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Hotel, Tourism and Leisure

Kuala Lumpur Hotel & Hotel Residences Market Update

January 2018

The increasing supply of branded upper upscale and luxury hotels sending shivers amongst industry players.

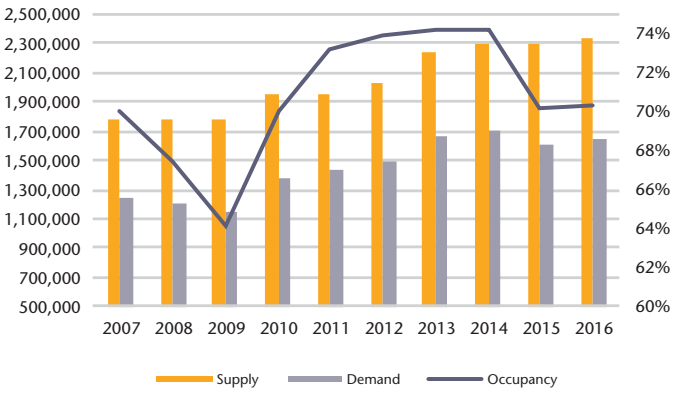
Demand growth over the last 10 years outpaced supply, but only just!

- The performance of 14 branded upper upscale and luxury hotels were analyzed. They comprised a combined daily guestroom inventory of approximately 6,500.
- The Y-o-Y growth of guestroom supply over the period 2007 – 2016 grew at 3.0%, outpaced slightly by demand at 3.1%.
- The impact of the oil & gas price crisis on hotel demand was quite significant as evident in 2015.
- Over the period to 2016, only 3 new hotels opened; the Grand Hyatt (2012), Aloft (2013) and St. Regis (2016).
- The increasing supply of branded hotels (usually perceived to be better quality) has been able to induce new demand.
- In the luxury hotel category, its occupancy levels have been consistently below the combined category.

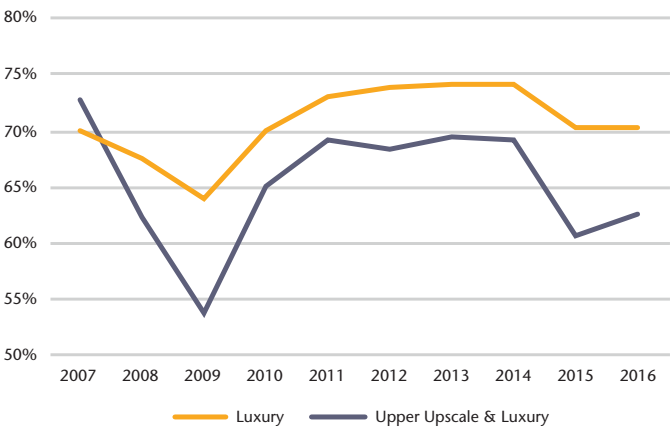
Forward Outlook

- Over the next 5 years, (2018-2022), approximately 3,400 new guestrooms (12 hotels under construction) will enter the market. 2021 will contribute the highest level at close to 1,300 guestrooms. The Y-o-Y increase is approximately 9%.
- Like the current supply, most of the new supply will be located in the KLCC / Bukit Bintang enclaves.
- Nearly 85% of the new guestrooms are categorized as luxury. The new luxury guestroom addition will increase its market share to 62% from 50% as at 2017.
- With a number of large mixed use development undergoing currently, such TRX, Bandar Malaysia, KL Metropolis and along Jalan Ampang, it is expected more upper upscale and luxury hotels will enter the market over the medium to long term.

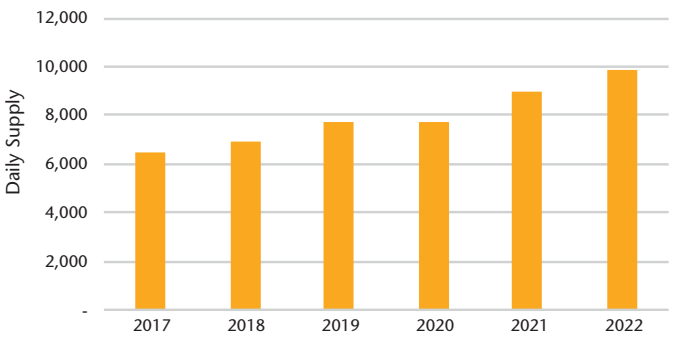
Annual Guestroom Supply & Demand vs. Occupancy



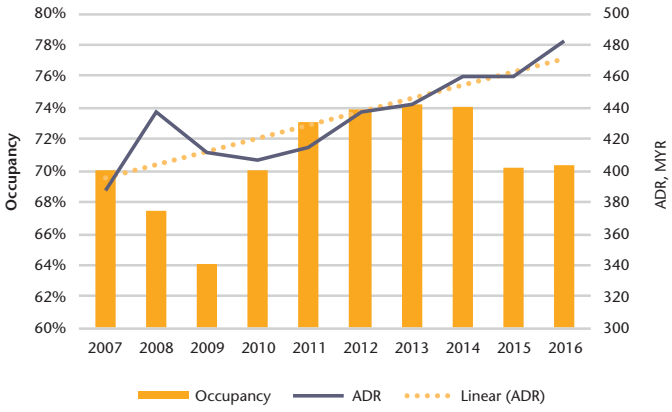
Occupancy



New Supply of Guestrooms



Occupancy vs. ADR



The entry of super-luxury branded hotels is expected to uplift ADRs of the overall market

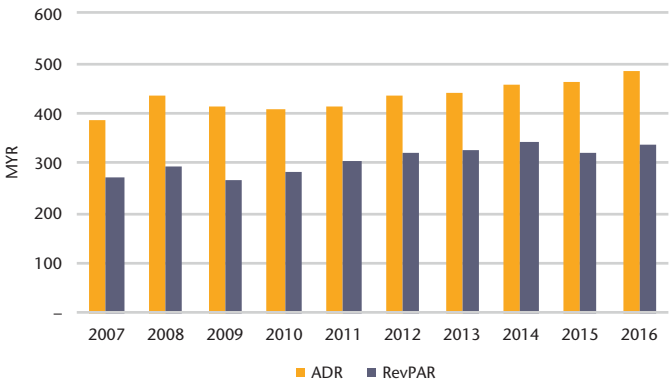
Average Daily Room Rate (ADR) on upward trend despite increasing supply

- Combined ADR Y-o-Y increase of only 2.5% with Revenue per Available Room (RevPAR) also registering 2.5% growth.
- In 2008, the combined ADR registered an extraordinary increase of 13%, followed by a drop of 6% and 1% in the next 2 years. Since, 2011, the ADR has chalked up growth.
- The ADR of the luxury hotels captured a higher Y-o-Y growth of 3.0% with RevPAR registering lower growth of 1.3%.
- The ADR premium captured by the luxury hotels over the combined market has consistently been at 1.2. But in 2015 and 2016, this was increased to 1.3.
- However, the RevPAR premiums registered by the luxury hotels over the combined market were constant at 1.1 since 2008.
- In terms of location, hotels in KLCC captured higher ADRs over those in Bukit Bintang and KL Sentral areas, with premiums between 1.1 and 1.2.

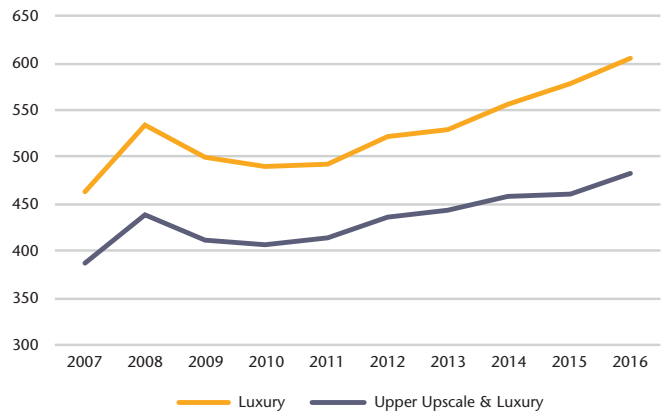
Forward Outlook

- Eight of the 12 confirmed new hotels have guestrooms under 260. These hotels are expected to position their ADRs at a premium over the current market rates.
- Over the short to medium term, ADR growth rates are expected to remain low; however, the entry of super-luxury brands such as Four Seasons, W, Park Hyatt, Kempinski, Banyan Tree, Sofitel SO and Jumeirah, is expected to elevate the ADR of the luxury hotels to a higher level.
- The entry of a significant number of guestrooms (both in the upper upscale and luxury) is expected to put downward pressure on occupancy levels over the short to medium term.

ADR & RevPAR



ADR (MYR)



Corporate & Direct FIT / OTA expected to drive demand and ADR

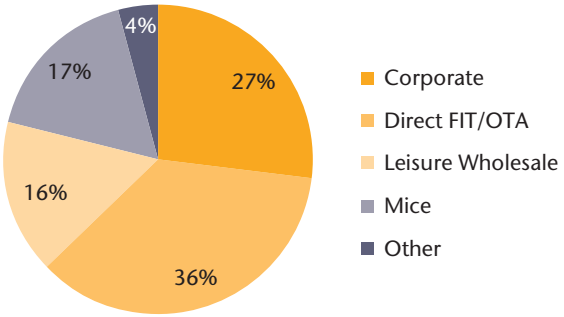
Direct FIT registered the highest ADR amongst demand segments

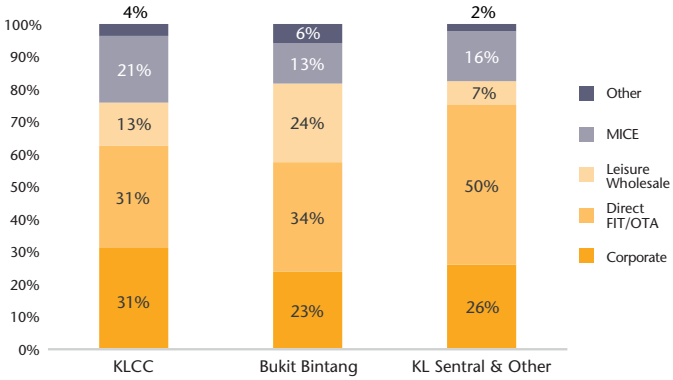
- Demand segment is more or less divided between Corporate (including MICE) and Leisure.
- Direct FIT/OTA sub-segment consists both Corporate and FIT Leisure.
- Oil & Gas sector is the main dominant corporate sector for demand in KLCC whilst both KL Sentral and Bukit Bintang hotels have a wider spread of corporate sectors.
- High content of Wholesale Leisure in Bukit Bintang expected in view of the shopping and entertainment enclave of KL.
- MICE is expected to remain an important demand segment in KLCC due to KL Convention Centre, although most demand captured are in-house MICE.
- Wholesale Leisure is expected to decrease while FIT Leisure expands as new luxury hotels enter the market.

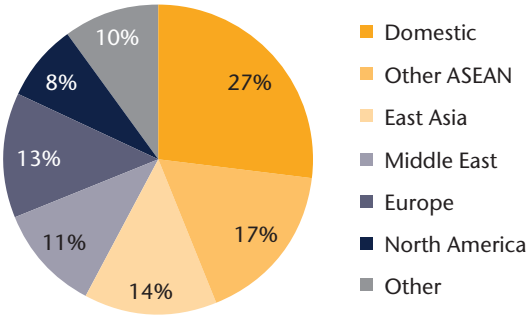
Foreign guest mix dominates across locations

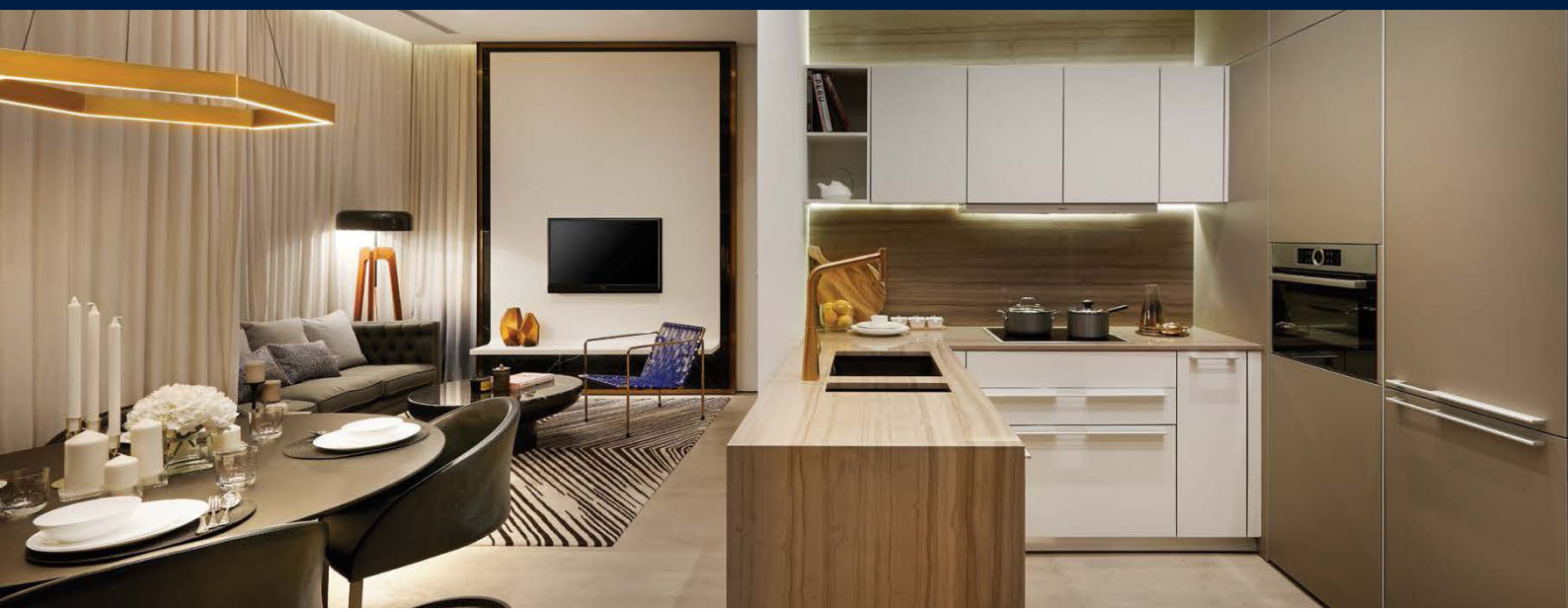
- Domestic market share is the highest at KLCC hotels.
- The favourite locale for Middle East guests in Bukit Bintang where hotels there captured the highest market share.
- East Asian guests are indifferent to hotel locations..
- Mainland Chinese guests are still dominated by tour groups as FIT travelers are increasing.
- Domestic guests are expected to decrease in the coming years as higher positioned hotels enter the market.
- The share of guests from ASEAN is expected to increase over the medium term with enhanced connectivity and the High Speed Rail.

Demand Segment & Nationality Mix









Source: YOO 8 Residence by Kempinski, Kuala Lumpur

The challenging economics of building luxury open the opportunities for upscale and midscale

Hotel brands driving pricing upwards as 75% of units have price tag over MYR2 million

Our market research shows that hotel affiliation is correlated to real estate pricing premiums. Across the market this is translating to a 25-35% uplift in pricing. The luxury hotel residences at Ritz Carlton, Four Seasons, and St. Regis offer various layouts of significantly bigger size units, from one- to five-bedroom duplex units and are seeing strong interest from end-users who are looking at the convenience of a development with extensive facilities, services and prestige of a hotel brand.

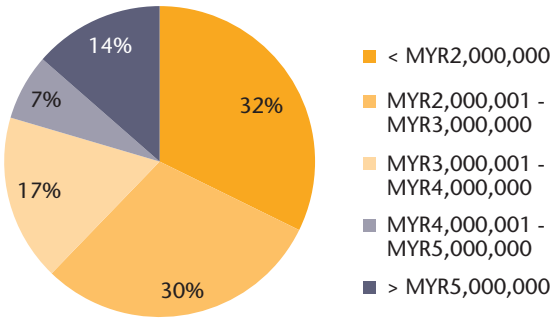
We are seeing a new trend of upscale and midscale brands into the sector, which will in turn be opened to a broader range of property buyers. Meanwhile, upscale or midscale hotel residences provide a limited choice of unit configurations from one-, two- and three-bedroom units only. Given less barriers to entry by property developers in this segment, highlighted by lower underlying land cost, this type of offering is expected to gain stronger traction across Kuala Lumpur's expanding cityscape.

Trends

- Quality of the surrounding area and accessibility are critical factors buyers consider. The Petronas Twin Towers and KL Tower remain significant viewpoints that add demonstrated value to property offerings.
- Fully-furnished units are preferred by foreign buyers who focus on recurring rental yields. A number of hotel residence projects provide fully-furnished properties or

An increasing number of global high net-worth individuals is diversifying Kuala Lumpur's traditional geographic source markets profile. Foreign buyers are entering the market both at the top end and entry levels. We expect the most movement in upscale or midscale hotel residences with a growing appetite for smaller units at lower absolute pricing points.

Hotel Residences – Unit Price Segment



Forward Outlook

- There continues to be concern over China's restrictive policy for outward investment. This remains a volatile challenge for developers of larger mega-projects that expect to tap into a broad market.
- A shift in investor profile is mainly attributed to the changing geographic source market of tourists. The market volume of mainland Chinese buyers looking to invest in rental properties is expected to remain active.
- Hotel group brand recognition itself is a key influencing factor as certain brands inevitably appeal to different demographics or source of buyers.

Source: St Regis, Kuala Lumpur

There are currently eight projects classified as hotel branded/managed residences in the market.

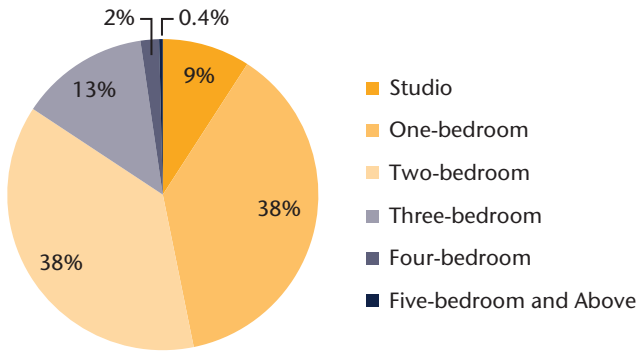
Project Name – Currently for Sale	Location	Total Units	Launch Year	Hotel Affliation
Ritz-Carlton Residences	JL Sultan Ismail	279	2009	Marriott International
St. Regis Kuala Lumpur	JL Damansara	158	2010	Marriott International
Four Seasons Place	JL Ampang	242	2013	Four Seasons
The Ruma Hotel & Residences	JL Kia Peng	453	2013	Urban Resort
Dorsett Residences	JL Imbi	252	2013	Dorsett
Tropicana The Residences	JL Ampang	353	2014	Marriott International
8 Conlay by Kempinski	JL Conlay	564	2016	Kempinski
Ascott Star KLCC Residences	JL Yap Kwan Seng	346	2016	Ascott
		2647		

Project Name – Incoming Pipeline	Location	Total Units	Opening Year	Hotel Affliation
Jumeirah Hotel Residences	JL Ampang	267	Q42021	Jumeirah
So Sofitel Hotel Residences	JL Ampang	590	Q42021	Accor

Source: C9 Hotelworks Market Research

Unit Configuration Mix

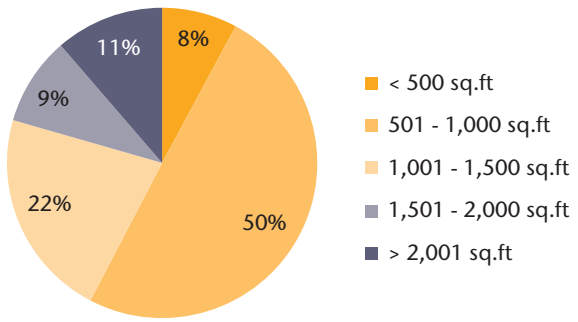
One- and two-bedroom units account for over 75% of current supply.



Source: C9 Hotelworks Market Research

Unit Size Mix

Unit sizing is decreasing with over 50% of units in 500-1,000 square foot range.



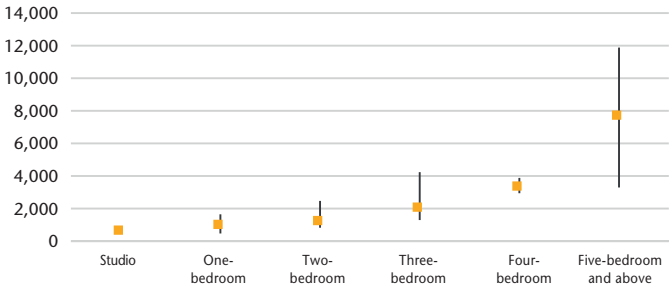
Source: C9 Hotelworks Market Research

Source: Ascott Residence at Star Residences, Kuala Lumpur

Unit Characteristics

High demand for entry-level units with low absolute pricing points attracting investment buyers

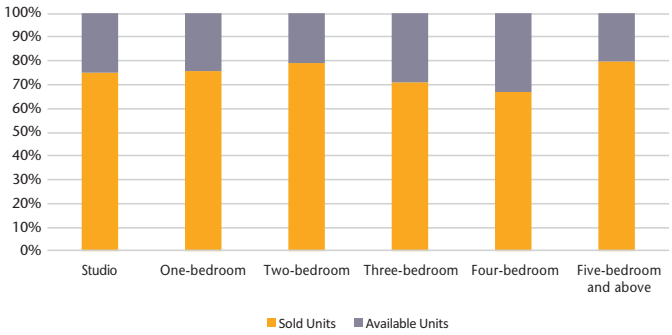
Average Built-up Size by Unit Type



Unit Size	Pricing	Max (sq.ft)	Min (sq.ft)	Average (sq.ft)
Studio	2,898	441	820	588
One-bedroom	2,774	506	1,648	901
Two-bedroom	2,796	807	2,408	1,153
Three-bedroom	2,593	1,308	4,253	1,995
Four-bedroom	2,452	2,972	3,843	3,295
Five-bedroom	5,230	3,256	11,894	7,575

Limited supply of projects have pushed up market-wide absorption rates

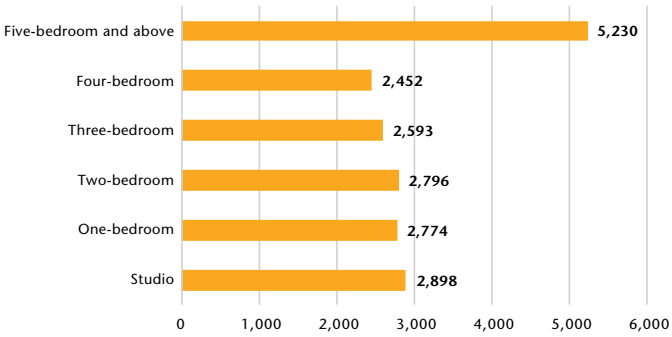
Absorption Rate by Type Unit



Source: C9 Hotelworks Market Research

High net-worth buyers prefer to purchase large units as primary residences

Average Price ('000) Per Unit



Source: C9 Hotelworks Market Research

Source: Mandarin Oriental, Kuala Lumpur

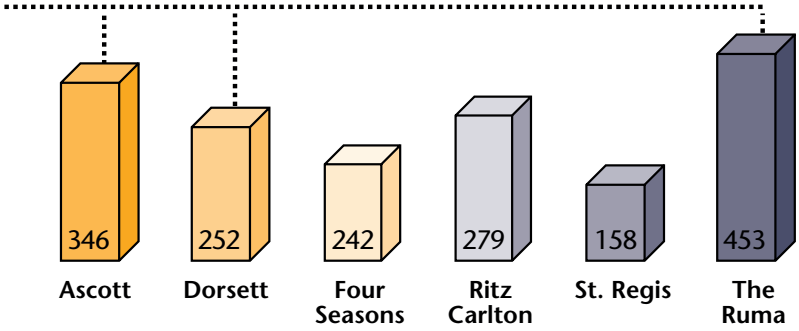
Buyers

1. HNWIs from Malaysia, Middle East and Hong Kong looking for a primary residence or trophy asset
2. Buyers from China, Indonesia and Taiwan looking for investment opportunities

HNWIs: High Net Worth Individuals

Supply

Hotel residences seeing influence of upscale and local operators such as Ascott, Dorsett, and Urban Resorts Concept (The RuMa).



Note: Number of Units

Trends

PRICING POINT — Broader types of buyers due to more affordable pricing points

UNIT SIZING — Unit configurations shifting to smaller sizes which impact brand positioning and pricing

FULLY FURNISHED — Fully furnished units attracting foreign buyers due to ease in rentals

Source: C9 Hotelworks Market Research

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C9 Hotelworks is a globally awarded hospitality consultancy recognized as Asia's leading advisor on residential and mixed use developments, with projects and clients across all markets within Asia Pacific.

With a history spanning over a decade, C9 has worked throughout Asia and in many other locations around the globe from its base in Thailand, delivering independent, strategic advisory services to owners and developers for market studies, feasibility reports, management operator negotiations and asset management.

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