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Record-breaking Westin KL deal

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PETALING JAYA: A record-breaking deal. This is how the RM455-million sale of the 5-star Westin Kuala Lumpur (*pix*), winner of the International Real Estate Federation's Prix d' Excellence award in 2006, has been described.

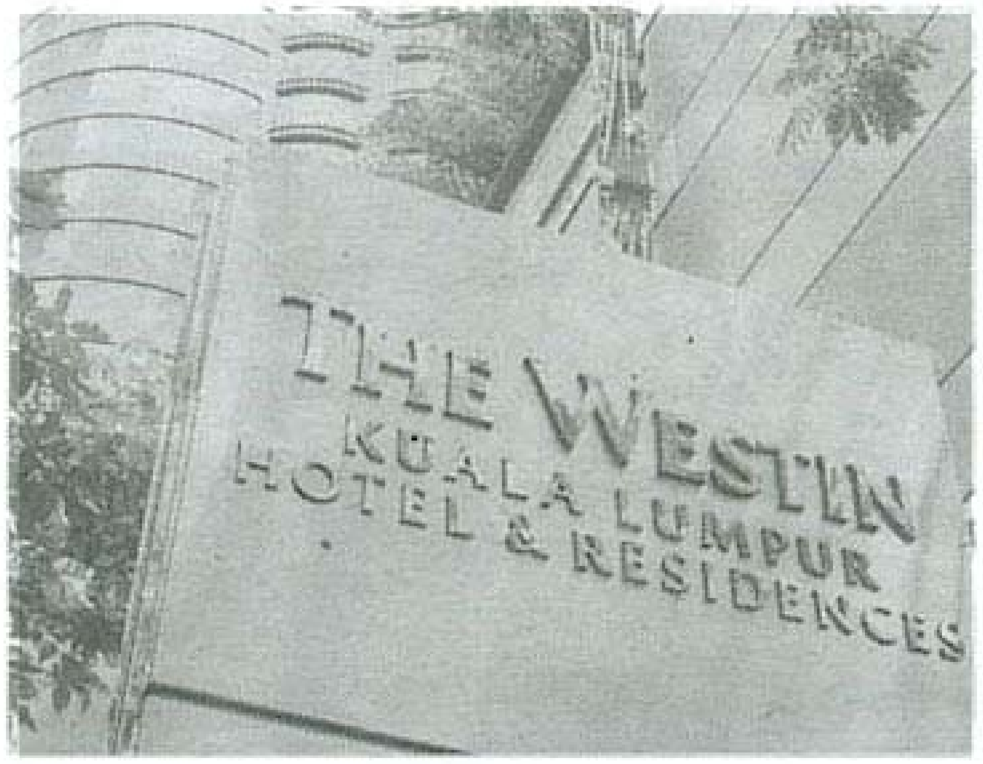
Zerin Properties' Previndran Singhe adds that the sale of the 452-room hotel by Ireka Corp Bhd to Newood Assets Ltd, an international property investment company, effectively works out to more than RM1 million per room. This price "has never been achieved for a hotel in Malaysia before", notes Previndran. The Westin KL had won the Fiabci Malaysia's Property Awards 2005 in the hotel category. (Newood Assets is a special-purpose vehicle set up under MM Group Ltd, an investment arm directly owned by the shareholders of TCC Land International (Thailand) Co Ltd.)

"And one must bear in mind that the Westin KL is still considered new in its life cycle, so there's a lot of potential. Based on its performance so far this year, I estimate yields to be about 5% to 6% currently. The investor could probably be looking at an internal rate of return of 15% and perhaps targeting yield of between 8% to 10% over the next two to three years," he analyses.

On comparisons with this deal, Previndran talks about the valuation of Mandarin Oriental Kuala Lumpur at RM933,126 per room during the listing of KLCC Property Holdings Bhd in 2004.

Previndran goes on to add that Westin KL has been giving Mandarin Oriental KL a run for its money. "Westin KL is one of the few hotels with rates surpassing US$120 [RM441] per night, occupancy is constantly above 70%, of course in the past two months, it has been even higher because it's the Arab season. And their food and beverage outlets are constantly making money. There are going to be many investors looking for this type of product, which would be hard to come by," he offers. Average occupancy rate for the hotel was 72% in 2005 and the first half of this year.

KENNY YAP



Brian Koh of DTZ Debenham Tie Leung (M) Sdn Bhd echoes that it is a benchmark pricing. "We are definitely seeing renewed confidence in the hotel industry with improving occupancy and room rates at over RM300 for 5-star hotels."

He adds that the recent purchase of Crown Princess by Macquarie Global Property Advisors for RM240 million and the purchase of Sheraton Perdana Resort in Langkawi for RM77.5 million by Indonesian-based PT Rajawali's Platinum Three International Ltd are also signs of an improving hospitality sector. "The investment climate is also improving although yields are not that exciting against the capital values," he offers.

Previndran adds: "Malaysia has become very attractive to our foreign neighbours. It is rumoured that a Hong Kong party has purchased Sheraton Subang for RM120 million."

Around RM265 million of the proceeds from the sale of the Westin KL will be used to pare down borrowings to improve Ireka's gearing position and settle expenses related to the transaction. The remaining RM190 million would provide capital for it to seize any strategic opportunities in its core businesses of construction, property development, and information technology. In particular, it will allow the group to expand its high-end property developments in Malaysia and overseas. Going forward, Lai Voon Hon, executive director of Ireka Corp, says plans are to develop boutique-type hotels and high-end residential developments in the Klang Valley, Sabah and Sarawak and overseas.

On whether there had been intentions to sell the Westin all along, Lai offers, "Actually, we were not really looking, but we were approached by this party [Newood Assets] and the offer was good. And it all sort of happened in recent months," he explains.

The Westin KL opened in 2004 after a challenging journey that began with the completion of the purchase of the three parcels that make up the 1.2-acre site in 1992. Its opening that was supposed to be in time for the 1998 Commonwealth Games was hampered by challenges posed in constructing the building on a difficult site, the 1997 Asian financial crisis and the Severe Acute Respiratory Syndrome epidemic in 2003.