

KLANG VALLEY HOSPITALITY MARKET 1Q 2011

The hospitality sector, particularly the Klang Valley hospitality, continued to be vigorous with more international brand hotels showing their interest in bringing their hotel brands to Malaysia. Furthermore, increasing tourist arrivals also projects positive outlook for the local hospitality industry.

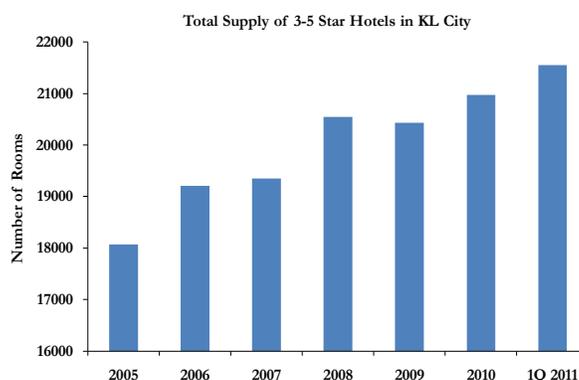
Tourist arrivals to Malaysia registered a new high record of 24.6 million and tourism receipts of RM56.5 billion last year. It was the highest numbers ever recorded for the sixth straight year which surpasses the government's 2010 targets of 24 million arrivals and RM55 billion in tourism revenue. From the RM56.5 billion tourism revenue last year, a whopping 30% or RM17.3 billion came from the accommodation sector which recorded about 53 million hotel guests for the year.

This year, the Tourism Ministry is confident to achieve 25 million arrivals and RM60 billion in tourism receipts. The tourist arrivals for January 2011 which is about 1.92 million or 1.2% more than arrivals recorded for the same period last year, shows good prospect to achieve the target. On top of that, the Lonely Planet's ranking of Malaysia as one of the best value destinations in the world last year, is also believed will facilitate to attract more tourists to visit Malaysia.

Supply & Demand

There were a total of 37,750 hotel rooms in Klang Valley as of March 2011, from which about 26,835 rooms or 71.09% are located within Kuala Lumpur City Centre and the remaining 28.91% (10,915 rooms) is located outside the Kuala Lumpur City.

The current supply of 3-star, 4-star and 5-star hotel rooms in KL City stands at 5,004, 9,282, and 7,261 respectively. As for the budget hotel, presently there are about 5,288 rooms within Kuala Lumpur City. There has been an increase in our total supply of hotel rooms in this quarter due to addition of few existing 3-star (Hotel Nova, Puteri Park Hotel, Starpoints Hotel Kuala Lumpur and Frenz Hotel) and budget hotels (Cube Hotel and Leo Palace 1 Hotel) that was not taken into account previously.



Source: Zerim Properties Research

The 1Q 2011 witnessed the entry of Intercontinental Hotel with the opening of the Intercontinental Kuala Lumpur (formerly the Nikko Hotel Kuala Lumpur) on 1 February 2011 to guests after more than 2 years of refurbishment works. This 473-room 4 –star hotel is located along Jalan Ampang, Kuala Lumpur. Moreover, during the quarter, the Impiana KLCC Hotel was undergoing upgrading and expansion works to add another 180 rooms to the hotel (existing 335 rooms) which is expected to be completed by 1 April 2012.

Recently, Dijaya Corporation Bhd announced to develop a W Hotel in Kuala Lumpur through a joint venture with the Starwood Hotels and Resorts Worldwide. The hotel will feature 150 rooms and suites once completed in 2016 and will mark the entry of the regal W brand to Malaysia. Meanwhile, the Tradewinds Corp Bhd announced that it plans to demolish the 565-room 5-star Crowne Plaza Mutiara Hotel and Kompleks Antarabangsa on Jalan Sultan Ismail to make way for a ‘multi-billion-ringgit’ mixed commercial development.

Apart from the private sector, the government also showing keen interest on the local hospitality sector. The government via PEMANDU has introduced 12 Entry-Point Projects under the Tourism NKEA to propel Malaysia into a key tourism destination. One of the 12 EPP is to improve rates, mix and quality of hotels and in order to achieve this objective, two major projects were identified. The projects are the construction of St Regis Kuala Lumpur and the refurbishment and extension of the Majestic Hotel Kuala Lumpur.

A number of new hotels projects are in different stage of development. The following table shows the anticipated future supply of hotels in Klang Valley.

Future Supply of Hotels in Klang Valley

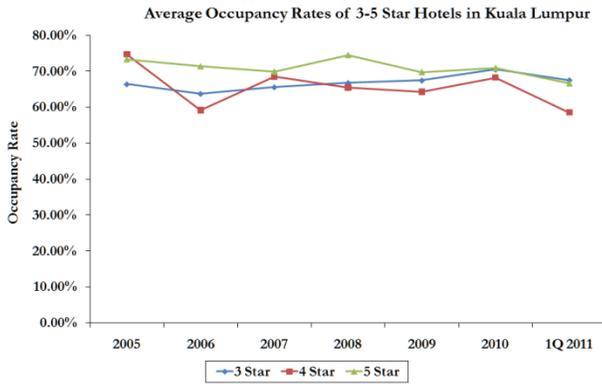
Name	Location	Rating	No. of Rooms	Expected Completion Date
Pullman Kuala Lumpur Bangsar	Pantai Baharu, Bangsar	5	515	2011
Royale Bintang, Damansara (formerly Royale Bintang Surian)	Mutiara Damansara	4	300	2011
Taragon Puteri (Park Regis)	Pudu, KL	4	445	1H 2011
Best Western Premier Dua Sentral	Jln Tun Sambanthan, KL	4	361	Q3 2011
Grand Hyatt Hotel	Jln Pinang, KL	5	450	2012
The Regent	Jln Bukit Bintang, KL	5	250	Mid 2012
Viva Home (Formerly Plaza Uncang Emas)	Jln Loke Yew, KL	4	260	End of 2012
Lot G	KL Sentral	4	482	2Q 2012
The Olives Hotel	Subang Jaya	4	N/A	2012
Majestic Hotel Kuala Lumpur	Jln Sultan Hishamuddin	N/A	Existing + 320 rooms (new)	2012
Damansara City 2	Damansara Heights, Selangor	5	300	2012
St Regis Hotel	Jln Travers, KL	6	208	2014
W Hotel	Jln Ampang, Kuala Lumpur	6	150	2016

The anticipated entry of the Australia’s StayWell Hospitality Group into local hospitality market came into halt as the group recently announced that it will not operate the planned Park Regis which is located within the Taragon Puteri KL development. Previously, StayWell replaced the Rendezvous Hospitality Group following the termination of the latter’s management contract.

Meanwhile, the Taragon Capital has entered into an agreement to sell the Park Regis Hotel to an overseas investment company, Grace Hub Sdn Bhd. The new owner is currently in the midst of appointing an operator for the hotel.

Hotels

Occupancy Rate

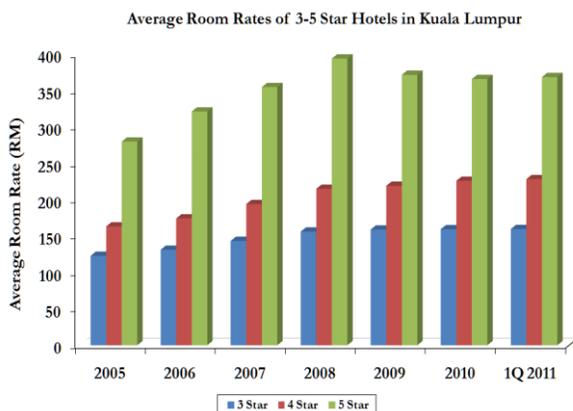


Source: ZerIn Properties Research

The overall occupancy rate for Klang Valley Hotels in 1Q 2011 was registered at 56%, declined from 64% in 4Q 2010. The overall occupancy rate for Klang Valley Hotels in 1Q 2011 is also slightly lower about 6% from the corresponding period in 2010.

Occupancy for 5-star hotels in KL City during 1Q 2011 was 67%, slightly lower from 73% that was recorded during both 4Q 2010 and 1Q 2010. The same trend was seen in the 4-star segment whereby the occupancy of 59% in 1Q 2011 is lesser than the 70% and 67% that was registered during 4Q 2010 and 1Q 2010 respectively. 3-star occupancy declined from 77% in 4Q 2010 to 68% in 1Q 2011 but increased slightly about 3% from 1Q 2010.

Average Room Rate



Source: ZerIn Properties Research

The average room rate (ARR) for 5-star hotels in Kuala Lumpur was at RM370 in 1Q 2011 which maintained the same rate as in 4Q 2010 but slightly higher than RM364 that was recorded in 1Q 2010.

On the other hand, the ARR for 4-star and 3-star hotels were at RM229 and RM160 respectively in 1Q 2011, both lower than the ARR in 4Q 2010 which were at RM233 for 4-star and RM162 for 3-star.

However, the ARR for 4-star and 3-star segments in the 1Q 2011 are higher than the ARR recorded in 1Q 2010 which stood at RM218 and RM156 for both the 4-star and 3-star respectively.

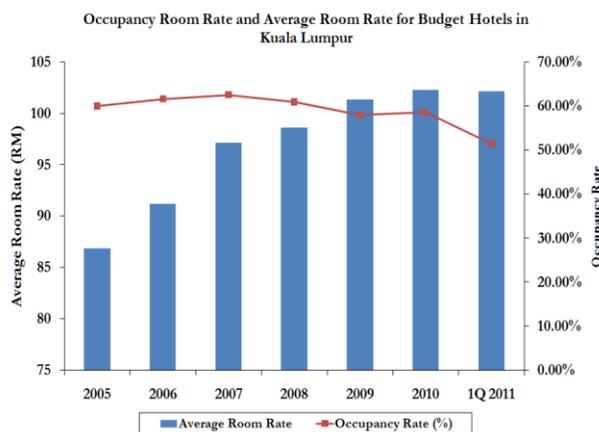
Budget Hotel

As of 1Q 2011, the total supply of budget hotel rooms in Kuala Lumpur stood at 5,288. Although the current supply of hotel rooms under this segment is quite adequate, there is still room for branded budget hotels such as Tune Hotels, Ibis, and Holiday Inn Express.

Occupancy Rate and Average Room Rate

Occupancy for budget hotels in Kuala Lumpur during 1Q 2011 maintained the same rate as the corresponding period in 2010 which was at 51% but declined from 69% that was recorded during 4Q 2010. Budget hotels enjoyed better occupancy rate during 4Q 2010 than in 1Q 2011 due to the year end holidays.

Meanwhile the Average Room Rate (ARR) for budget hotels revolved around the range of RM100 during the first quarter of both 2011 and 2010 as well as in fourth quarter of 2010.



Source: ZerIn Properties Research

Serviced Apartment

At present, there are 27 service apartment properties with a total of 4,877 units in Kuala Lumpur. Demand for service apartments in Kuala Lumpur is very much stable as it becoming a popular choice for families as well as to the corporate sector.

During 1Q 2011, the Swiss-Garden Residences opened for business. The residence features two towers that have a total of 478 rooms. It is located on Jalan Galloway, right behind its Swiss-Garden Hotel in the Bukit Bintang area.

Occupancy Rate and Average Room Rate

Occupancy for service apartments in Kuala Lumpur during 1Q 2011 was 52%, declined from both 67% and 61% during 4Q 2010 and 1Q 2010 respectively.

Meanwhile, the average room rate (ARR) for service apartments was at RM272 during 1Q 2011, declined from RM278 in 4Q 2010 but increased from RM268 in 1Q 2010.



Source: ZerIn Properties Research

Outlook

The Kuala Lumpur hospitality market during 1Q 2011 was comparatively stable although it recorded lower occupancy rate in most of the segments, particularly when compared to the performance in 4Q 2010, which is normal as compared to the year end holidays.

However, the anticipation is high for the hospitality market during the remainder of 2011. The local hospitality market is expected to enjoy the multiplier effect that would arise as a result of implementation of the various measures proposed by the government under the 10MP and Budget 2011.

The government's effort to attract more foreign tourists especially under the business category induced various initiatives to achieve the objective. Some of the initiatives that was announced are the allocation of RM85 million to facilitate construction of hotels and resorts in remote areas, RM50 million funding for business tourism and the identification of 12 Entry-Point Projects (EPPs) under the Economic Transformation Programme.

The intensive efforts by the government and the entry of luxury hotel brands will facilitate to escalate the performance of the hospitality market.