located just an hour's drive away in Johor Bahru and Kulai (Johor Premium Outlet). Located in proximity to the Desaru Coast Convention Centre. Diverse options on seafood dining in Desaru and nearby Bandar Penawar. 	<ul style="list-style-type: none"> Several duty-free shopping centres/malls in Kuah and Cenang Beach. Established dining scene with local & global cuisines. Geopark sites on the island for eco-tourism. Most luxury resorts are located away from the Langkawi International Convention Centre (near the St Regis at Kuah).

Will Desaru Coast be the next luxury resort destination?

Luxury destinations catering to global travellers typically have the following features and characteristics:

- A sense of authenticity:** A luxury destination has a deep authenticity and rich culture that travellers will be able to immerse themselves. Desaru Coast has maintained a fair amount of authenticity with its pristine beach and natural floral.
- Tranquillity:** A luxury traveller seeks out destinations where they can "escape", which is often as far away from crowds as they can get. This sense goes beyond simple isolation. The destination should feel calm, simple and isolated, invoking feelings of self-awareness and spirituality. The Desaru Coast possesses features of an "escape" that guests use to find peace and quiet.
- Convenience of access:** Simplicity is key to attracting travellers of all kinds, but a luxury destination should provide the opportunity to simplify travel to the destination further. This means providing transportation such as private airports, private ferries or stylish ground transfers. Currently, there are no nearby airstrips for
- Amenities for all ages:** The destination should offer guests more than just a one-dimensional experience. This means having activities during day and night for singles, couples, families or only children. Desaru Coast has multiple attractions that offer various experiences, such as the Els Club golf courses, the Adventure Waterpark, nearby countryside attractions, and of course, the beach. There is still a lack of proper high-end retail in Desaru Coast, so guests would need to travel to Johor Bahru/Kulai that can be achieved under one hour's drive.
- Uniqueness:** Where a local traveller might visit a destination simply because it is a substitute for their desired experience, a luxury destination seeks to have no equal. Nothing about such a destination is "cookie-cutter", and each experience feels different. The Desaru Coast is building itself up to have no equal but will need time and efforts to gain international awareness.

travellers to park their private jets apart from the Senai and Changi airports. Still, the destination does offer convenient ground transfers and the new CIQ ferry terminal at Desaru Coast that will allow certain travellers to arrive easier and faster.



Source: : Horwath HTL

Desaru Coast promises more growth

2021 will be a rebound year, albeit a slow one, with an anticipated occupancy of 48 percent, driven mostly by domestic demand. Although Malaysia has entered into a state of emergency that is scheduled to last until August, economic activities remain functioning with businesses operating in adherence to current operating standards. Besides, the vaccination has rolled out in early March.

The slow demand recovery continues for 2022 as the borders are likely to remain close until the first quarter. The vaccination program is scheduled to last until the first half of 2022. Even if borders are opened, there would still be limited international tourist arrivals, as foreign tourists would still be cautious about travelling. By 2022, we anticipate that the market occupancy would reach 50 percent, driven mainly again by domestic demand. Market ADR is expected to continue its growth in 2021 and 2022 as the Anantara's and the One&Only's ADRs ramp up.

Occupancy is expected to jump in 2023 to 63 percent and continue its climb until 2025 to a peak of 68 percent. We expect Malaysia would fully open its borders by the second half of 2022 and international travel would resume to near pre-pandemic levels in the region by 2025. A slight dip in occupancy could be expected in 2026 as pent-up demand (created by the opening of most international borders) peters off. The ADR is expected to improve further as the destination gains awareness and consolidation of demand begins.

Conclusion

We are optimistic about the prospect of Desaru in the mid-to-long term. The planned integrated developments are expected to enhance Desaru as a popular holiday destination, to both domestic and international travellers. With the existing resorts that range from 3- to 5-stars, and with high profile brand names such as Hard Rock and Westin, and two designer golf courses, the awareness and profile of Desaru is expected to be elevated. The nearby commercial and high-end residential developments, such as Desaru Utama, Sri Penawar and The Maris, will also propel the prosperity and vibrancy of Desaru Coast.

Mega industrial developments such as the Pengerang Integrated Petroleum Complex (PIPC) and Iskandar's Flagship D Economic Zone justifies the region's long-term growth prospects. The eastern coast of the region has the advantage of beaches (22 km) and forests, which could potentially be a draw to corporate travellers seeking weekend trips to, or hold MICE events in, Desaru.

Good accessibility is another strong feature with expressways, air links and ferry connections linking Desaru with Kuala Lumpur, Singapore and regional and international cities. The proximity to Singapore with easy connections (via roads and ferry) is perhaps the most important feature for Desaru. Changi Airport, one of the airport hubs in the region, is expected to be a vital arrival point for most international travellers to Desaru. Further improvements with the new international ferry terminal south of Desaru and the possible third bridge link to Singapore (potentially Pengerang - Changi) will have a tremendous positive impact on the destination and bolster economic growth.

Authors:



Hua Rong
Senior Consultant
Singapore
hrong@horwathhtl.com



Sen Soon Mun
Director
Horwath HTL Malaysia
sen@horwathhtl.com

Horwath HTL Malaysia

CEO Suite Level 36, Menara Maxis, KLCC
Kuala Lumpur 50088, Malaysia
Phone: +60 3 2615 0122

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