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Market Reports

Despite dip, global chains dominate Malaysia pipeline

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Global hotel brands are revolutionizing Malaysia, a once largely unbranded hotel scene, and despite the fallout from a poor transport infrastructure, a sluggish economy and dips in foreign arrivals, hoteliers are pinning their hopes on an Asia-led leisure-tourism boom.

By Tamara Thiessen
ttgazette@hotmail.com

KUALA LUMPUR, Malaysia—Malaysia's hospitality industry together with a new government celebrating its first anniversary in power appear to have both got off on the right foot in 2019, with a flourish of big-name global luxury and business brands making a debut in the country's capital.

Opening in 2018 were the W Kuala Lumpur, Pavilion Hotel Kuala Lumpur, managed by Banyan Tree, and Four Seasons Kuala Lumpur, while in 2019 a CitizenM will open. Year 2020 sees debuts by Fairfield by Marriott, a Four Points by Sheraton and a SO Sofitel from Accor.

According to STR, the parent company of Hotel News Now, these last four are some of the 25 properties and approximately 6,665 rooms, in the city's pipeline as of 30 April. Luxury hotels make up the biggest piece of Kuala Lumpur's pipeline, followed by the upscale and upper-upscale segments.

Malaysia has a nationwide pipeline of 114 hotels and approximately 29,233 rooms as of 30 April.

After lagging for years behind its Southeast Asia neighbors, the buoyant Malaysian pipeline owes its hiked forecast to its location as a regional hub, said Jeremy Teo, an analyst with business consultancy HVS Singapore. But Teo added that even with this surge in development, early indicators show poor performance persisting in Kuala Lumpur and Malaysia beyond the first half of 2019.

Neo Soon Hup, EVP of operations at Pan Pacific Hotels Group—which has two hotels in the capital, the Parkroyal Kuala Lumpur and the Parkroyal Serviced Suites Kuala Lumpur—said Malaysian hoteliers have their work cut out for them.

"A slowdown in local business activity, domestic concerns and uncertain global economic conditions have made for a challenging operating environment and affected occupancy levels and (average daily rate)," Soon Hup said.

Also according to STR, Kuala Lumpur revenue per available room in Malaysian ringgit slumped 10% in year-to-date April 2019 numbers, and dropped 5.6% in all of Malaysia. Average daily rate in the capital fell 4.5% in local currency over the the same period.

Hope abounds

Despite the conditions, and Malaysia seeing deflation in February of this year for the first time in a decade, international hoteliers remain bullish.

"With approximately 3,400 new (upper upscale) guestrooms entering the market by 2023, downward pressure on occupancy levels over the short to medium term is expected," Soon Hup said.

"Oversupply is likely to persist as demand is not keeping pace … especially in view of the recent fall in tourist arrivals. However, we are optimistic about the growth of the travel sector. Given Malaysia's appeal as one of the top destinations within Asia, it will benefit from the boom in intra-regional travel," he said.

After a nearly one million drop in tourists between 2016 and 2017, the new government has ambitious plans to grow arrivals from a current 25.8 million to 30 million next year, which it has confidently declared "Visit Malaysia 2020."

Soo Hin Yeoh, GM of the Kempinski Hotel Kuala Lumpur at 8 Conlay, which also is opening in 2020 with 260 rooms, and serviced residences, believes Kuala Lumpur's potential will be met with a leisure travel boom underpinned by the 11% annual growth in the country's tourism industry over the past decade.

Tourism has become the country's third-most important economic sector, he said, but the country must improve some basics.

"The fact that Singapore, Indonesia and Thailand do much better in marketing their destinations is (shown) in much higher hotel occupancies. In the case of Singapore and Bangkok, (occupancy) averages over 80%, while (Kuala Lumpur) is hovering at just 60%," Yeoh said.

Some analysts are concerned about rising supply.

"The challenges lies in the new supply that is coming on stream, with no large (meetings, incentives, conventions and expositions) events and a lack of new tourist attractions to absorb it," said Hok Yean Chee, HVS's managing director, Singapore.

Jesper Palmqvist, STR's area director, Asia-Pacific, believes there are already signs of a dampening of investor enthusiasm in Kuala Lumpur.

"Fewer than 10 of the 25 hotels in the pipeline are in construction … and given how the market historically has reacted to new and fresh high-end hotels, it doesn't take much to pile on the profitability pressure," he said.

"I can certainly see some of the current projects being either delayed or abandoned … (due to) the constant fundamentals of chasing profitability in Kula Lumpur," Palmqvist added.

Yap Lip Seng, CEO of Malaysian Association of Hotels, said she thought the capital's hotel performance is being undermined by poor transport infrastructure and flight connectivity, obsolete visa regulations and administrative hurdles such as a tourism tax of MYR10 Malaysian Ringgit per night per person introduced in 2017.

Starting 1 June, that tax will be joined by another, a departure tax. Passengers flying to ASEAN destinations will be charged MYR20; those flying elsewhere will be charged MYR40.

Some say the new tax will replace the 2017 tax, but that's not determined yet, and the indecision is causing increased concern among hoteliers.

PPHG's Soon Hup maintained the tourist tax fallout has so far been "minimal" and has not affected occupancy levels at the group's hotels.

Challenges

The biggest challenges for long-term market growth he said, are transport infrastructure and product quality.

"Given the stiff competition amongst the Southeast Asia cities, it is critical for Kuala Lumpur to be easily accessible by travelers within and outside of the region," Soon Hup said.

PPHG still sees Malaysia as a "strategic growth market," he added, with four more Malaysian launches on the cards.

Playing on high brand affinity in neighboring Singapore, where 18% of the group's properties are,* he is confident about the outlook for a Malaysia rollout.

"We anticipate increased demand for travel to Malaysia across leisure and MICE segments, and resort destinations like Penang and Langkawi will be even more attractive in view of favorable currency-exchange rates," Soon Hup said.

One Malaysian destination likely to see a fillip is the historic port city of Malacca, where multiple projects are geared to a tourism boom.

One project is the massive, mixed-development Hatten City project, which includes the DoubleTree by Hilton, Melaka, which opened last year.

It is "trading well," according to its operations manager, NorSahara Ahmad, who added the city is still viewed as a leisure destination at weekends and a MICE one during weekdays.

Vivienne Chu, GM of the Novotel Melaka, said "current performance is a bit stagnant, maybe because of all the new hotels and relatively poor air- (and) land-transport links."

One improvement to the transport grid is supposed to the Kuala Lumpur-Singapore high-speed rail service, but a recent decision postponed its opening from 2026 to 2031.

**Correction, 6 June 2019: This story has been updated to correct the percentage of PPHG's properties that are located in Singapore.*