

# MALAYSIA COMMERCIAL REAL ESTATE INVESTMENT SENTIMENT SURVEY 2020 (CREISS 2020)

## Kota Kinabalu Sentiment

Sabah's economy had been largely dependent on the primary sector associated with agriculture and oil & gas industries before the state's tourism industry started to gain prominence by emerging as another important economic driver for Sabah. Lodging, food & beverage (F&B) and other related tertiary services have since experienced unparalleled performances; particularly in Kota Kinabalu being the capital city and main gateway to Sabah.

The COVID-19 outbreak, without doubt, has severely disrupted the momentum of the thriving industry with activities in related services slowing down and grinding to a halt when the State Government stopped accepting direct flights from multiple Chinese and Korean cities. This move effectively shut off the majority of international tourists into Sabah as both East Asian countries have been significant contributors to the state's international tourist arrivals. In addition to that, the implementation of the Movement Control Order (MCO) coupled with the plunge in crude oil price and CPO price hovering at low altitude, create more or less a perfect storm that further aggravates the market sentiment.

With the entire globe weathering the COVID-19 pandemic which has no ending in sight as yet, the property market in KK is expected to see lacklustre activity in the near term. The volume of property transactions will foreseeably be lower as the market has yet to encounter many motivated sellers. The general situation of yield compression is, however, anticipated to improve with the buyer-led market setting in. Nonetheless, the improvement in yield will likely be moderated due to requests for waiver or discounted rental by tenants across businesses.

Notwithstanding the above, the hotel / leisure sub-sector still ranked top amongst the majority of survey respondents if the current unprecedented circumstances is taken out of the equation as Sabah possesses all the natural endowments and traits to be a world-class premier eco-tourism destination.

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## Needs to expedite diversification in tourism, hotel and leisure market

The tourism industry is vital for the success of many economies around the world, considering its economic and social aspects. Amongst many, the key benefits of the industry towards the economy include job creation, foreign-exchange earnings, and its high multiplier effect. Similarly, Sabah's economy places heavy reliance on the tourism industry – it is an important source of revenue along with agriculture and oil & gas industries.

Sabah has been gaining prominence as one of Asia's popular travel destinations with its rich natural endowments ranging from the wide cultural heritage of its natives, exotic flora and fauna, biodiversity from the ocean deep to mountain high and year-round tropical weather. The relatively short flight time to regional destinations and Sabah's friendly and warm populace are also added attractions. The visitor arrivals to Sabah have shown an optimistic growth from 1.1 million to 4.2 million between 2002 and 2019 with the compound annual growth rate (CAGR) of 9%.


This exceptional growth in tourism can be reflected by the emergence of Kota Kinabalu International Airport (KKIA) as the second busiest airport after the Kuala Lumpur International Airport (KLIA) as well as the new addition of multiple chained-brand hotels in Kota Kinabalu namely, Hilton Kota Kinabalu, Mercure Kota Kinabalu, Marriott Kota Kinabalu and Holiday Inn Express. In addition to that, proposed brands in the pipeline include Crowne Plaza, ClubMed, Pullman, DoubleTree by Hilton, Sheraton, to name a few. This greatly underscores the confidence towards the potential of Sabah's tourism industry.

In recent years, positive momentum within the sector had also generated increased investment across products that are related to short-term rental businesses; leveraging on the growing tourism market, macro societal trends, the rise of the sharing economy, the growing need to monetise property to support an unaffordable mortgage and a more transient and flexible community. Hence, property developers, investors, and lenders were observed to be jumping on the bandwagon one after another; when short-term rental businesses have started to heat up in the local context.

However, the global economy is currently experiencing much volatility in the face of the disintegration of the OPEC+ alliance; which has caused global oil prices to slump significantly, and the continued impact of the COVID-19 outbreak; both of which have rattled global financial markets and continue to weigh heavily on global growth prospects.

The hotel / leisure sub-sector is among the most affected sub-sectors due to international and domestic travel restrictions and lockdown of countries. Despite the strong fundamentals and potential of the state's tourism industry, it is no different from any other markets whereby the effects of the outbreak will be significant and protracted. Similarly, the impact towards short-term accommodation is also inevitable as it is also standing at the epicentre of the tourism industry, to a great extent. Many have suffered especially those who have invested in multiple units of similar product. This had shed some light to investors alike on the fundamental of "Markowitz's theory", whereby diversified portfolio is proven to be less volatile than the total sum of its individual parts.





In light of this disastrous pandemic, many have learnt the importance of market diversification in tourist catchment to achieve sustainable growth for the industry moving forward. For instance, the hotel / leisure sub-sector and its related services in Sabah had been hit hard even before the declaration of COVID-19 as a pandemic and the lockdown of the country, mainly due to the suspension of all direct flights from China followed by South Korea in the wake of the novel coronavirus outbreak. Both China and South Korea contributed to approximately 68% of the total international visitor arrivals of Sabah in 2019. The relevant stakeholders (including the authority) are in the midst of diversifying the tourism catchment, which has been highly dependent on Chinese and South Korean tourists, to include domestic tourists as well as high-yielding tourists from Europe, America, Australia, United Kingdom, to name a few.

In terms of tourism products, the Sabah Tourism Board has initiated multiple projects, which include community-based tourism at rural areas, for benefit of the local community and state economy. Other than leisure/eco-tourism, Sabah has also embarked onto a new journey – the newly completed world-class Sabah International Convention Centre (SICC) is poised to elevate the state as a preferred MICE destination. Sabah's medical tourism industry is similarly growing from strength to strength, leveraging on quality and modern medical facilities and services at highly competitive price.

Looking at the overall blueprint, the state tourism sector seems to be on the right track and looks set to soar to greater heights. Nevertheless, the outbreak of this pandemic serves as a reminder to the relevant stakeholders that more effort and planning are needed to expedite the diversification to ensure the sustainable growth of the industry. Government policies to encourage inflow of Foreign Direct Investment (FDI) into the state through better financial incentives, well-established infrastructure, and desirable administrative processes and regulatory environment, will collectively bolster the footing and positioning of the industry to better withstand future adversity and challenges.

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