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KLCI 7.87 1,556.98	STI 18.32 4,239.83	DJIA 206.97 44,175.61	CPO¹ 15.50 4,209.00 <small>¹RM/tonne</small>	OIL² 0.22 64.10 <small>²Bloomberg (US\$)</small>	GOLD³ 4.17 3,392.21 <small>³Bloomberg (RM/oz, sell)</small>
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For decades, investors believed that strong branding, a strategic location and high occupancy were enough to ensure success in the hospitality business

by AKMAR ANNUAR

EVERYONE wants a piece of the hospitality pie — prime real estate, global branding and a steady stream of guests.

However, beneath the glossy promise of hotel ownership lies a harsh financial reality that few investors are prepared for.

While the hospitality sector in Malaysia and South-East Asia is forecasted to grow at an annual rate of 6.5% from 2025 to 2030, industry insiders warn that rising investment does not necessarily equate to rising profits.

The reality, according to hotel strategist and Pragmatique Sdn Bhd MD Timothy Ho, is that many hotel owners are only realising — often too late — the financial traps hidden within outdated models, ambiguous operator contracts and the growing dominance of online travel agencies (OTAs).

“Hotel ownership should be a source of pride, not financial anxiety. But what we are seeing is that investors often enter the industry under false assumptions, and the cost of that ignorance is huge,” he told *The Malaysian Reserve* (TMR).

Hidden Losses Behind Brand Image

For decades, investors believed that strong branding, a strategic location and high occupancy were enough to ensure success in the hospitality business. But in the post-pandemic landscape, that belief has proven insufficient.

The structure of many hotel management contracts often tilts the financial benefits toward operators, especially when contracts are pegged to revenue targets instead of profit.

Ho explained that many owners mistakenly view revenue growth as an indicator of success. In reality, the incentive structures built into operator agreements often reward the operator for increasing topline figures, with little regard for the actual profitability of the asset.

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Branding, online travel agencies **choke** hotel profits



Source: MIDA.gov.my/TMRgraphic

Clean energy shift in Malaysia targets equity, regional growth

The govt is prioritising energy sector as a high-impact launch point

MALAYSIA is accelerating efforts to recalibrate its clean energy transition, with fresh moves to reform tariffs, consider nuclear energy, expand Asean energy trade and reduce its over-reliance on subsidies — all while ensuring equitable access and sustainable development.

Speaking at the Malaysia Energy Policy Forum hosted by

MBSB Group recently, Energy Transition and Water Transformation Minister Datuk Seri Fadillah Yusof said the country must adopt a pragmatic, people-centred approach to meet its energy security and climate goals.

“Malaysia’s energy transition must be pragmatic, people-centred and equitable. No sector or community should be left behind,” he said during his keynote address, reaffirming the government’s commitment to achieving net zero emissions by 2050 under the National Energy Transition Roadmap (NETR).

As of July 2025, the share of renewables in Malaysia’s electricity mix has reached 31%, driven by large-scale solar (LSS) and rooftop systems. The next milestone is 40% by 2035 and 70% by 2050 — an ambitious target, especially as the energy sector accounts for 70% of the country’s total carbon emissions.

Fadillah, who is also deputy prime minister, said this goal is not just about installing new generation capacity, but about “mobilising hearts and minds” across ministries, industries and communities.

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FBMKLCI Index

► MOST ACTIVE COUNTER (August 8, 2025)

NAME	LAST DONE	CHANGE (%)	VOLUME ('00)
EKOVEST BHD	0.395	-2.47	781,636
TANCO HOLDINGS BHD	0.765	-0.65	552,916
TOP GLOVE CORP BHD	0.595	-3.25	545,230
TWL HOLDINGS BHD	0.025	-	524,886
PHARMANIAGA BHD	0.18	2.86	442,315
ZETRIX AI BHD	0.875	1.74	334,016
NEXG BHD	0.535	0.94	311,592
SIME DARBY BHD	1.59	-3.05	262,782
MALAYAN UNITED INDUSTRIES BHD	0.055	-8.33	260,391
ECO-SHOP MARKETING BHD	1.33	-0.75	241,499



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ISSN 0126-6055 08
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Branding, online travel agencies choke hotel profits

• FROM PAGE 1

This results in hotel owners bearing the full burden of rising costs, while operators continue to earn their fees.

Ho shared that in several cases, owners were locked into long-term contracts that lacked termination clauses or meaningful performance indicators.

This effectively trapped them in relationships that prioritised the operator's brand value over the hotel's financial performance.

"An owner once proudly told me that he negotiated a clause stating the hotel operator's job was to maximise revenue. I had to explain to him that he just handed them a blank cheque," he said.

OTA Dependency Dilemma

The rise of OTAs has transformed how hotels connect with customers, but it has also created a costly dependency.

Ho said standalone and boutique hotels are the most vulnerable, as they often lack the internal sales and marketing infrastructure to generate direct bookings.

OTA commissions, once in the low single digits, have now ballooned to 15%-30% in some cases.

For some operators, OTA costs have overtaken traditional line items such as utility bills or labour.

In scenarios where hotels are also enrolled in brand-level loyalty programmes, additional fees are deducted — effectively compounding the commission structure into what Ho described as a "double-dipping" arrangement.

"Today, OTA fees can run from 15% to 30%, and for some standalone hotels, it is their single largest expense — higher than utilities or labour."

Complicating matters further is the pricing parity clause, which requires hotels to offer the same or better rates on OTAs compared to their own websites.

As a result, even hotels that attempt to reclaim bookings through direct channels often have to do so at a discount — or by sacrificing add-on benefits like breakfast or late checkout.

Projection-reality Mismatch, Vain Decisions

Another key issue in hotel investment is the overreliance on national occupancy and revenue averages, which often do not reflect the nuanced realities of specific locations or market segments.

Malaysia's hotel industry reports an average occupancy rate of 57%, but this figure conceals major variations across cities, regions and price categories.

Ho said some hotels in Kuala Lumpur (KL) regularly achieve occupancy above 80%, while others in the same vicinity struggle to reach 40%.

This discrepancy stems from investor decisions based on outdated or aggregated data, rather



Many investors are converting conventional hotels into hybrid-use models with co-living, wellness, or even eldercare components



Pic courtesy of Timothy Ho

According to Ho, many owners mistakenly view revenue growth as an indicator of success

than dynamic, segment-specific indicators.

"Luxury hotels will not work in every market. Kuantan, for example, may support mid-scale hotels better than premium properties," he said.

In addition, many hotel developments proceed based on unrealistic assumptions about room demand. Ho gave a hypothetical example: If five hotels in a single location operate at 50% occupancy, the total nightly demand is 250 rooms.

Adding another 500-room hotel without any new demand generators — such as an airport, convention centre, or office district — would only dilute occupancy further, potentially reducing the market average to 25%.

Aside from data blind spots, Ho flagged emotional decision-making as a major risk in hotel development.

Owners may be swayed by personal tastes, prestige, or ego, resulting in over-designed properties or the hiring of unqualified personnel.

Some insist on building features that reflect their personal identity such as trophy art installations or branded celebrity chefs, even when these additions have no positive impact on the bottom line.



Pic courtesy of Yap Kian Ann

One of the most persistent errors in hotel investment is the underestimation of maintenance costs, Yap says

Other mistakes occur at the funding and budgeting stage. Owners often underestimate the capital required, ignore professional cost estimates, or assume hotel financing works the same way as for factories or retail outlets.

This can result in incomplete construction, delayed openings, or ballooning overheads from prematurely hired general managers and staff.

"There are only three ways to improve profitability: Reduce costs, cut unnecessary spending, or increasing volume. Most failed projects ignore all three," Ho said.

Asset-light Giants, Heavy Burdens for Owners

One of the key shifts in the global hotel landscape is the rise of asset-light strategies. Brands like Hilton, Marriott and Accor no longer own the buildings that carry their names.

Instead, they franchise their brands or provide management services, earning steady income through fees while shifting financial and operational risks to local owners.

According to Ho, this arrangement benefits the brand while saddling owners with responsibilities related to financing, taxes, staff-

ing and compliance.

When disputes arise — whether legal, operational or reputational — it is the Malaysian owner who is liable, not the global brand.

"Many of them do not even have local offices. They collect fees from Malaysia without paying local taxes," he said.

Why Asset, Value Management Matter

To address these pitfalls, Pragmatique developed a five-cornerstone asset management model.

The approach focuses on optimising cost control, improving contract transparency, leveraging dynamic pricing tools and structuring the asset in ways that attract institutional investors.

The model has helped hotel owners boost asset value by up to 15% over five years, even in volatile environments.

Ho said asset managers should be involved from day one — starting with location selection and continuing through to long-term operational oversight and capital planning.

"We work on behalf of the owner, not the asset. Whether it is maximising value for resale or optimising yield, we tailor the strategy to each owner's goal."

From a valuation standpoint, many of these investment missteps can be traced back to flawed assumptions, said Agility Valuers & Property Consultants Sdn Bhd MD Yap Kian Ann.

"Projections for average daily rate (ADR) and occupancy are frequently overly optimistic, without accounting for seasonal fluctuations and market competition," he told TMR.

One of the most persistent errors in hotel investment is the underestimation of maintenance costs.

To maintain brand standards and operational quality, hotel operators typically require a capital replacement reserve of 3% to 5% of gross revenue — yet few owners factor this into their budgeting.

Outdated valuation models also pose a risk. These often fail to capture the true costs of branded

operations, such as licensing, incentive management fees and loyalty programme expenses.

As a result, full-service branded hotels can appear more valuable than they actually are, while leaner independent hotels may be undervalued despite stronger net operating income.

"Static projections and poor cap rate assumptions often misrepresent the actual market value, particularly when the risk premium is not adequately factored in," Yap said.

Post-pandemic investor behaviour is increasingly shifting toward asset repositioning.

The downturn created a supply of distressed or underperforming hotels that are now being acquired and repurposed into more resilient business models.

"Many investors are converting conventional hotels into hybrid-use models with co-living, wellness, or even eldercare components."

"These models not only reflect evolving demand but also help spread income risk," he added.

This trend is being driven by changing traveller expectations, the need for steady long-term revenue streams and pressure to diversify offerings beyond nightly room bookings.

Failing Value Equation

Despite all this, both Yap and Ho agreed that the fundamental issue lies in a failing value equation.

Rising construction costs, minimum wage increases, inflationary pressure and oversupply are pushing hotel development into economically unsustainable territory.

In markets such as KL, the influx of luxury hotels has outpaced demand, leading to suppressed room rates and diluted market share.

"You are spending more to earn less, and unless asset and value management becomes part of the equation, we will see more projects collapse before maturity," Ho said.

Ultimately, the future of hotel investment in Malaysia hinges on discipline, data and strategic oversight.

Ho cautioned that investors must stop chasing glossy brochures and start focusing on fundamentals, namely clear goals, dynamic benchmarking, transparent contracts and institutional-grade financial planning.

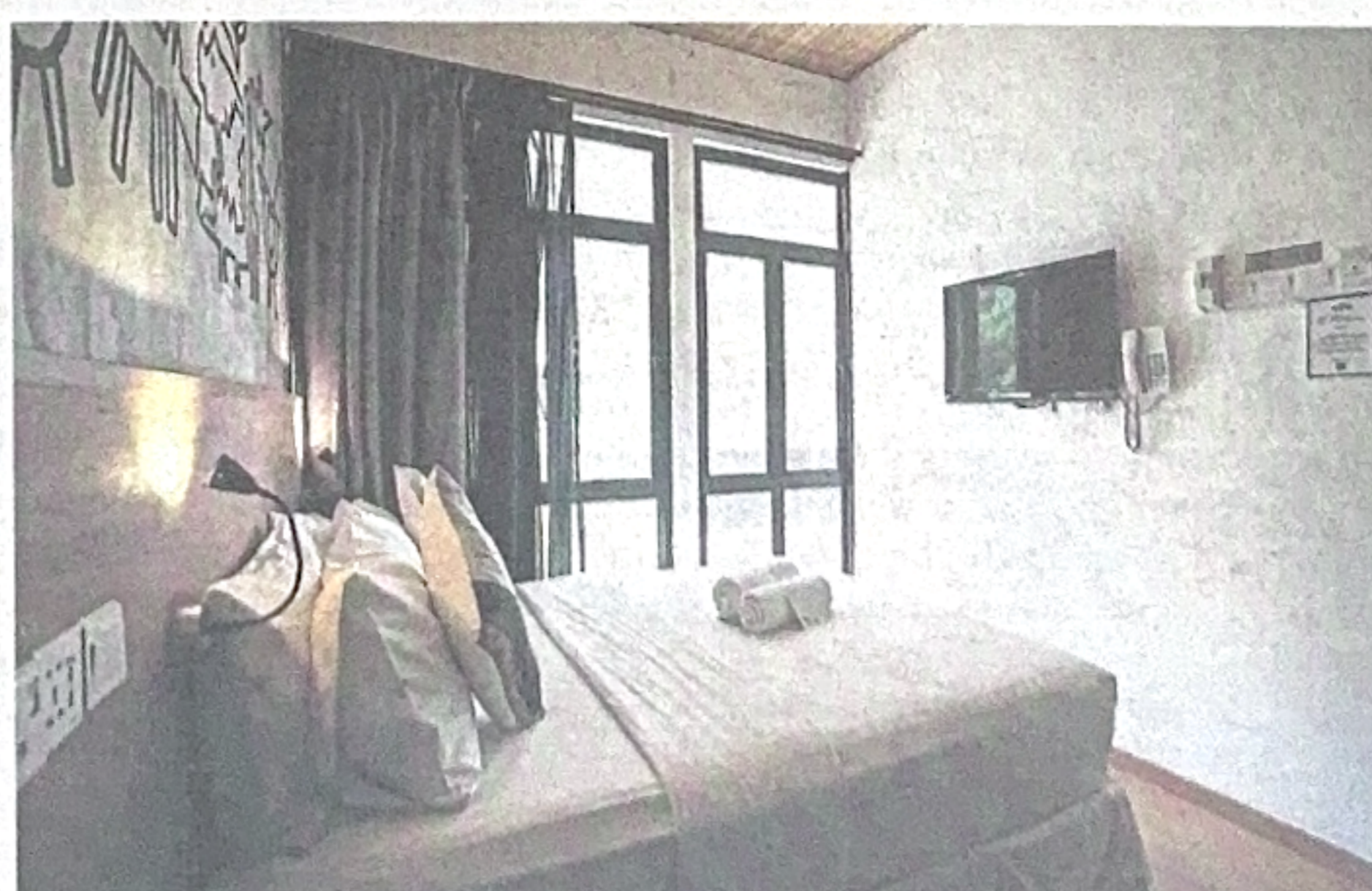
"If your hotel is operated by someone whose interest is not aligned with yours, and you do not have transparency into cost structures or performance benchmarks, you are not an owner. You are a spectator," he pointed out.

For those still chasing the prestige of hotel ownership without understanding the financial machinery behind it, Ho offered a final reminder: "The real work begins after the ribbon-cutting."



Bloomberg

The rise of OTAs has transformed how hotels connect with customers, but it has also created a costly dependency



Standalone and boutique hotels are the most vulnerable, as they often lack the internal sales and marketing infrastructure to generate direct bookings