hotelworks

Horwath HTL

Hotel, Tourism and Leisure Celebrating 100 years

Hotel & Branded Residences

KUALA LUMPUR

December 2015

TURBULENT TIMES: BRACE BRACE

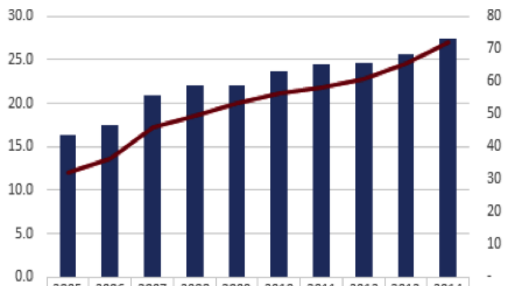
Kuala Lumpur hoteliers are bracing themselves for an onslaught of new supply following solid performance in 2014 when rate growth was low, but occupancy remained strong. With a slew of confirmed luxury hotels opening between 2016 and 2021, the market is expected to experience short-term decline in occupancy levels. Average room rates though may see better growth as the new luxury supply is expected to position rates in congruous to their product and brand standards. The performance of the top-tier hotels in Kuala Lumpur serves as a barometer for the overall hotel market as the mid- and lower-tier hotels tend to maintain a certain rate gap between them.

HOTEL MARKET UPDATE

Tourism Arrivals

From 2005 to 2014, tourist arrivals to Malaysia and total tourism receipts maintained moderate growth, with an annual compound growth rate of 6 percent and 9 percent, respectively. In 2014, tourism showed some resilience in the face of the disappearance of Malaysia Airlines flight MH370 in early March and the downing of MH17 over Ukraine in July. Tourism arrivals in 2014 managed an increase of 6.7 percent compared to 2013. However, the full fallout of the double MH tragedies were felt in 2015 as arrivals for the first 6 months of year posted a decline in 9.4 percent compared to the same period in 2014.

Arrivals & Tourism Receipt



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Arrivals (Million)	16.4	17.6	21.0	22.1	22.1	23.7	24.6	24.7	25.7	27.4
Receipts (Billion MYR)	32	36	46	50	53	57	58	61	65	72

Source: Tourism Malaysia

Singapore remains the overwhelming top source of arrivals with approximately 51 percent, while Indonesia is a distance 2nd with 10 percent. China saw a 12 percent decline as of YTD June 2015, but still ranking as the third largest source market with approximately 6 percent of total arrivals. It is heartening to see that mainland Chinese arrivals grew 18 percent and 29 percent in May and June 2015 following consistent months of decline after the twin MH disasters.

Passenger movements at KLIA (KLIA & klia2) reached 49 million, up 3 percent from the previous year. KLIA is the 4th busiest airport in Asia after Hong Kong, Jakarta and Singapore. Moving forward, Malaysia Airports has plans to make KLIA the region's premier aviation hub and a destination in its own right. The airport operator envisages KLIA as not only an airport, but also an international meeting place and centre for business and entertainment; "the ultimate airport city, KLIA Aeropolis". The KLIA Aeropolis will focus on logistics and aerospace development in the immediate stages, as well developing leisure and recreational facilities. The development is positioned to enhance Malaysia's attractiveness as a destination for business, tourism, leisure and shopping. The masterplan envisages development will take place in phases over the next 15 to 25 years, gradually transforming the core area around KLIA and klia2 into a vibrant hub of economic activity. Construction began in April 2014 on two of the KLIA Aeropolis' key projects – the Mitsui Outlet Park KLIA and the Solar Power System at KLIA. The 1st phase of the outlet park, involving 140 shops totaling some 25,000 sqm, opened in May 2015. The park will be expanded in two phases, in 2018 and 2021, and will eventually accommodate 260 outlets totaling some 46,300 sqm.

Infrastructure Development

Infrastructure in Kuala Lumpur has been vastly improved and overhauled, in tandem with the Economic Transformation Programme (ETP) and Greater Kuala Lumpur Master Plan. This is in line with the Federal Government's initiative to transform Kuala Lumpur into a major world financial centre as well as an Alpha global city with aspirations to be the centre of Islamic principles-based finance.

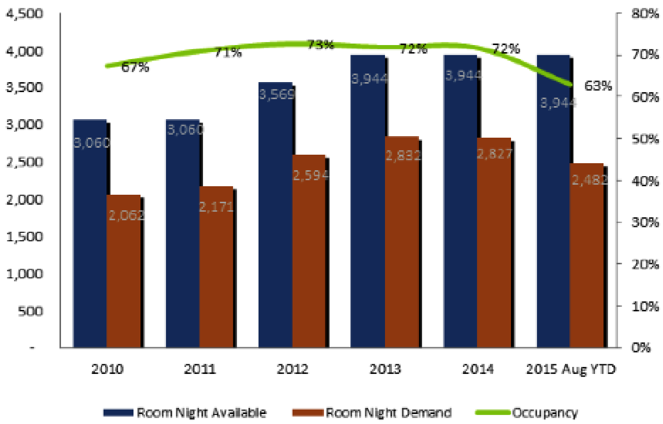
Three **MRT Lines** are being planned under the ETP; two cross-city lines running northeast – southwest (Sungai Buloh – Kajang Line and Sungai Buloh – Serdang - Putrajaya Line, both of which have been confirmed), and a circle line making a loop through all rail-modes of public transportation, with a total length of 150 kilometres. The first phase, Sungai- Buloh -Kajang Line, is expected to start operation by the end of 2016.

The existing **LRT Lines** are currently undergoing extensions. The Kelana Jaya Line Extension will have 13 new stations, while the Ampang Line Extension will have 12 new stations. Both projects are expected to be completed in first quarter of 2016.

Singapore and Malaysia have officially agreed to build a **high-speed rail** between KL and Singapore, with an expected travel time of 90 minutes compared with the current four to five hours on highway. It will run on dedicated tracks with a speed of at least 250 km/h. The construction of the railway is expected to start in 2016 with a targeted completion date in 2022/2023.

A **train line** to the sixth largest airport (in terms of total passenger movements), the **former Subang International Airport (Subang Skypark)**, is under construction. The airport recorded close to 50 percent increase in passenger handling in 2014. The train line will have convenient connection to KL Sentral. The train service is targeted to commence operation by 2017.

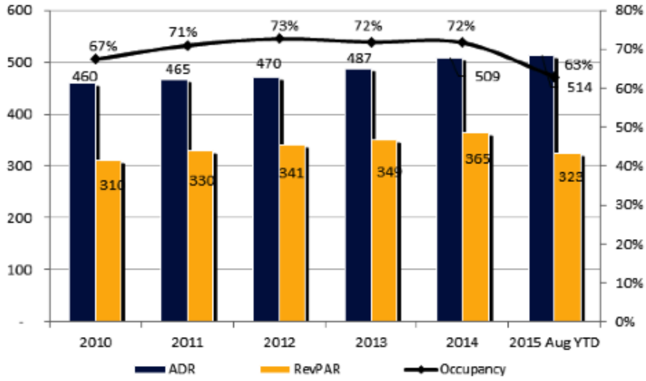
Top-Tier Hotel Performaces



Source: Horwath HTL

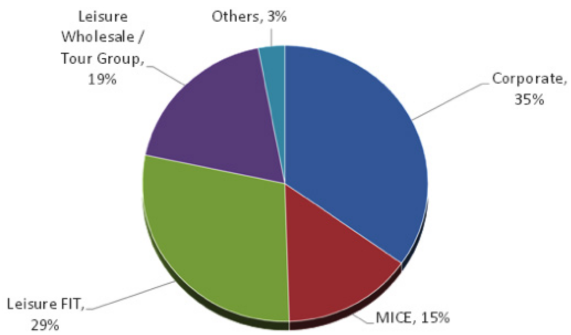
The top-tier hotel market, which is the barometer for mid-tier hotels in Kuala Lumpur, consists of 8 properties.

Despite growth in supply, the occupancy has been healthy. During the past 5-year period, the market was able to maintain occupancy levels at over 70 percent, except in 2010, due to the global financial crisis. The slump in oil price as well as the fall out of the MH tragedies has negatively impacted the market in 2015. The average room rates (ADR) and RevPAR (in Malaysia Ringgit) are as follows:



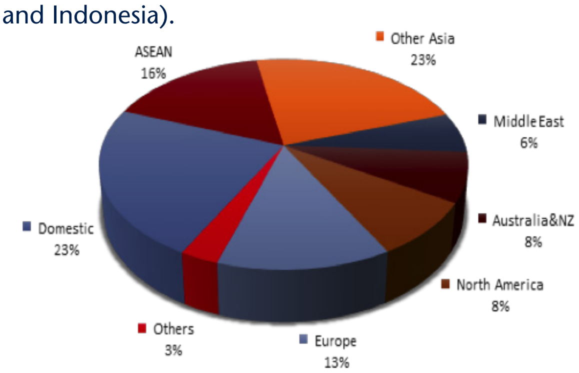
Source: Horwath HTL

Despite healthy occupancy levels, the market-wide ADR registered minimal growth, at an average annual growth rate of only 3.0 percent. Taking inflation into consideration, the ADR growth is negligible. This is attributed to: 1) the relatively aged facilities at most top-tier properties, which limits the rate growth potential; and 2) the limited number of new luxury branded hotels. Nevertheless, despite a decline in occupancy in 2015, market-wide ADR recorded growth.



Source: Horwath HTL

Business (Corporate & MICE) and leisure (FIT & Wholesale/ Group) demand are equally important in the market, both contributing almost 50 percent of total RND. There are diversified sources of demand in terms of nationality mix. Domestic travellers and those coming from other Asian countries, mainly China and Japan, are the largest source markets, followed by ASEAN markets (mostly Singapore and Indonesia).



Source: Horwath HTL

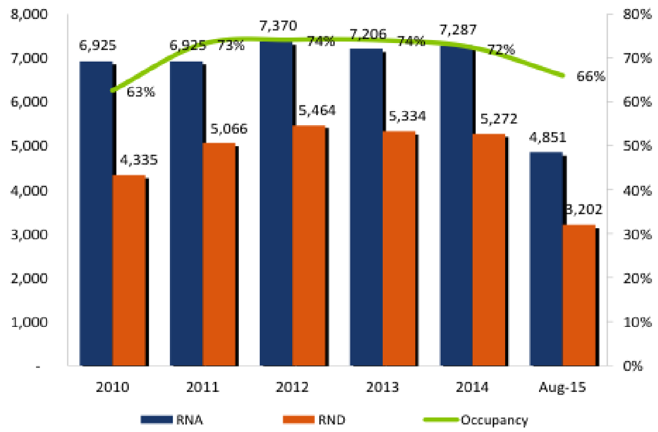
Over the next 6 years, 12 top-tier hotels are confirmed to enter the Kuala Lumpur market, an unprecedented supply growth. In addition, a few more rumored, but not yet confirmed hotels, may add to the supply growth. These are mostly situated in mixed-use development projects such as TRX, Tradewinds Square, Harrods Square, KLCC and Jalan Ampang.

New Top-Tier Supply

Property	Estimated Room Count	Estimated Opening Year
St. Regis	210	Q2 2016
Ritz Carlton (suites)	100	2016
W	150	Q2 2017
Banyan Tree Signatures	100	Q3 2017
RuMa	250	Q3 2017
Four Seasons	210	2018
Royale Pavilion	330	Q3 2017
Fairmont KLCC	750	Q2 2018
Hilton City Centre	300	Q3 2019
Park Hyatt	230	Q3 2019
Kempinski	260	2020
Jumeirah	190	2021
Total	**3,080**	

Source: Horwath HTL

In the mid-tier hotel segment, the market posted stronger occupancy levels than the top-tier counterparts. In our analysis, the mid-tier hotel segment consists of 16 properties.

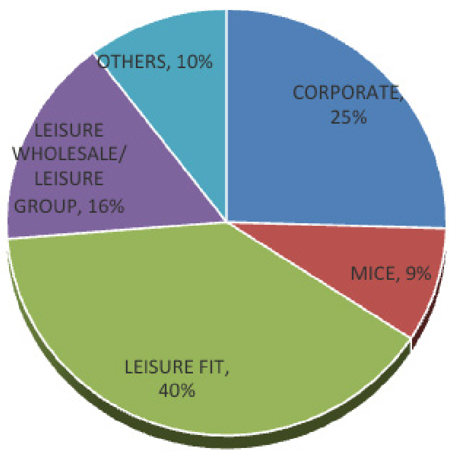


Source: Horwath HTL

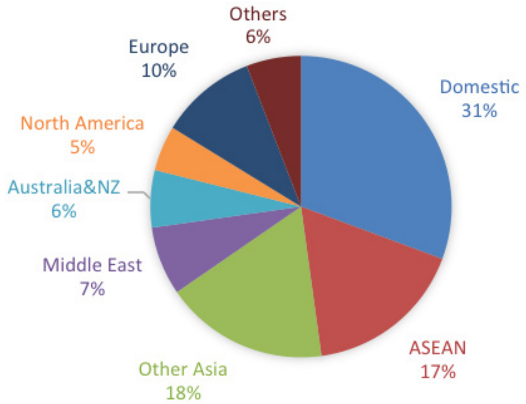
Similar to the top-tier segment, the 2015 performance has been negatively impacted by the slump in oil price and the double MH tragedies.

In terms of guest profile, the mid-tier market captures higher levels of domestic demand whilst the top-tier is more diversified. By demand segment, the top-tier is heavier with the corporate/MICE segments versus the mid-tier market that accommodates more leisure demand.

Mid-Tier Demand Segment & Guest Nationality

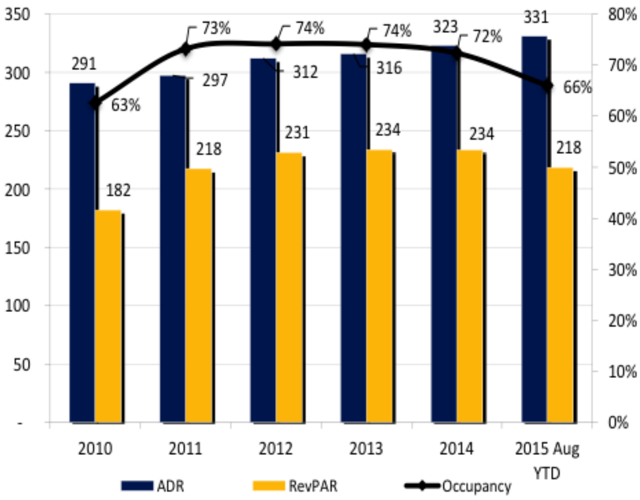


Source: Horwath HTL



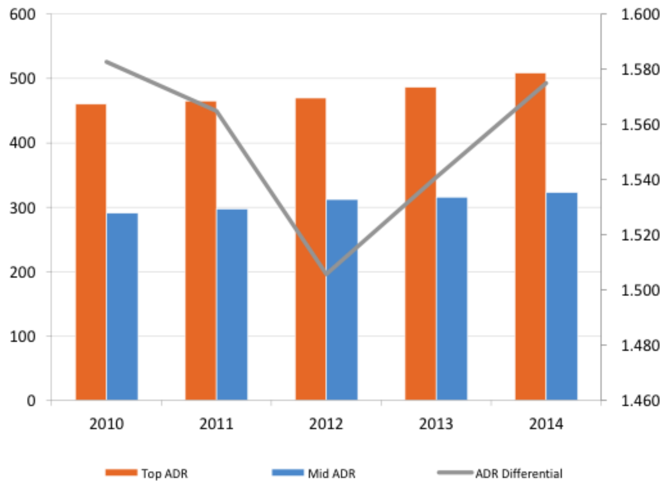
Source: Horwath HTL

The mid-tier hotel market saw little supply over the last 5 years, but registered only 5 percent average annual growth in rooms demand. The top-tier hotel market on the other hand saw a 7 percent average annual growth in rooms supply and a matching 8 percent annual average growth in rooms demand over the same period. Both hotel market segments registered average annual ADR growth of 3 percent.



Source: Horwath HTL

The ADR differential between the top-tier and mid-tier hotel markets has been relatively stable at between 1.5 and 1.6, although the quantum difference has widen from MYR 170 in 2010 to MYR 186 in 2014.



Source: Horwath HTL

Unlike the top-tier market, the mid-tier hotel segment has so far confirmed only one new hotel entering the market in 2020, a 250-room Marriott on Jalan Ampang / Jalan Tun Razak.

HOTEL BRANDED RESIDENCES MARKET

Supply growth underpinned by international hotel brands

In the post-Global Financial Crisis period, demand for high- end residential in Kuala Lumpur has increased. One major catalyst for the growth has been large Malaysian property developers tapping into mixed-use hotel, branded residences and retail or other use offerings in the developments. The mixed-use approach has been triggered by financial necessity to rationalize high CBD land prices. It is expected this approach to appreciating underlying land costs will continue.

Hotel branding provides a point of differentiation and a basis for price premiums. In Kuala Lumpur, the branded residences have attracted a healthy mix of international and domestic high-end buyers. To maximize pricing, panoramic views of the Petronas Twin Towers and the KL Tower have become significant selling points for unit aspects. The units with those preferred views are in high demand and lead the trend in sales pace. In high-rise pricing structures, price differentials on premium views or high floors typically range from 3 to 25% per unit.

The city's luxury property sector finds strength from the increasing number of high net worth individuals from Malaysia but has seen rising demand from international markets such as Singapore, Hong Kong, and the Middle East (mainly Saudi Arabia and Qatar). Regional buyers from Taiwan and Japan are also an emerging source market. For the domestic sector, a high number of buyers are from Sabah and Sarawak. Such buyers tend to focus on investment in terms of both capital appreciation and rental yields. However, there remains a core upscale market segment of buyers who simply prefer large scale units for their own residences.

Since 2013, a new wave of hotel branded/managed projects has entered into the market. However, since early this year there has been a defined market cooling off brought on by Malaysia's economic stress related to lower oil prices, weakening currency and political events which have disrupted the broader real estate sector including luxury properties.

Property Overview

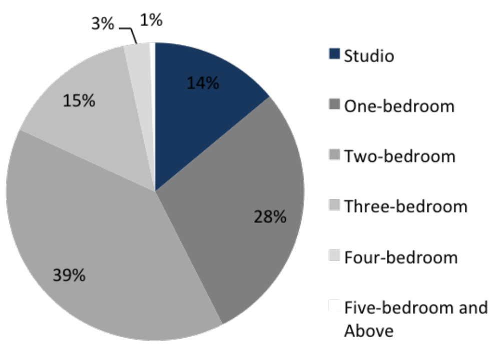
Project Name - Currently for Sale	Location	Total Units	Launch Year
Ritz-Carlton Residences	JL Sultan Ismail	279	2009
St. Regis Kuala Lumpur	JL Damansara	158	2010
Four Seasons Place	JL Ampang	236	2013
The Ruma Hotel & Residences	JL Kia Peng	453	2013
Forsett Residences	JL Imbi	252	2013
Tropicana The Residences	JL Ampang	353	2014
Project Name - Sold Out	**Location**	**Total Units**	**Launch Year**
Banyan Tree Signatures Pavilion Kuala Lumpur	JL Bukit Bintang	441	2011
Project Name - Incoming Pipeline	**Location**	**Total Units**	**Launch Year**
8 Conlay by Kempinski Hotel	JL Conlay	1092	2018
Jumeirah Living Kuala Lumpur Residences	JL Ampang	273	2021

Source: C9 Hotelworks

Current Inventory

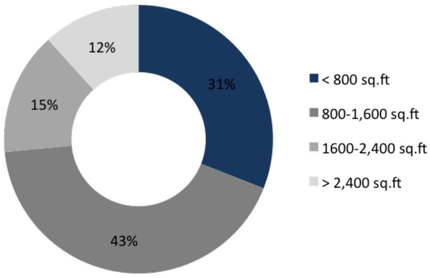
- Six hotel branded/managed residential projects comprising a total of 1,731 units either completed or in development were used for this report.

Unit Configuration Mix



Source: C9 Hotelworks

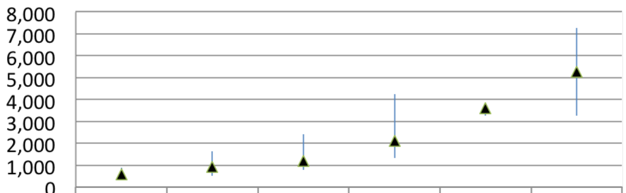
Unit Size Mix



Source: C9 Hotelworks

- Two-bedroom units are the most common configuration in all developments.
- Built up area ranging from 800 to 1,600 square feet is typical for one- and two-bedroom units.

Inventory Mix



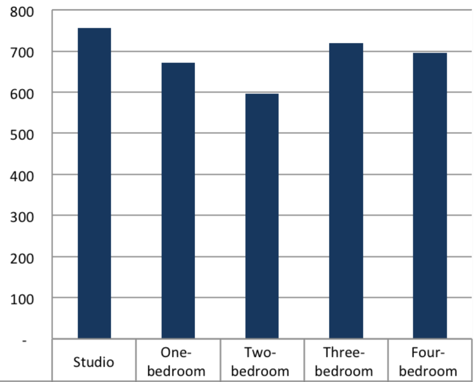
	Studio	One-bedroom	Two-bedroom	Three-bedroom	Four-bedroom	Five-bedroom and Above
Min (Sq.ft)	441	506	802	1,333	3,270	3,256
Max (Sq.ft)	886	1,648	2,408	4,253	3,843	7,254
▲ Average	588	910	1,201	2,103	3,619	5,255

Source: C9 Hotelworks

Unit Pricing

- The built up sales price ranges from US$450 to US$1,800 per sqft while the built up area ranges from 441 to 7,254 sqft.

Pricing per Type

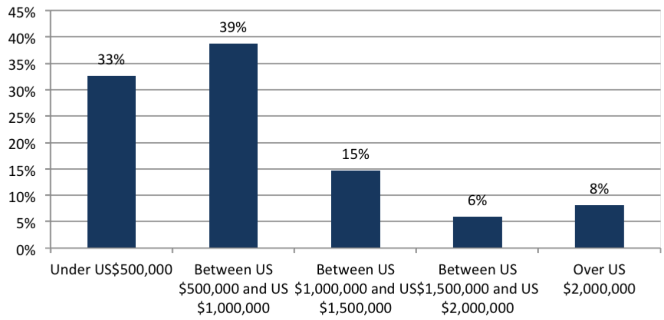


	Studio	One-bedroom	Two-bedroom	Three-bedroom	Four-bedroom
Average Built up Price (US$/Sq.ft)	756	672	597	719	696

Source: C9 Hotelworks

- Average built up sales price is approximately at US$681 per sqft.

Pricing per Unit



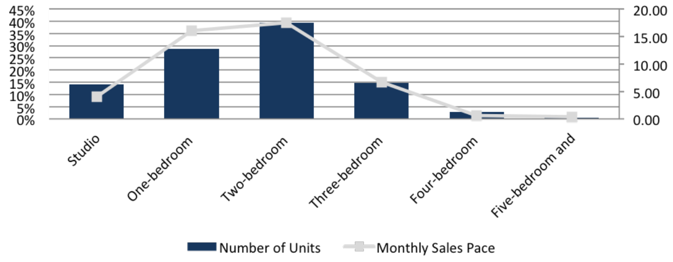
Source: C9 Hotelworks

- 71% of total units priced under US$ 1million.

Market Absorption Rate

- Two-bedroom configurations have the highest absorption rates among all configurations, followed by one-bedroom unit types.

Absorption Rate by Type

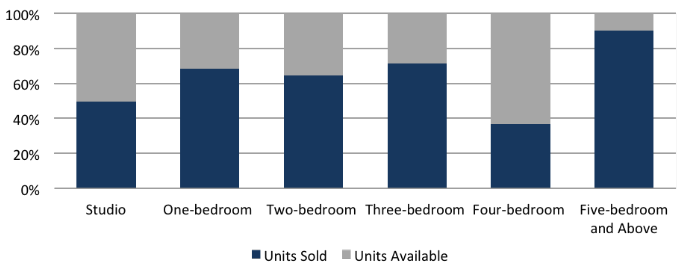


Source: C9 Hotelworks

- Units with good views and/or high floors have significantly higher sales pace than those with blocked views and/or lower floors. Currently, there is a high portion of available units in the latter category. The overall ratio of take-up units to available units for sale is 64:36.

- Although five-bedroom units and above make up a relatively small proportion of the total inventory available, absorption has been healthy and largely influenced by international high net-worth buyers.

Absorption Rate by Type



Source: C9 Hotelworks

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