



NOV 2014 | Price: US\$ 500

IN FOCUS: KUALA LUMPUR

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Due to its political stability and its perception as an affordable destination as compared to Bangkok and Singapore, respectively, Kuala Lumpur is one of the top MICE destinations in Southeast Asia. To further bolster its tourism industry, Kuala Lumpur is attempting to attract the leisure segment. The private sector is introducing new luxury hotel brands into the city while Tourism Malaysia is shifting its marketing campaign towards the leisure segment.

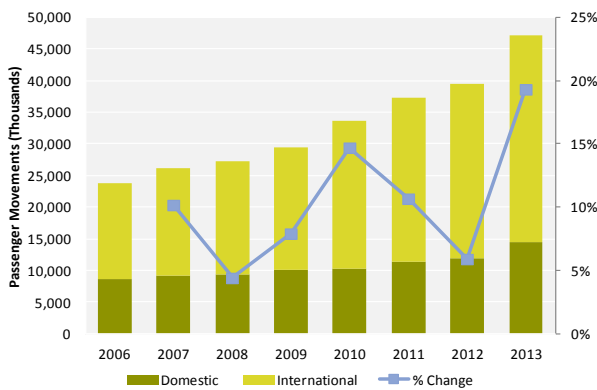
Airport Statistics

The Kuala Lumpur International Airport (KLIA) began its operations in 1998 with two buildings, the Main Terminal Building (MTB) and the Satellite Building. It had a capacity to accommodate up to 35 million passengers per year. The construction of a dedicated terminal for low-cost carrier (LCCT-KLIA) was completed in 2006 with a capacity of up to 10 million passengers per year. Thanks to another expansion in 2008, it is now capable of accommodating up to 15 million passengers per year. Currently, KLIA has the capacity to accommodate up to 50 million passengers annually.

The construction of the KLIA-2 was completed in 2014. The KLIA-2 is a terminal designated for low cost carriers. With a gross floor area of more than 257,000 m², this terminal is capable of accommodating up to 45 million passengers annually. Although the airport is located approximately 40 kilometers south of Kuala Lumpur Sentral and Kuala Lumpur City Centre (KLCC), the KLIA and KLIA-2 are connected to Kuala Lumpur Sentral by the KLIA Express Rail Link which takes 28 and 33 minutes, respectively.

Between 2006 and 2013, the passenger movements at KLIA grew by 10.3% per annum.

FIGURE 1: PASSENGER MOVEMENTS AT KLIA

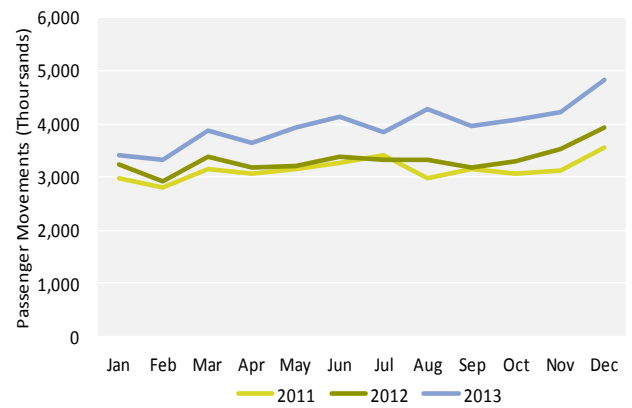


Source: Malaysia Airports

Seasonality

As Kuala Lumpur is currently primarily a MICE and commercial destination, the city experiences little fluctuation in seasonality throughout the year. Only minor dips are observed at different times of the year as business slows down to observe religious holidays. In addition the beginning of the year, January and February, are less busy due to the slowdown in MICE demand. Due to its heavy reliance on these two segments, the city's seasonality is more apparent when observed on a weekly basis, with strongest demand on Monday to Thursday nights which declines significantly on Fridays and Saturdays and picks up somewhat on Sunday in time for the business week to start anew.

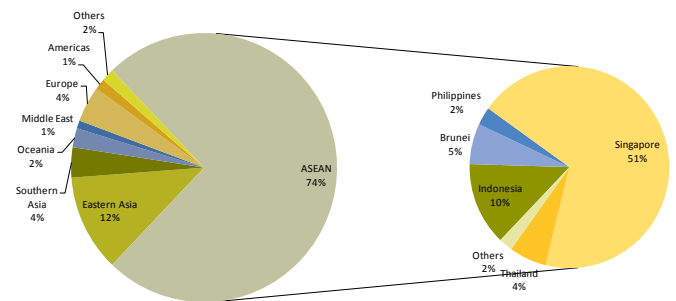
FIGURE 2: SEASONALITY OF ARRIVALS TO KLIA



Source: Malaysia Airports

Source Markets

FIGURE 3: SOURCE MARKETS (2013)



Source: Tourism Malaysia

The ASEAN group is the largest source market for Malaysia, accounting for 74% of total visitor arrivals with Singapore as the largest feeder market (51% of total arrivals). However, the majority of these arrivals are entering Malaysia through one of the two causeways linking the south of Malaysia to Singapore, and do not necessarily correlate directly to tourism demand as day trips from Singapore to Johor Bahru, in southern Malaysia

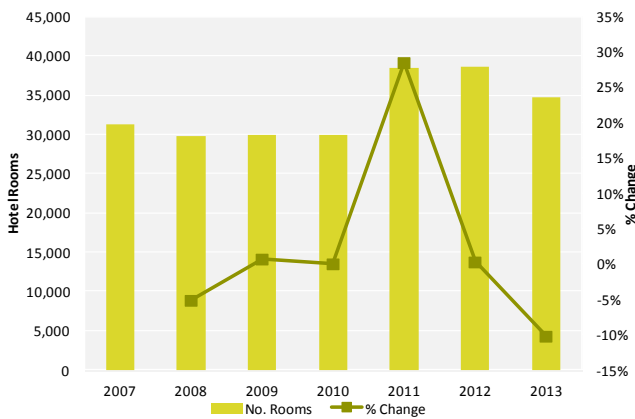
are common. Singapore is followed by Indonesia with 10% of total arrivals. China is the next largest source market for Malaysia, accounting for 7% of the total arrivals. The Malaysian Airlines incidents have had an impact on this source market in the first half of 2014, though these are not expected to impact the long term demand from this source market.

For luxury hotels in Kuala Lumpur, Malaysia and Singapore are the largest source markets. We expect with increased business and cultural ties between Malaysia and the Middle East, as well as improved leisure and shopping facilities, that demand from this feeder market will grow more significant over time, in particular for the leisure luxury segment.

Hotel Supply

According to Tourism Malaysia, in 2013, there were 226 hotels and 34,700 hotel rooms in Kuala Lumpur.

FIGURE 4: KUALA LUMPUR HOTEL SUPPLY



Source: Tourism Malaysia

Between 2007 and 2013, hotel supply in Kuala Lumpur increased by approximately 3.6% per annum from approximately 31,300 rooms in 2007 to 34,700 rooms in 2013.

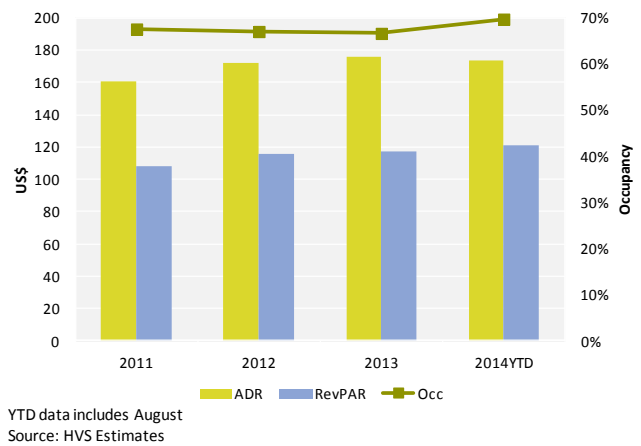
We understand from our discussions with Tourism Malaysia, that the decline in the hotel rooms in 2013 was due to a change in the methodology employed by Tourism Malaysia and does not reflect closure of hotels.

Citywide occupancy declined from 2007 to 2009, as a result of the global financial crisis. The city absorbed the large amount of additional supply in 2011 and citywide occupancy stabilized at approximately 69% between 2011 and 2013.

Luxury Hotel Market Performance

Between 2011 and 2014YTD August, the performance of the luxury market has been relatively stable with occupancy hovering at slightly lower than 70% and the average daily rate between US\$ 160 and US\$ 175. It should be noted that the performance of the luxury market below includes a representative sample of the city's luxury hotels.

FIGURE 5: LUXURY HOTEL PERFORMANCE



YTD data includes August
Source: HVS Estimates

The opening of the 412-key Grand Hyatt in 2012 had a slight positive impact on the luxury segment in Kuala Lumpur. This additional supply has led to a slight decline in occupancy from approximately 67.5% in 2011 to 67% in 2012. However, the market's average daily rate experienced an increase of approximately 7.5% from 2011 to 2012. Between 2012 and 2014YTD August, the average daily rate stagnates, posing a growth of only 0.9% which is much lower than inflation.

Based on our observation, it seems that the newer hotels are commanding a premium in their rate relative to the older and under renovated supply.

As shown in the following table, there is a large pipeline of hotels expected to enter Kuala Lumpur. As the market becomes more competitive, it is imperative that the existing supply continues to renovate and improve room product in order to compete effectively.

Luxury Pipeline

Proposed Property	Number of Rooms	Area	Estimated Opening Date
Dorsett Hartamas	371	Sri Hartamas	2015
St. Regis Hotel	200	KL Sentral	2015
Alila Bangsar	126	Bangsar	2016
Banyan Tree Signatures Pavilion	94	KLCC	2017
Four Seasons Hotel Kuala Lumpur	202	KLCC	2017
Fairmont	750	KLCC	2017
Harrod's Hotel	300	KLCC	2018
Luxury Hotel in TRX	250	KLCC	2019
Total	2,293		

Source: HVS Research

It is expected that within the next five years, the supply of luxury hotels would increase by approximately 2,300 rooms or an increase of approximately 64% from the amount of supply in 2014.

The pipeline of luxury hotels is mostly concentrated in the Kuala Lumpur City Centre (KLCC). Kuala Lumpur is expected to be home to the world's first Harrod's Hotel as part of a Harrod's branded integrated development project.

There are plans to develop a new financial district for the city, the Tun Razak Exchange (TRX). This development will also feature a luxury hotel.

Other notable areas includes the affluent suburb of Sri Hartamas, the KL Sentral which will see the development of a 200-key St. Regis Hotel as well as a St. Regis Residence and the Bangsar area will have an Alila Hotel as part of a development called "The Establishment".

Leisure Destination

It is expected that the development of these luxury hotels and new luxury retail such as the one at the Harrod's development would help stimulate leisure demand in Kuala Lumpur.

Furthermore, Tourism Malaysia is recognizing the importance of the leisure segment and beginning to direct its marketing campaign at this segment by promoting Malaysia as a leisure destination. Tourism Malaysia will be running its Malaysia Year of Festival (MyFest) campaign in 2015 which will promote the different festivals and leisure-oriented activities in Kuala Lumpur and throughout Malaysia.

Rising Cost

As part of the Malaysian government's subsidy rationalization program, the electricity tariff has been increased. This has resulted in an increase in utility cost for hotels.

Furthermore, we expect that the labor market for hotels will be increasingly competitive over time as a result of the opening of the additional supply. The increased competition may lead to an improvement in salary and benefits which may improve the appeal of the hotel industry.

Outlook

Although rising hotel operational costs in Kuala Lumpur are likely to reduce some of its advantages over Singapore as well as an increasing competition from Thailand – as the country regains its stability, we expect that Kuala Lumpur will still be able to maintain its position as one of the top MICE destinations in Southeast Asia.

In the short term, we expect that the increase in supply would dampen the performance of the Kuala Lumpur Luxury hotel market, in terms of occupancy. Furthermore, these additional hotels will compete for skilled hotel workers, which is already a challenge for hotels. It remains to be seen how the market will manage these two adverse factors. Based on our observations, it seems that some hotels are starting to recognize this problem and are looking for ways to increase benefits and improve working conditions as a means to improve staff loyalty and retention.

In addition our research indicates that a number of the existing properties would benefit from defensive renovations in order to remain competitive.

Over time, we expect that the Kuala Lumpur hotel market will absorb this increase in supply of luxury hotels. Tourism Malaysia is implementing marketing campaigns to improve the appeal of Malaysia and Kuala Lumpur for the leisure segment as this segment is generally less price sensitive than MICE. Furthermore, the introduction of new luxury hotels and retail brands in Kuala Lumpur will improve the city's attractiveness. The shift towards the leisure segment will help Kuala Lumpur's average daily rates grow as well as helping the city counteract some of the MICE demand that it may lose to other regional destinations.



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About the Authors



Lara Sarheim Lara Sarheim is a Vice President at the Singapore office of HVS, providing strategic advisory services throughout Asia. Lara's career spans three continents, including North America, Europe and Asia, and more than 10 years in the hospitality industry. Prior to Singapore, Lara worked as an Associate Director at HVS London, covering a variety of assignments throughout Europe including strategic and investment advisory, asset management, feasibility studies and valuations. In her role, she focused on the luxury and boutique/lifestyle sector and was instrumental in organizing the first European Boutique Hotel Conference, held in London in 2011. In addition Lara was the lead consultant for the buoyant London transactional and development market.



Setthawat Hetrakul is an analyst at HVS Bangkok, working primarily on hotel consulting assignments, including market studies and feasibility studies in the Mekong region. Graduating with an Honours Bachelor of Science Degree in International Hospitality Management from Ecole Hôtelière de Lausanne in Switzerland and with previous work experience in hotel development, Setthawat contributes extensive knowledge of the hospitality industry to HVS. He can be contacted at shetrakul@hvs.com or +66 86 986 3145.

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