



Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

Langkawi, Malaysia

Top-Tier Hotel Market

MARCH 2021



Source: The Datai, Langkawi

Getting to know Langkawi

The island known as “the Jewel of Kedah” was first introduced to the world in 1989 when it hosted the Commonwealth Heads of Government Meeting. Simultaneously, the then Prime Minister of Malaysia decided to transform the island into a major destination by building an international airport and converting Langkawi into a duty-free district. At the time, the only branded hotel on the island was the former Sheraton (the current Westin). Now, there is a strong presence of luxury and upper upscale resorts strategically placed along the coastline, which has provided Langkawi with global notoriety as a luxury destination.

Langkawi, as one of Malaysia’s best-known and popular beach destinations, thrives on tourism. While its economy has traditionally been dominated by agriculture and fishing, these sectors are rapidly being surpassed by tourism. Further, tourism is expected to be the primary economic growth driver under the Northern Corridor Economic Region (NCER) development program covering Perlis, Kedah, Penang and the north of Perak.

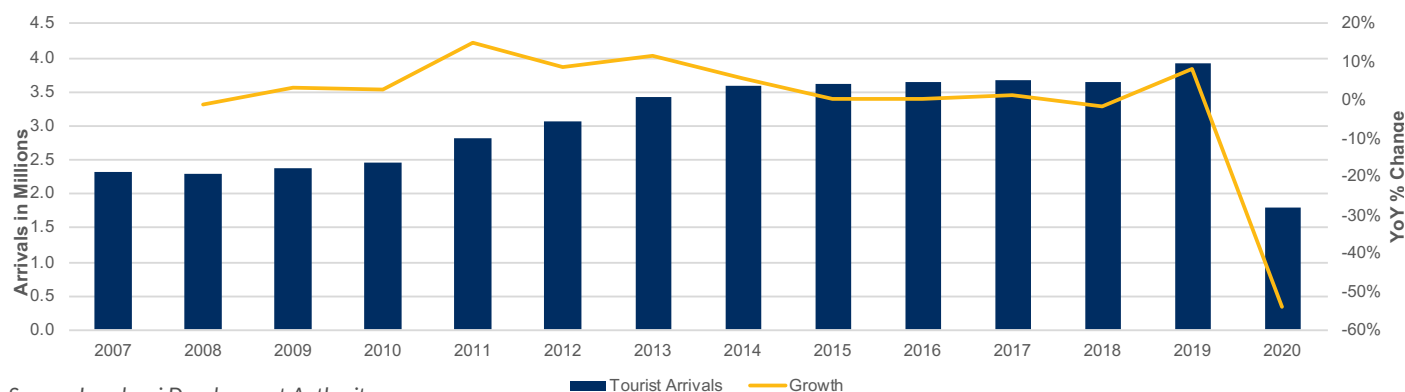
The natural beauty of Langkawi attracts those with a greater wanderlust than just shopping and lounging. Langkawi is designated as a UNESCO Global Geopark due to the international values placed on its geological heritage and the cultural preservation of local communities.

In diversifying and expanding the dominant leisure driven market, efforts are being made to tap into the MICE sector, marketing through events that align with and emphasise the island’s value proposition as a top nature and eco-destination. Some of the notable events it has hosted include Pacific Asia Travel Association (PATA) Travel Mart, 26th ASEAN Summit, Miss Tourism International 2017 and the bi-annual Langkawi International Maritime & Aerospace Exhibition (LIMA).

Being an island, Langkawi faces natural challenges of accessibility to the international markets. Langkawi’s primary method of accessibility has been by sea via the Kuah Jetty, but flights into the Langkawi International Airport have been increasing in recent years. While international arrivals only comprise a small number of total air arrivals, the proportion is understated as foreign visitor arriving via domestic flights from Kuala Lumpur and Penang are not subject to passport controls upon arrival into Langkawi.

Since its first reveal in 1989, Langkawi has rapidly become a major tourist destination of Malaysia, and as of 2019, the island had received 3.9 million tourists. Following the strongest year in tourist arrivals for the Island, Langkawi saw a steep drop off in arrivals during 2020 due to the COVID-19 pandemic.

Historical Tourist Arrivals to Langkawi (2007 - 2020)



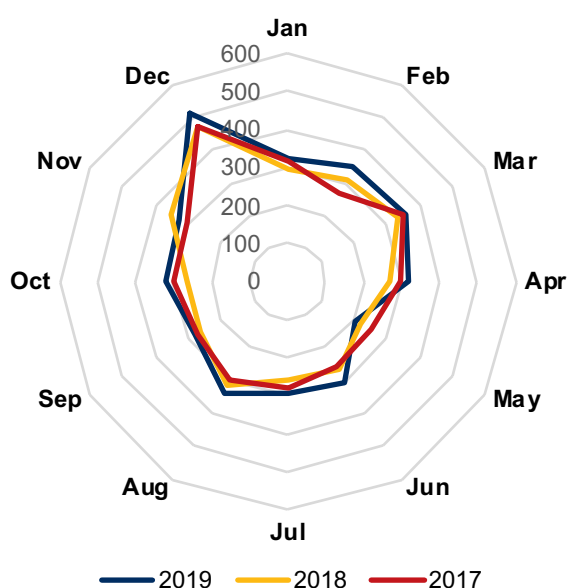
Source: Langkawi Development Authority

Visitor Arrivals

The declaration of Langkawi as a UNESCO Geopark in 2007 has helped promote the destination. The spike in visitor arrivals from 2011 to 2013 was mainly due to the growth of Chinese, Australian, Russian and Middle East tourists. Arrivals growth tapered after 2014 when foreign demand eroded due to the double Malaysia Airlines tragedies. The growth rate of tourist arrivals remained low, but positive, until 2018, where a 1.4 percent slip occurred.

In 2018, despite the international visitors increased by approximately 15.5 percent year-over-year, the number of domestic visitors declined by 3.6 percent year-over-year. Tourist arrivals jumped by 8.1 percent in 2019, mainly because the Langkawi International Airport completed its expansion and upgrades in Nov 2018 and increased its capacity to 4.0 million passengers per annum from 1.5 million passengers per annum.

Monthly Tourist Arrivals to Langkawi (2017 - 2019)



Source: Langkawi Development Authority Note: Values are in thousands.

Average Length of Stay (ALOS)

Langkawi is heavily a weekend leisure market. Domestic guests and guests from neighbouring countries tend to stay an average of two nights, where International guests are able to drive a slightly higher ALOS of three to five nights.

Seasonality

As leisure demand dominates the market, climate and source markets play significant roles in dictating seasonality. The year typically starts at the average before picking up in late January or February due to Chinese New Year, followed by a low during Ramadan month when domestic demand falls. July and August are peak months due to domestic mid-term holidays and summer holidays for countries in the northern hemisphere. The rainy season from September to November causes leisure demand fall. December is a peak month.

Guest Profile

Langkawi's top tier hotels target guests who are willing able to pay high rates because they see that it is a proper value for their money. These guest profiles (2019) are as follows:

- Europeans who are middle-aged onwards with high disposable income, with a desire for exotic and warmer climate experiences.
- Chinese in their late-20s to early '30s with high disposable income and without children.
- Wealthy families and young couples with young kids.
- Double occupancy factor ranged from 2.0 to 3.7, with more towards the higher range of 3.0.
- Repeat guest percentage ranged from below 10 to a high of 30 percent.
- Average total spent per guest ranged from MYR1,200 (mainly families) to MYR6,500 (couples), with an average spent per guest of just under MYR3,000.



Source: St. Regis, Langkawi



Source: Four Seasons, Langkawi

Top Tier Hotels Occupancy

Overall, occupancy for Langkawi’s top tier hotels was consistently above 65 percent from 2015 to 2019, indicating a healthy demand and supply dynamics of Langkawi’s high-end hotel market. The market occupancy slightly slipped in 2016 due to the opening of the St. Regis and the Four Seasons undergoing renovations, but quickly rebounded to its peak at 71 percent in 2017.

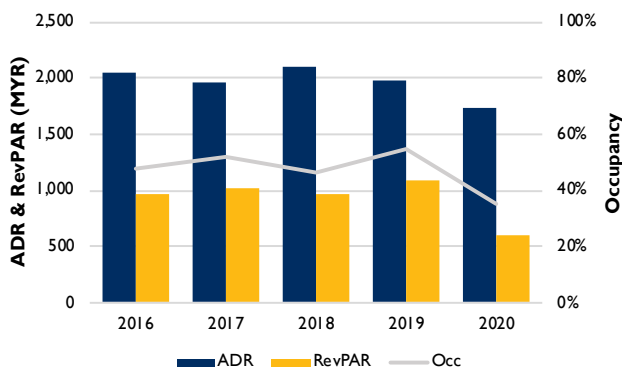
Although the Ritz Carlton opened with 119 keys in late 2017, daily RNA only increased marginally in 2018 on the back of the temporary closure of The Datai for extensive renovations in 2018. In the following year, daily RNA increased due to the reopening of The Datai. Daily RND buoyed by a higher rate because of the strong comeback by The Datai and the new flights by Qatar Airways that commenced in 2019. This allowed Langkawi to tap into a broader medium- and long-haul market through the airline’s extensive network

ADR

Luxury Hotels: Above MYR1,500

This category consists of five-star properties with an ADR above MYR1,500 in 2020. Fluctuations in performance during 2017 are due to the opening of the Ritz-Carlton in September. In 2018, the Datai closed for extensive renovations, and reopened in 2019. The lift in occupancy for that year was also the result of new medium- and long-haul flights by Qatar Airways.

Luxury Hotels: Above MYR1,500

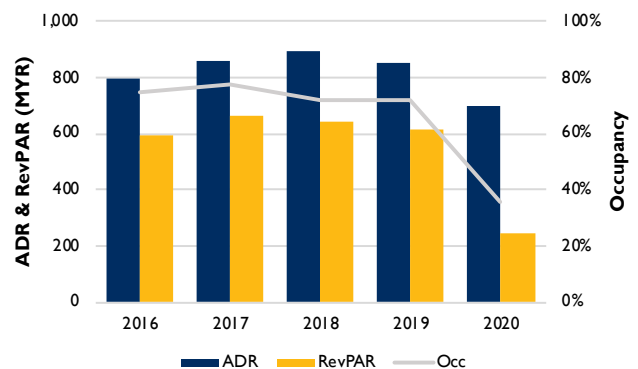


Source: Horwath HTL

Upper-Upscale Hotels: MYR500 -1,000

Hotels in this category consist of upper upscale properties that maintained an ADR between MYR500 and MYR1,000 in 2020. From 2016 to 2019, the hotels’ ADR increased by a year-on-year rate of 2.3 percent with a peak in 2018 followed by a slight dip in 2019 due to the hotels reducing rates to maintain occupancy.

Upper-Upscale Hotels: MYR500 -1,000



Source: Horwath HTL

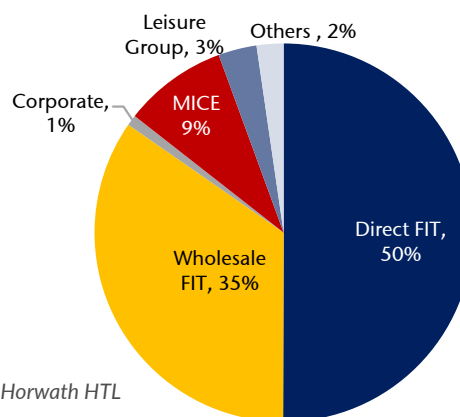


Market Mix, 2019

Langkawi is well-developed as an internationally renowned leisure destination, allowing it to achieve its high level of Direct FIT. The main factors contribute to its attractiveness:

- With three UNESCO Global Geoparks, Langkawi commands a strong destination awareness.
- Langkawi is renowned for its quality beaches - Datai Bay having been voted into the Top 10 beaches in the world by National Geographic. The island has numerous other beautiful beaches with clear turquoise water and white sand, such as Tanjung Rhu Beach and Skull Beach.
- Langkawi has developed a significant amount of leisure demand generators, such as Underwater World, Langkawi Sky Cab, Langkawi Sky Bridge and Langkawi Wildlife Park & Bird Paradise that caters to family demand. The island constantly has new leisure attractions being planned, such as the Perdana Quay Marine Theme Park, which is expected to enhance and diversify its allure.
- The presence of well recognised and popular brands such as Westin, Four Seasons, St Regis and the Ritz-Carlton, as well as the iconic hotels, The Datai and the Andaman.
- The allure of Langkawi as an alternative to the pricey Phuket and the congested Bali.

Luxury Hotels & Upper-Upscale: Above MYR1,500



Source: Horwath HTL

Wholesale FIT is the second-largest demand contributor. These are volume-contracted rates, discounted but crucial to a resort’s occupancy as it forms a base demand. Wholesale demand is mainly contributed by China, although there is a growing demand from Europe given the improvements in air connectivity via Qatar Airways and TUI charter flights. Generally speaking, the luxury resorts have a lower contribution mix as they are premium products with a lower average room count, thus having less of a need to drive RND volume. Contrastingly, the upper-upscales resorts have a much higher average room count. Therefore, they tend to pursue wholesale demand to drive occupancy.

Corporate demand in Langkawi has traditionally been a weak segment since Langkawi is not an economic hub and does not have strong corporate demand generators.

MICE demand represents the next strongest segment for Langkawi, after leisure demand (FIT and wholesale). However, given the lack of direct regional flights and poor destination marketing, Langkawi seemingly pales in comparison to Kota Kinabalu and Penang in capturing MICE demand.

Leisure-related demand usually comprises weddings. Destination weddings are popular in Langkawi due to the variety of high-profile hotels with prestige and perceived glamour. Most of the demand comes from India, Australia and the UK, with a minimum of two to three nights stay.

The limited flight availability restricts the number of leisure groups in Langkawi island. Most importantly, as Leisure Group is one of the lowest-rated segments, certain luxury hotels do not target this segment. These hotels, however, do capture high paying tour group demand, especially those from Japan.

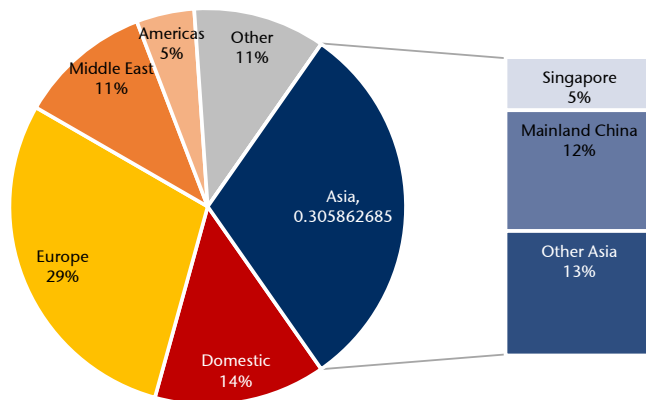


Source: The Ritz-Carlton, Langkawi



Source: The Ritz-Carlton, Langkawi

Nationality Mix, 2019



Source: Horwath HTL

The European market was the largest contributor to Langkawi top tier hotels’ RND. Most came from the United Kingdom, particularly during summer and stay for an extended period. The European market is highly sought after due to its propensity to spend on rooms and ancillary services. Also, due to the established reputation of Langkawi in Europe (especially UK) as well as its Geopark status, the top tier hotel has been successful in attracting demand from Europe. Typically, mid-range to higher-end rooms are their preferred accommodation options. European demand is expected to grow further with the introduction of flights via Qatar Airways.

Domestic demand contributed 14 percent in 2019, driven primarily by staycations. Easy access from Kuala Lumpur is the main reason for visits over the weekends and holidays. The relative low percentage capture is due to the generally high room rates and the hassle of flying or a long 5 -6 hours’ drive from Kuala Lumpur and the Klang Valley.

The Middle Eastern market contributes a significant 11 percent of demand due to well-diversified accommodation type options, especially detached villas. High-paying Middle Eastern demand does not usually visit Langkawi, preferring city locations with high-end shopping and dining. Middle Eastern demand is expected to grow with the introduction of flights via Qatar Airways, especially those with families and lower-paying guests.

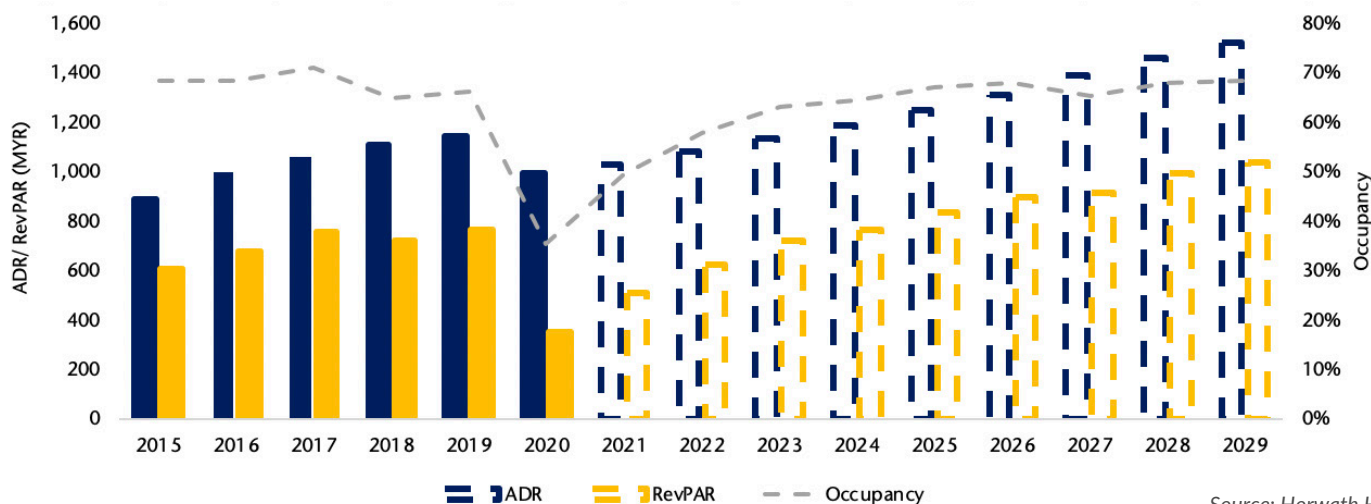
Even though the Chinese market accounted for approx. 12 percent of total RND, it was still less than Bali and Phuket. However, the Chinese market is growing strongly. The internationally-branded resorts captured more Chinese guests than locally-branded properties as international brands generate more exposure to guests in China and more likely to provide Chinese language in their centralised reservations lines.

Singapore contributed an estimated 5 percent of total RND. There is no significant trend observed for Other Asia and Others. Within Asia, demand is mainly from India, Hong Kong, Taiwan, Japan and Korea. There are efforts to pursue Indian demand, particularly through the cruise sector, which has grown in popularity.

New Hotel Supply

In January 2021, a fire at Andaman resulted in its closure and is expected to open after renovation over 2021/22. Developments planned at Pantai Kok, Burau Bay, Tanjung Rhu over the next 5 years will most probably include hotels.

New Supply	Rooms
Curio Collection by Hilton	250
Parkroyal	310
The Andaman	186



Source: Horwath HTL

Performance Outlook

Langkawi’s top tier resorts are expected to rebound slowly in 2021 and continue to recover as domestic travel restrictions are being eased and vaccination programs commence. Continued occupancy improvement is expected from 2023 to 2026, as international travel resumes. The market is projected to reach its 2019 (pre-COVID) occupancy level in 2025.

Between 2015 and 2020, the market ADR rose at a year-on-year rate of 2.0 percent, caused by the pandemic in 2020. The ADR dip of 13 percent in 2020 is not considered to be significant as the major impact was observed on the occupancy side. Most top tier resorts did not adopt a volume strategy at the expense of ADR. In 2021 and 2022, we expect ADR to realise some growth from 2020 as domestic travels resume. However, we do not expect the market to recover to pre-COVID days until the second half of 2022 when borders fully open and international travels resume.

With the reopening of The Andaman and the entry of more luxury and upper upscale resorts over the next 5 years, the competitive market should be able to generate decent ADR growth rates, particularly on the back of healthy growing occupancy levels, and the Increasing of critical mass of quality guest rooms that would precipitate increasing international arrivals.

Overall, we project ADR to grow year-on-year at 5.0 percent from 2020 to 2029. The new resorts with its planned villa components are expected to further drive the comp set ADR moving forward.

Conclusion

Malaysia has established a destination of luxury travel in Langkawi, although the destination is still in the ‘infancy stage’ compared to established luxury destinations such as Maldives, Bali and Phuket. The occupancy performance over the past 5 years amongst the higher-end of the luxury market has ranged between mid-40 percent and high 50 percent, below the comparable markets in Bali and Phuket, but generally consistent with Maldives.

One of the obvious reasons for the lower occupancy performance in Langkawi is access. Unlike Bali and Phuket, direct international air access to Langkawi is severely limited. This limited air access is in turn, caused by the lower critical mass of international standard hotel guestrooms in Langkawi. However, new upper upscale and luxury hotels are in the pipeline over the medium term and could induce more direct air link between Langkawi and regional cities.

In terms of the average room rates achieved by the higher end of the luxury market in Langkawi, it registered between USD350 and USD600 in 2019, which is below what the comparable properties in Bali, Phuket and Maldives had achieved in 2019.

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