72 72 (/printtopdf/294493)

Research (/Articles/ByCategory?category=Research)

Kuala Lumpur hotel market looking for a revival

25 MARCH 2019 8:33 AM

If Kuala Lumpur is to improve performance for brands and owners, as well as attract more hotel development for the future, something needs to happen.

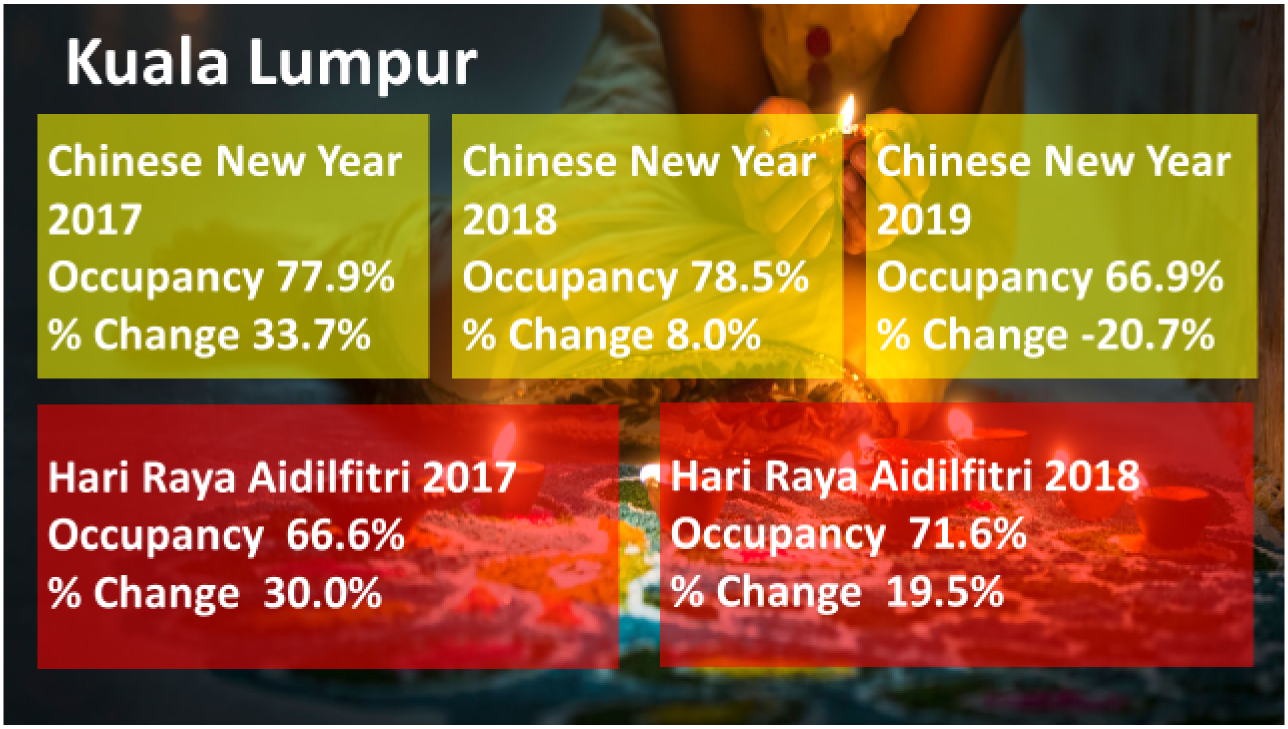
(Illustration: Rachel Daub)

By Jesper Palmqvist (/Author/611/Jesper-Palmqvist) and Jan Freitag (/Author/206/Jan-Freitag)

GLOBAL REPORT—Home to 178 hotels with close to 44,000 rooms, the Kuala Lumpur hotel market has seen supply growth of 13.3% since 2014 and by 3.5% for the full year of 2018—a pace which demand has had difficulty keeping up with.

While demand during the same time period on average grew by 2.2%, it continued to show volatility with sharp movements that in 2018 ended virtually flat (+0.2%), after two years of comeback growth.

In terms of historical performance, 2017 continued the comeback started in 2016. The market was heavily assisted during Q3 2017 by the successful hosting of the SEA Games.



Tourist arrivals for Malaysia have remained almost flat for the past 10 years, and even if it remains less dependent on the increasing competition for the outbound Chinese travellers, the nation and its capital have both seen a strong increase in arrivals from China. Malaysia as a whole experienced a 29% increase in arrivals from Greater China in 2018, compared to the year prior.

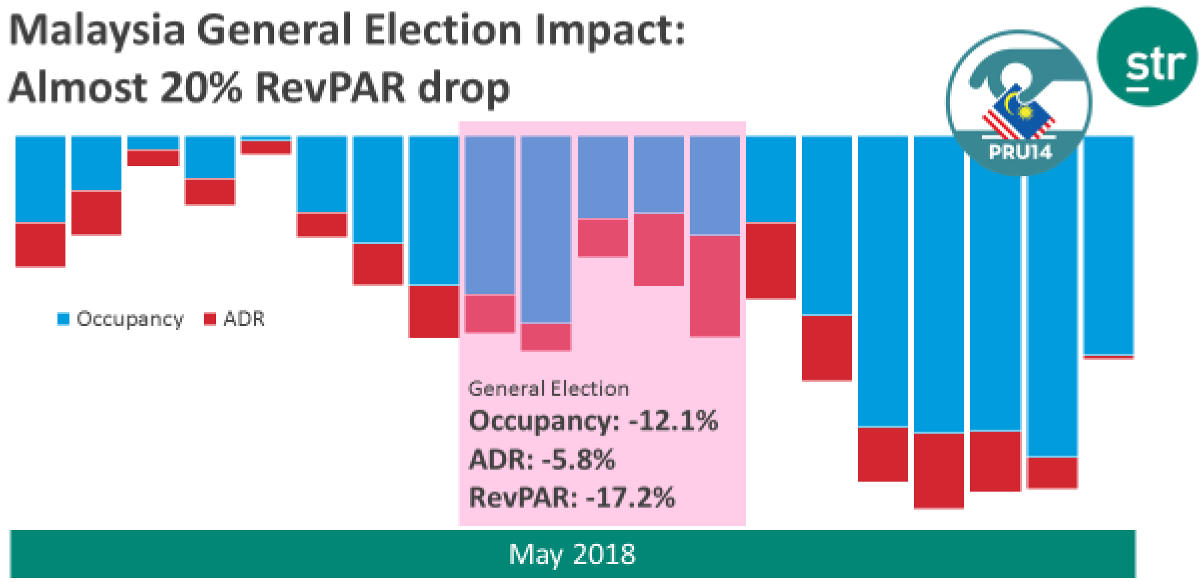
Kuala Lumpur continues to see a lot of domestic and corporate business, which over the past 10 years has meant that even when demand lifts occupancy, rates remain under pressure. Rates overall have declined since the high watermarks in 2014.

The two peaks of the year, March and August, remain important to lift any shoulder months, and December has become an increasingly important month for the city.

The first half of 2018 started reasonably well from a demand perspective, but there were early concerns that rates were under pressure. Not only did the Ramadan period, which always sees softer demand, show lower than normal results, but from August onwards every month hit a five-year low both in occupancy and average daily rate, creating an overall negative revenue per available result for 2018 at -6.6%, driven in equal measures by occupancy and ADR.

Part of the challenge in 2018 lies with weekend ADR, where Friday and Saturday rates dropped almost twice as much as that of Monday.

General elections in Malaysia, which run in five-year cycles, also had a noticeable effect. Malaysian elections historically do not help hotel performance compared to some other ASEAN nations where occupancy in business hotels with meeting facilities can see a boost leading up to the election. For total Malaysia, ADR was down 5.8% as occupancy dropped 12.1% year over year during the 10-day period surrounding the election date of 9 May.



Malaysia Daily Performance, Day to Day Comparison, 01 May – 20 May 2018, MYR

The Malaysian Ringgit has fluctuated plus or minus 10% for an exchange rate of between 4 to 4.50 MYR per U.S. dollar since the very strong softening during 2014-15. The currency has not gained either an advantage or disadvantage against the Chinese Yuan, compared to Thailand where the Thai Baht saw an impact from the devalued Chinese Yuan.

What's next for Kuala Lumpur in five points:

1. 2019 didn't exactly start off with a bang, with absolute ADR levels landing 5 percentage points below the recent five-year average. The market, which started strong in 2018, saw a year-over-year drop as new rooms hit the market. Overall results for Q1 2019 should be a strong indicator for whether this current slump will last longer or if it can be reversed more quickly, as March is a month with strong historic averages in both ADR and occupancy levels.

2. Another strong indicator is the Lunar New Year, which historically pads occupancy during extended holidays in the capital city. In a direct comparison of the two main dates during new year-week, occupancy in 2019 ended at 66.9%, a substantial drop of 20.7% from the 78.5% seen in 2018.

3. The month of Ramadan continues to move earlier in the year compared to the Gregorian calendar; in 2018, it covered most of the month of May. We expect continued limited overall impact on performance, as May is historically not a strong month with a low baseline. It will be a different story altogether in a few years, as Ramadan blends into April and eventually peak month of March for the first time in more than 25 years. In 2008, when Ramadan fell in the other peak month of August, occupancy dropped significantly, but rates held up reasonably well. We do expect a softer peak occupancy this year during the two days of Hari Raya Puasa, the end of the fasting month, which in 2018 set a very strong benchmark at 71.6%.

4. The current pipeline of 25 hotels and 6,900 rooms will put additional pressure on certain areas of the city, particularly for high-end hotels since half of all new hotels will be in upper-upscale and luxury hotel classes. However, the expected time frames of this pipeline (20% of pipeline rooms due to open in 2019) is less urgent than that of some other Asian cities. For

example, Bangkok will open 27% of its close to 12,000 new rooms in 2019. Tokyo is the most extreme example with 50% of the more than 17,000 new rooms set to open this year. That market is seeing an influx in arrivals as major events such as the Rugby World Cup and Summer Olympic Games create strong need for new rooms.

Close to 80% of the new room stock for Kuala Lumpur will be managed by the major global hotel chains, further expanding the brand presence in a previously more domestic and unbranded market.

5. Multiple factors will decide the short- to mid-term performance success in Kuala Lumpur. Partially, it will depend on if the city can continue to increase international arrivals—outside the high-volume and less-fluctuating traffic from neighbours Singapore, Thailand and Indonesia—and in that way diversify its arrivals mix and extend the length of stay.

This will be even more important moving forward given the new incoming supply of rooms.

In addition, we have yet to see the complete effect from the aftermath of the 1MDB scandal along with the growing uncertainty around the heavily debated future of Malaysian Airlines.

Jan Freitag is SVP of lodging insights at STR.

Jesper Palmqvist is the area director for Asia Pacific region at STR.

This article represents an interpretation of data collected by STR, parent company of HNN. Please feel free to comment or contact an editor with any questions or concerns.

No Comments

Log In (/login?returnUrl=/Articles/294493/Kuala-Lumpur-hotel-market-looking-for-a-revival) or enter name