

## The Strategic Sustainability of Iskandar Malaysia: Why it cannot go wrong

When looking at Property Market we have always to look first at the main driver that justifies the balancing between offer and demand of properties: the economic current performance and outlook of the Country. Real Estate is not an economic driver or, we can also say, it is not generating economic growth in a

	USA	EU	UK	JAPAN	AUSTRALIA	MALAYSIA
GDP Growth	2.52%	0.12%	0.65%	0.65%	0.65%	4.70%
Gov. Debt as % of GDP	101.60%	90.60%	91.10%	226.1%	20.7%	53.10%
Gov. Deficit as % of GDP	-4.10%	-3.7%	-7.40%	-9.6%	-3.00%	-4.50%
Balance of Current Acc in USD Billion	-360.7	-34.5	-93.6	56.6	-44.9%	16.6
Inflation	1.5%	1.5%	2.7%	0.2%	2.4%	3.2%
Unemployment	7.3%	10.8%	7.7%	4.1%	5.7%	3%

Country. It comes in as a logic and natural consequence of the economic development of the Nation. Economic drivers are manufacturing, services, education, tourism, O&G and so on. Malaysia has been kept on performing quite well in the past

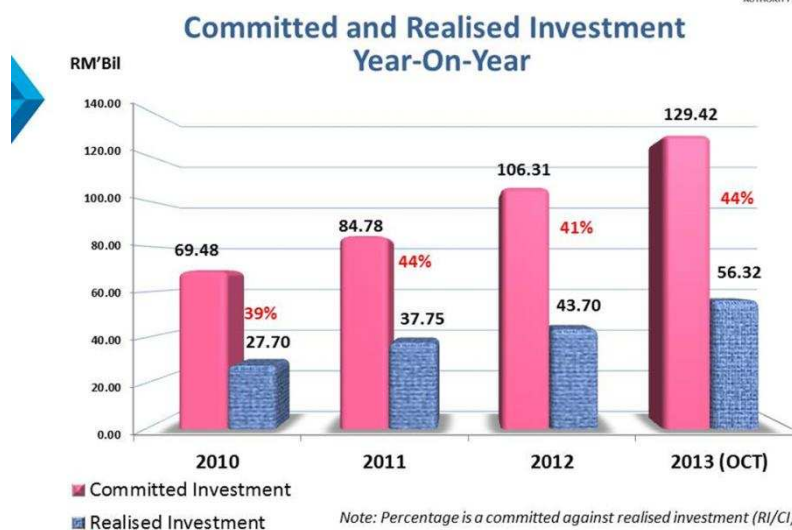
decade and the outlook for the next several years remains positive as all the indexes are showing good achievements but with still ample room for improvement (Chart 1).

How this basic principle applies to Iskandar Malaysia is easy to be seen, in the last 8 years IRDA has been able to attract more than RM133 billions of committed investment within the 9 economic cluster defined by the 2005-2025 Comprehensive Development Plan and more than 55% of it has been already realized (Charts 2 and 3).

### 9 ECONOMIC CLUSTERS



### INVESTMENT UPDATE 2006 - OCTOBER 2013



Malaysians believe in Iskandar Malaysia as 65% of the amount above has been generated locally with a mere 35% coming from oversea. Looking at a possible 2020 outlook we can find very positive signals coming from our neighbor Singapore. The recent state visit of the Singaporean PM and his speech in Putrajaya are confirming the high interest that Singapore has into the region not from a “property-speculation” point of view but as an “industrial and manufacturing facilities partner”. Let’s talk about Pinewood Studios and the collateral business and economic growth that will be generated. Most of the

committed investments above are having the same “collateral added value” with IT, logistic, specialized and skilled labor demand that will be on the rise.

### Housing offer and current/estimate demand

Having said that we can now look into what has happened in Iskandar Malaysia from a property point of view. The last 24 months have seen the property market in Iskandar Malaysia gain a tempo that appears to be not sustainable. Even though it appears that too many high end un-affordable projects have been launched, by comparing the numbers in the chart below we can see that also houses more reasonably priced and low / medium-low cost flats will be abundantly supplied.

<b>EXISTING STOCK AND SUPPLY OF RESIDENTIAL UNITS BY TYPE IN JOHOR</b>						
Johor State	Single, 2, 3 Storey Terrace	Single, 2, 3 Storey Semi-D	Bungalows and cluster	Low Cost House and Flat	Condominium Service App and Soho	Total
Existing stock 2012	337,129	42,816	89,784	191,695	31,482	692,906
Completions by 2015	7,569	779	825	174	924	10,271
Incoming supply by 2015	41,918	8,035	5,059	25,815	19,516	100,343
Starts by 2020	9,767	2,334	1,540	362	6,918	20,921
Planned supply by 2020	73,689	9,119	8,644	42,012	19,099	152,563
New planned supply by 2020	9,643	2,026	2,151	558	10,029	24,407
<b>TOTAL PER TYPE BY 2020</b>	<b>652,827</b>			<b>260,616</b>	<b>87,968</b>	<b>1,001,411</b>

If we consider that the biggest number of units in one single project is 9,600 dwellings in the Country Garden Danga Bay and we even multiply this number by 3 (other projects are normally launching less than 500/700 units each) we still have more than 70,000 houses that are not highly priced (Chart 4).

<b>ESTIMATE NEED OF HOUSES BY 2015 AND 2020</b>	
TOTAL JOHOR POPULATION AS AT 2012	3,586,461
CURRENT DEMAND OF HOMES (3.5 members per household)	1,024,703
AVAILABLE STOCK AS AT 2012	692,906
<b>CURRENT NEED OF HOUSES as at 2012</b>	<b>331,797</b>
TOTAL JOHOR POPULATION AS AT 2015 (Est +3.5% yr)	3,976,374
ESTIMATE DEMAND OF HOMES IN 3 YEARS TIME (3.5 members per household)	1,136,107
INCOMING SUPPLY BY 2015 (Inclusive of existing stock)	803,520
<b>ESTIMATE NEED OF HOUSES BY 2015</b>	<b>332,587</b>
TOTAL JOHOR POPULATION AS AT 2020 (Est +3% yr)	4,722,685
ESTIMATE DEMAND OF HOMES BY 2020 (3.5 members per household)	1,349,338
INCOMING SUPPLY BY 2020 (Inclusive of existing stock and supply by 2015)	1,001,411
<b>ESTIMATE NEED OF HOUSES BY 2020</b>	<b>347,927</b>

Chart 5 shows the estimate need of houses (estimates have been calculated using very conservative parameters)

## Demographic growth-migration and wealth distribution

Demographic growth and wealth distribution are also extremely important factors when the time comes to make decision on purchasing a house for either investment or own use, we have also to consider that the

Malaysian rural population is consistently moving towards urban areas with a stable 3.5% ratio (on the total Malaysian population) per year. This fact with all the other factors means that Iskandar Malaysia will reach the expected 3 million residents by 2025 (Johor State almost 5.5 million).

Malaysia wealth distribution sees the poorest 20% of the population in 2012 (year whom the statistics are referring) sharing 5% of the nation wealth, the richest 20% sharing 37% of it while the middle 60% shares the remaining 58%.

PER CAPITA INCOME STATISTICS 2012						
State	GDP per Capita at current prices				State Population in 2012	GDP @ const prices
	2009 RM	2010 RM	2011 RM	2012 RM		2012 RM Million
Kuala Lumpur	57,040	62,075	68,072	73,931	1,768,680	114,106
Pulau Pinang	30,098	33,601	35,188	37,006	1,664,640	52,530
Selangor	28,468	31,457	33,727	36,135	5,826,240	176,239
Malacca	25,397	28,328	31,093	33,550	832,320	21,953
Negeri Sembilan	25,595	28,586	31,295	32,511	1,040,400	27,717
Johor	18,878	21,329	23,593	24,574	3,537,360	68,791
Sabah	15,515	17,118	19,038	19,010	3,537,360	44,434

Chart 7 illustrates very clearly where we are today on a state by state basis (listed the major states and property hot spots) and how impossible is to have a nationwide parameter of affordability for homes as what is affordable for the middle class of Selangor is totally out of reach for a Pahang citizen. The next step is then to calculate on a state by state basis the average affordable value of homes and define a proper “making sense” value.

### The real affordability

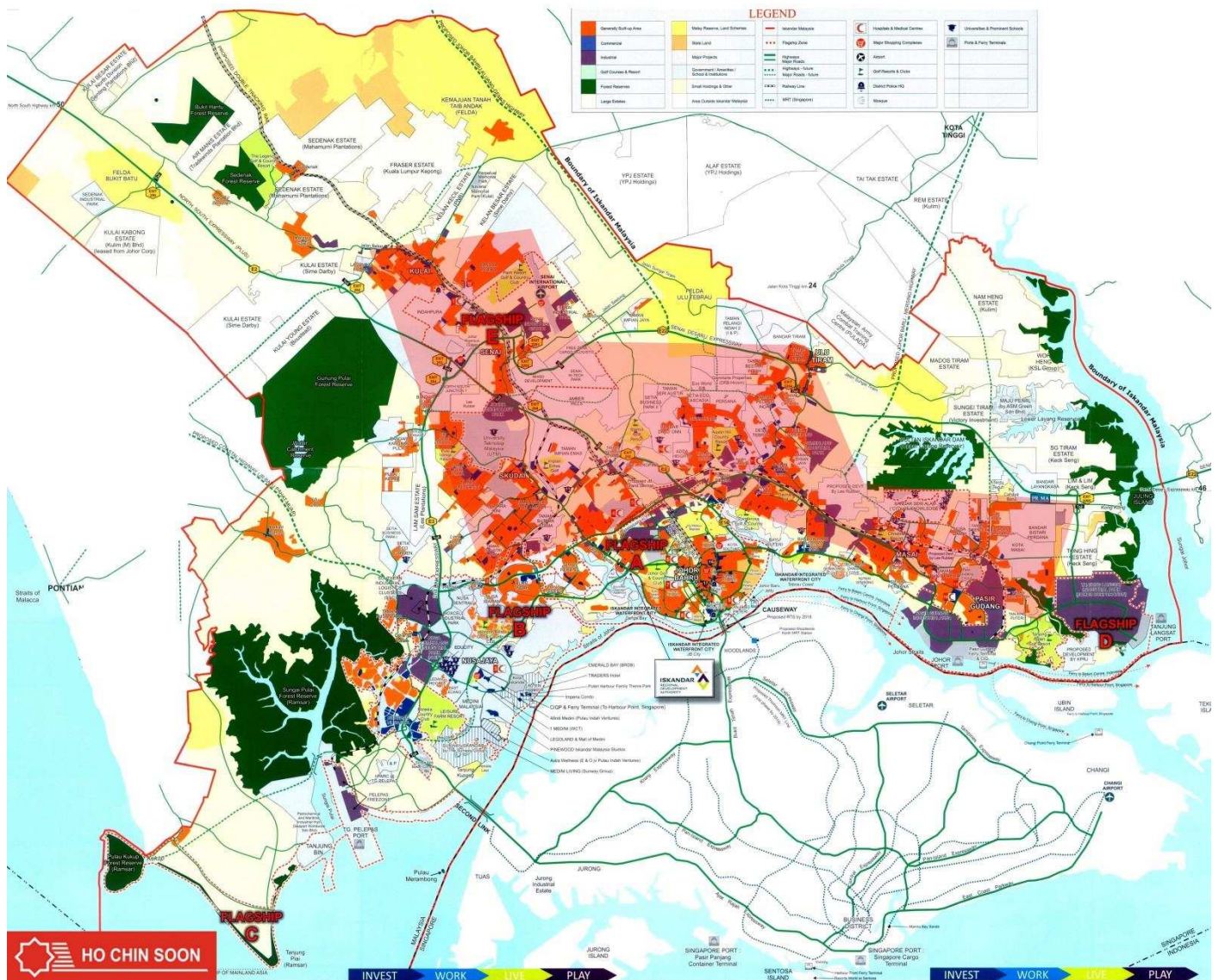
Defined as we have the average per-capita income state by state with the next table we see how different at the end must be the perspective and mind set of lawmakers, buyers and developers when addressing the affordability issue and the results are opening the door to a new and interesting scenario for state rulers, developers and eventually investors (Chart 8).

These values are median and if we look at Johor state and try to extrapolate real values for Iskandar

PER STATE AFFORDABILITY VALUES 2012						
State	State by state (est) Population in 2012	GDP 2012 per Capita at current prices		35% of monthly income = Loan repayment RM	Affordable House value (30 yrs loan @ BLR-2.3 4.4%)	
		Yearly RM	Monthly RM		Per capita RM	Per household RM
Kuala Lumpur	1,718,680	73,931	6,161	2,156.32	480,000	720,000
Pulau Pinang	1,654,640	37,006	3,084	1,079.34	240,000	360,000
Selangor	5,626,240	36,135	3,011	1,053.94	240,000	360,000
Malacca	832,320	33,550	2,796	978.54	220,000	330,000
Negeri Sembilan	1,040,400	32,511	2,709	948.24	220,000	330,000
Johor	3,337,360	24,574	2,048	716.74	160,000	240,000
Sabah	3,437,360	19,010	1,584	554.46	125,000	187,500

Malaysia, looking into the major economic developments that the “special region” has been going through my personal take is that affordable values should be look as included between RM200,000 and maximum RM500,000 or, if you prefer RM250 to RM500 psf looking at livable spaces of 850 to 1,100 sq.ft. Maybe I’m wrong but, that I’m aware of, there are several

development projects which are offering livable houses within these values. For sure purchasers shouldn't be looking for their dream-home nearby Danga Bay or in JBCC but widen up north and east their range of search in what I define as the Iskandar Malaysia Affordable Corridor of growth (Chart 9).



Credits and sources: Naptic Property Market Report 2011 and 2012, Government Department of Statistics (Household income and basic amenities Survey Report 2012), IRDA, REI group Archives, Ho Chin Soon Research maps

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