

Johor property and prices: foreign blame and domestic considerations (Part 1 of 2)

By Khor Yu Leng, Independent political-economist at Khor Reports – Segi Enam Advisors.

There could be a quarter million Singaporeans visiting Johore each week. Thanks to newly available data about cross-border traffic volumes we have better estimates of the to-and-fros of Singaporeans and Johoreans [1, 2]. Are Singaporeans really to blame for pushing up Johor property values and the cost of everyday goods and services (read Part 2)? [2] The simplistic blame-the-Singaporean game seems to be long over-stated. The data and a wider reading of the issue suggests strong domestic forces at play too.

Johor property is highly segmented, not the worst on affordability

Bank Negara Malaysia reports that average Malaysia house prices have moved faster than average incomes since the Global Financial Crisis. Since 2014, affordable housing has become a prominent issue in Malaysia. There has been a push to build affordable homes, as well as tightening measures against property purchases by foreigners. These include a Real Property Gains Tax and a nationwide threshold for foreigners of RM 1 million. However, Johore has special status for Medini and Forest City and we can take RM500,000 as the threshold for our analysis.

What do we see in the property data? Johore has seen a property boom with per square foot prices in some enclaves reaching KL city centre levels; but it has seen a major slowdown with a marked drop in transaction volume and value. In 3Q2017 there were 6,129 residential property transactions, with 83% below RM500,000 and 17% above RM500,000 (slightly down from 18.4% in 3Q2016). Combining the residential and commercial (including SOHO and serviced apartments) segments there were 6,920 transactions and 20% was at the high end; whose RM420 million transacted value represents 78% of the Johore total for the quarter (down from 89% in 2Q2017).

Bank Negara Malaysia reported that 2014 median house prices in Malaysia were 1.5x the affordable level (defined as median house price-to-income ratio of 3x); with Selangor at 1.3x, Johor at 1.4x, and Penang at 1.7x. The urban centres were even worse. Johor Bahru was at the better end with median prices at 1.7x, KL city and urban Selangor (Shah Alam, Subang Jaya, Petaling Jaya) was at 2x, and Georgetown in Penang was worst with prices 3.5x the affordable level.

The Malaysia My Second Home (MM2H) programme reports about 3,200 successful applicants per year Malaysia-wide; suggesting that 1.1% of the 270,000 new housing and commercial units per year are sold foreigners also seeking a residency permit. MM2Hers are mostly from China 28%, Japan 12%, Bangladesh 11%, United Kingdom 7%, and Korea 4%. Singapore buyers are 3.8% of the total, with 1,351 MM2H recipients over a 15 year period to August 2017.

Of course there would be Singapore and other foreign buyers who invest in Malaysian property while not seeking to apply for MM2H status. As such, it is surprising to find that the Inland Revenue Board's (IRB) stamp duties system reports a lower ratio of 0.3-0.7% sold to foreigners in recent years. Averaging MM2H and IRB data, about 0.85% of property sales in Malaysia are to foreigners.

While Johor seems to have drawn disproportionate foreign buyer interest with 10.8% of 215,319 Johor properties sold to foreigners (no nationality breakdown available) in recent years, Penang Institute concludes that "Chinese investments in Southern Johor have split the property

Johor Property & Prices By KHOR Yu Leng, Jan 2018.

© Khor Reports – Segi Enam Advisors Pte Ltd. All Rights Reserved.

For reprint or circulation please contact yuleng@segi-enam.com

development into a high-end market with excess supply targeted at foreigners as buyers, and a lower-tier market driven by local developers targeting mostly local buyers.”

Large-scale China projects transform Johor high-end property

Johor earlier targeted Singapore property buyers via its Iskandar Malaysia project (especially after the 2010 land swap Temasek-Khazanah deals). Singapore has been the top investor in the so-called economic corridor and Singaporeans are regarded to have contributed to the investment property price spike in 2011-2013; notably, in concert with investors from other parts of Malaysia literally buying into the Iskandar-Singapore story.

But the property sector evolved to feature bigger-than-life projects by China developers, largely marketing properties to China buyers in anticipation of improved transport links with Singapore. Indeed, it was very recently announced that the Johor Bahru-Singapore Rapid Transit System Link will be launched December 2024, with the ability to carry 10,000 passengers per hour per direction and only requiring passengers to clear customs only once.

Many eyes have been on Forest City, probably the most ambitious property project in all Malaysia. Built on recently reclaimed islands, this is in a special status zone in Johor without a minimum threshold for foreign buyers. It is widely reported that its units were marketed with a residency permit, but its sales have yet to affect the MM2H data trend (largely flat for 2012-2017). By mid-2017, Forest City (with units starting at just over RM200,000) reported that 98.5% of its 5,344 units sold went to foreigners. They are probably mostly from China. Forest City has 17,896 units or 77% of approved units unsold. This project is a joint venture of Country Garden (one of the largest China developers) and Johor interests, including the Sultan of Johor. However, it has been caught up in the China capital controls that have ratcheted up since 2H2016, affecting the ability of China buyers to pay for overseas property purchases.

Affordability across the state shows stresses easing

With news flow on China property interests in Johor and a focus on prices and gluts in key property enclaves, there has been less attention on housing affordability across the rest of the state. Examining mean household incomes and average residential property transactions prices, we derive a similar rating as Bank Negara Malaysia’s 2015 finding on “seriously unaffordable” Johor property.

A review of district-level data gives some insights into areas where Johore voters may be feeling more or less angst in the run up to the 14th General Election due this year. The most unaffordable situations are in Johor Bahru and Kota Tinggi (4.3x and almost 4.0x although more distant from the big foreign property projects), and houses are affordable in Mersing and Segamat (2.9x and 2.6x). Rising incomes and a drop in residential unit transacted values have improved affordability indicators in Batu Pahat, Kota Tinggi and Pontian; but increased transaction prices in Mersing (playing price-up catch up) and Muar point to eroding affordability. No surprise, there is a loose negative relationship between unaffordable house prices and the rate of home ownership (JB has 70% home-owning households versus 87% in Segamat).

In summary, it is surprisingly hard to lay the blame on Singapore visitors. First of all, the data is surprisingly scanty and inconsistent. Significantly, there are various forces at play, including the arrival of other groups of well-heeled investors. Singaporeans prominence as Johore property buyers seems to be eclipsed by those from China. Johoreans seem reasonably insulated from the property enclave boom-glut dynamics targeted at foreigners; but they are not immune to domestic-driven

Johor Property & Prices By KHOR Yu Leng, Jan 2018.

© Khor Reports – Segi Enam Advisors Pte Ltd. All Rights Reserved.

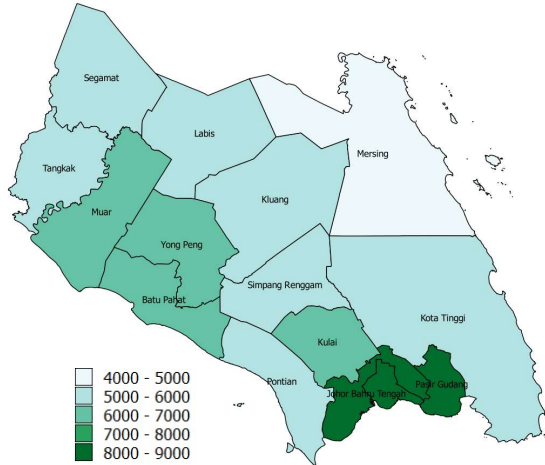
For reprint or circulation please contact yuleng@segi-enam.com

affordability problems. Since the Global Financial Crisis residential prices have outpaced incomes, but the property slowdown and recent falling residential transaction values suggest improvements in some Johor districts. Overall, the data suggests that the impact of foreign buyers is somewhat contained. Johoreans worried about property prices should also be concerned about domestic income growth, long-term planning, housing policy and interest rates.

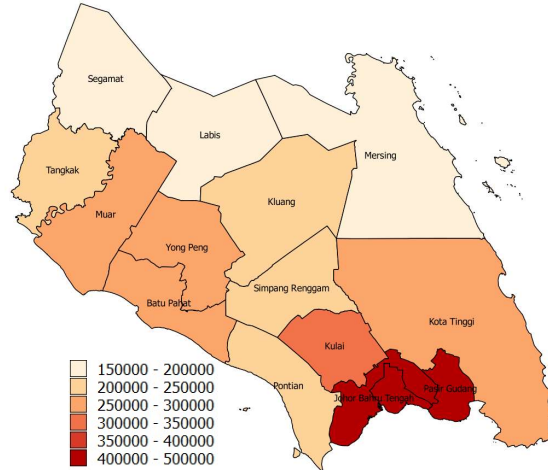


Johor incomes, prices and affordable housing by district, 2016-2017

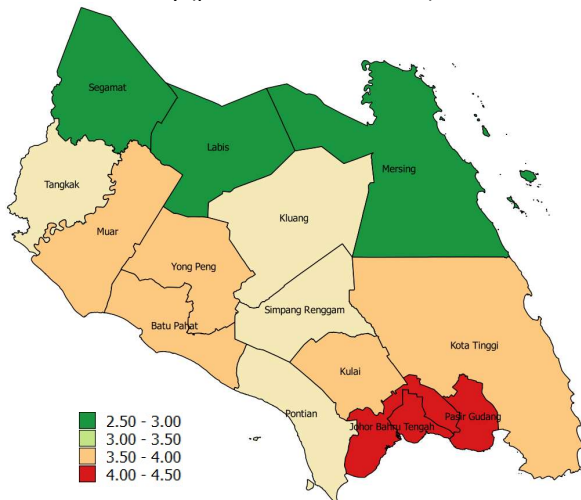
Household incomes (RM/mth):



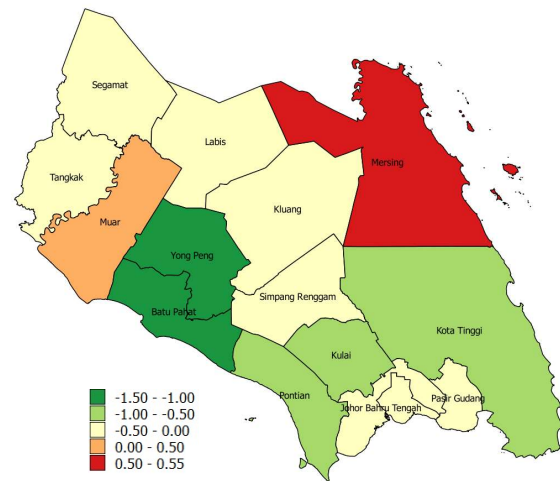
Residential property (RM/unit):



House affordability (price-to-income ratio):



Change in house affordability**:



Source: Khor Reports Data: DOS, NAPIC, Khor Reports Estimates

Note: Based on average/mean values; 2016 incomes, property transactions value for 3Q2016 and 3Q2017. **Calculates year-on-year change in unit value transacted while extrapolating recent household income trends.

© 2018 Khor Reports - Segi Enam Advisors Pte Ltd. All Rights Reserved. E: yuleng@segi-enam.com

[1] The foreign (Singapore) vehicle count entering Johore at the Causeway and Second Link is about 105,000 per week they are mostly cars. If each had a driver and 1-2 passengers there could be about 250,000 visitors from Singapore to Johore each week. Khor Reports estimates from vehicle data at the land border crossings (see below).

[2] Author's interview with WONG Shu-Qi on 3 December 2017, reviewed cross border data. From official data on vehicle traffic through the Sultan Iskandar Building (Johor-Singapore Causeway) and

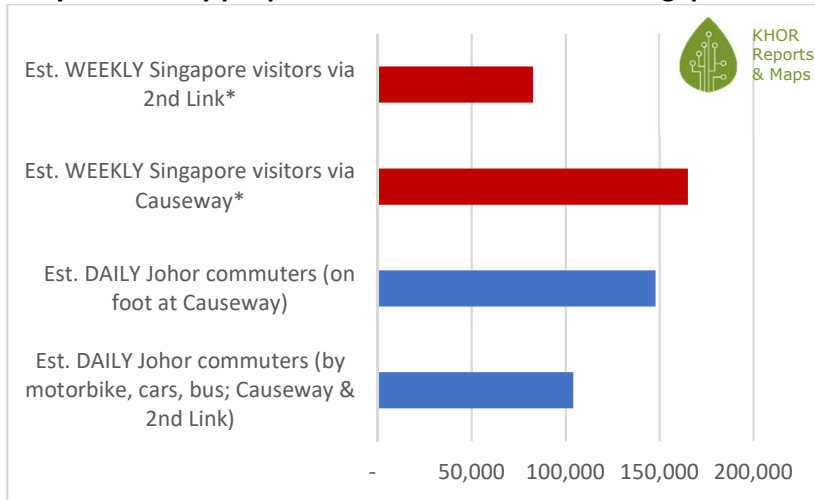
Johor Property & Prices By KHOR Yu Leng, Jan 2018.

© Khor Reports – Segi Enam Advisors Pte Ltd. All Rights Reserved.

For reprint or circulation please contact yuleng@segi-enam.com

the Tanjung Kupang Toll Plaza (Malaysia–Singapore Second Link) as well as the statistics on the entry of foreign vehicles and Road Charge collection, Johor-to-Singapore and Singapore-to-Johor people flows are estimated.

Daily and weekly people flows between Johor and Singapore



Source: Khor Reports Data: Average daily traffic volume through Sultan Iskandar Building and Tanjung Kupang Toll Plaza, Statistics on the number of foreign vehicles and Road Charge collection, The Star, Khor Reports Estimates.

Note: * based on vehicles paying Malaysia Road Charge

[3] ISEAS-Yushof Ishak's Johor Survey 2017 reports that 42% blame Singaporeans for cost of living issues. In 2013-2017, 71-78% think that Singapore makes property unaffordable for locals, and 79-81% agree of limiting sales of properties; and both are on a reducing trend.

Notes:

- cagr = compound annual growth rate
- 1 Singapore Dollar equals 2.96 Malaysian Ringgit

References and data: DOS Malaysia, ISEAS-Yushof Ishak, Ministry of Manpower, Malaysia vehicle traffic statistics, MM2H, NAPIC, Payscale, The Penang Institute, and Khor Reports Estimates.

Johor Property & Prices By KHOR Yu Leng, Jan 2018.

© Khor Reports – Segi Enam Advisors Pte Ltd. All Rights Reserved.

For reprint or circulation please contact yuleng@segi-enam.com