Realty Check
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Putting Malaysia on the global luxury tourism map

JULY has always been the peak season of the tourism industry not only for Malaysia but also for our neighbouring countries like Indonesia and Thailand. In Malaysia, last year we recorded 24.6 million tourist arrivals – surmounting both the official target of 19 million and the 23.6 million notched up in year 2009. However, in terms of yield from this sector, it was noted by the Tourism Minister that ours was still lower compared to Singapore's and Thailand's. About 75% of Malaysia's tourism growth has been due to the increase of tourist arrivals compared to only 25% growth from yield. In comparison, 65% of Singapore's growth was driven by tourist arrivals while 35% of growth was attributed to yield. Thailand had the reverse situation, where 42% of growth was due to tourist arrivals and 58% was due to yields, reflecting that it is attracting higher spending tourists.

If we look at our tourism products, we are still behind in attracting certain market segment due to limited or rather lack of variety in our tourism products. A notable trend in tourism now is a growing demand for private luxury villas at top resort destinations as an alternative to hotel accommodation as well as an investment portfolio. If one tries to Google for Asia's 20 top luxury villas in South-East Asia, the first few in the list appears to be luxury villas either in Bali, Indonesia or Thailand, two countries in this region which have been vigorously promoting luxury tourism leveraging primarily on their natural settings from beachfront to hills and forests as well as the wide paddy fields. This trend has also sparked Philippines and Vietnam to promote similar products capitalising on their natural assets.

South-East Asia Property Report (July 2011) named Karma Kandara, Bali (Indonesia), Six Senses Con Dao (Vietnam), W Samui Residences, Koh Samui (Thailand), Malaiwan Phuket (Thailand), The Village Coconut Island (Thailand), Banyan Tree Residences, Bintan (Indonesia), Nexus Residence Karambunai (Malaysia), Alila Villas Uluwatu, Bali (Indonesia) and Andara Resort & Villas, Phuket (Thailand) as the top ten luxury villa resorts in South-East Asia. While prices range from US$300,000 to US$6mil, rates during non-peak season typically range from US$300 per night to US$4,000 per night.

Average price difference between high and low season varies about 50%, 30% and 20% in Bali, Samui and Phuket respectively. Karma Kandara in Bali is located at the striking sea-cliff overlooking the Indian Ocean. It offers private luxury villas of three, four and five bedrooms with 5-star facilities and services. The 4-bedroom villa is tagged at US$1.25 million while the smallest one-bedroom villa is priced at US$350,000. Rates during peak season starts from US$1,120 per night for a one bedroom luxury pool villa to US$8,000 per night for Grand Cliff Front Residence (5 bedrooms). Occupancy rates have been reported as very encouraging for most of these villas, at 70% during non-peak season and 95% during peak season. In Thailand, W Samui Residence in Koh Samui is located in secluded hillside island with 270 degree seaview over the Gulf of Thailand.

This modern-vernacular architecture luxury villas offer guests rustic yet sophisticated feel that perfectly blends with the natural surroundings. Prices of the villas range from US$2.3mil to US$6.7mil with built up area from 10,700 sq ft to 29,500 sq ft for 3 to 5 bedrooms respectively. Over in Vietnam, Six Senses in Con Dao – an archipelago 230km from Ho Chi Minh City has set a new benchmark of luxury villas lifestyle in the South-East-Asia region as illustrated in its overall development theme "Redefining Experience".

These 50 private villas are the choice of wealthy escapes in need of genuine yet lavish retreat. Being relatively new in the luxury villa market, selling price for Six Senses ranges from a modest US$2mil to US$3mil. Meanwhile, average lead time for villa booking in Phuket is 180 days about 6 months before arrival. Market share of private luxury villas in Thailand and Bali is estimated to be about 10% of the hospitality sector.

These luxury villas are modelled after the sale and leaseback concept where majority of the buyers are Australians and Europeans. In Thailand and Indonesia, for example, because of restrictions on foreign ownership, the villas are sold to private investors on leasehold basis (30 years + 30 years + 30 years). Buyers will then be requested to join a rental programme, which will provide a certain level of net guaranteed return. Karma Kandara's rental programme offers a 5.0% net guaranteed return for three years, then investors will be eligible to participate in the Rental Pool scheme, where the expected gross return is typically higher.

Luxury villas

Most villas offer private usage of between 28 days to 30 days per annum. Luxury villas may range from the highest-end run by internationally recognised luxury hotel brands to small villas of three to six units owned and run by local villa operators. Rates and services offered by small luxury villa resorts offering only six units such as Kei Villas and Cicada in Seminyak, Bali are also comparable to the larger luxury villa resorts. Economy of scale is achieved in running limited number of units as their staff are trained to multi-task – they are your concierge, housekeeper, electrician and butler.

All of the luxury villas identified as the top resorts in South-East Asia show that they mainly capitalise on their nature, local products and culture, and local architectural design using local materials and in some cases recycled materials, such as railway slippers.

One notable element from the South-East Asian villas is the adoption of truly sustainable development approach using principles of ecological sustainable design. Materials are mainly from local resources to preserve the integrity of the environment including the lava rocks and Javanese mahogany. It also applies strong local architectural ambience that allows natural ventilation and maximum natural lightings.

Recycled materials are often used as internal design features. These luxury villas are located within traditional village settlements and access is only via small and untarmac road. This way, guests will be able to experience local lifestyle within a true village environment and this kind of experience has attracted most of the tourists coming to these resorts.

Guests are invited to cultivate local crops and in some resorts cooking class on local dishes is also available. For example, at Thai Farm Cooking School, guests at resorts in Chieng Mai have the opportunity to learn about local ingredients and prepare Thai dishes. Classes also include a visit to the local market and an educational tour to the organic farm. Alila Manggis Resort in East Bali is famed for its cooking school specialising in East Balinese cuisine.

At Alila Manggis Cooking School, guests are taught not only to prepare Balinese food, but also to undertake a journey through the local villages, including visit to the local market and the villagers' kitchen. Most of these resorts also offer spa and wellness treatments using local resources.

Malaysians contributed 6.23% (155,239) of the total tourists to Bali in 2010, with the highest numbers in June (15,870) and December (18,707). However, we could not determine how many of these Malaysian tourists stayed in luxury villas. But this number could give an indication that there is demand among Malaysians seeking retreat in private villas rather than in cookie-cutter hotel rooms. In my opinion, Malaysia, a country blessed with rich natural environment, has not taken full advantage of the growing demand for luxury retreat villas though Pangkor Laut Resort, Nexus Karambunai, Leisure Farm Resort and A'Famosa Resort and The Villas at Sunway Resort Hotel fall under this category.

A brave move by local breed Philea Properties Sdn. Bhd. for the opening of Philea Resort & Spa in Ayer Keroh, Malacca deserves prudent admiration. This 12-acre resort is the only 5-star resort in Malaysia constructed primarily out of Russian pine logs. Opened in 2010, Philea Resort & Spa has managed to record 70% to 90% occupancy rate; capturing largely the luxury niche market.

Moving forward, the long-term prospect for Malaysian tourism remains bullish. Malaysian hospitality developers should take advantage of the surge in demand for private luxury villas in South-East-Asia, be it for investment purpose or holiday destination.

Traditional fisherman village in Dungun, untouched hills in the East Coast or white sandy beach in Langkawi are some of the potential locations for these luxury villas. The appeal of privacy, exclusivity such as car driver, private butler will draw more high-profile niche market (international and local) to choose Malaysia as their luxury resort destination and subsequently put Malaysia on the global luxury tourism map. In addition, complementary wellness activities such as spas and massage parlours are some of the popular additional personalised services to the guests.

To be competitive in global

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Unlocking value of Malay Reserved Land

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luxury tourism market, strong support from the government and financial institutions is required. For example, most of these untouched hills and mountains typically are Malay Reserved Land (MRL), where most owners have limited means and knowledge to unlock the value of their land.

The only way to unlock the value of this MRL is to allow owners to develop the land into high-yielding tourism product, such as luxury villas, and allow the units to be sold to international market on leasehold basis as this is a niche product favoured and demanded by this market segment, with minimum restriction on the quota of international vs local buyers.

Until then, owners of MRL will only have to be satisfied with low yielding investment on their land. As a land owner put it, he will have to be happy with his sales from durian and rambutan as there is not much that he could do to develop his MRL.

Perhaps promoting the development of luxury villas in our kampung should be given due consideration, in addition to the 12 Entry Point Projects that have been identified under the Tourism National Key Economic Areas.

● *Senator Datuk Abdul Rahim Rahman is the executive chairman of Rahim & Co group of companies.*