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## Singapore & Iskandar Malaysia

### Is Iskandar Malaysia Overpriced?

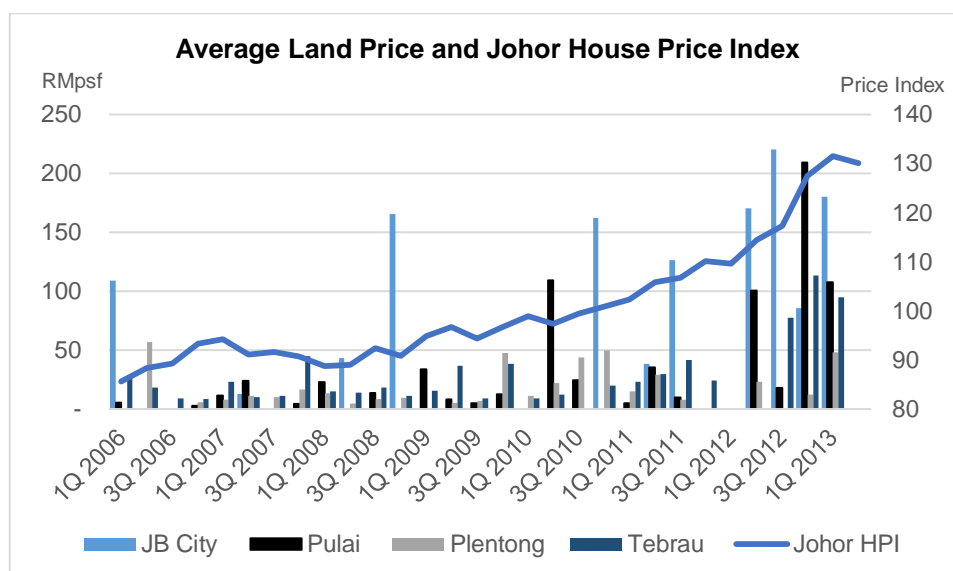
#### Highlights

- Most conversations about Iskandar Malaysia (IM) revolve around three related topics. One, the launch price of residential properties and land prices have doubled in the past two years. Two, the huge supply of completed residential units that will come into the market in the next two to four years from projects launched in the past two years. And lastly, what is the impact of the cooling measures announced in the recent budget and other specific measures contemplated by the Johor government.
- Although we have also seen a major push to create economic activities and jobs, these new developments cannot rely on domestic take-up alone.
- Can the current prices and demand for properties in IM be sustained? We believe it depends on the following questions: Is the IM growth story secular or cyclical? Can IM be an integral suburb of Singapore? Will workers in Singapore (Singaporeans or Malaysians) make IM their home?
- We believe IM is going through a structural change. Huge investments have poured in and major improvements, such as connectivity to Singapore are either in place or being planned. More importantly, perception is very positive.
- In recent years, we have seen the Singapore Government's decentralization strategy creating business hubs outside the city. We believe it is in the interest of both Malaysia and Singapore to view IM and suburban Singapore as one integrated development in which to live, work and play.
- We take a look at property prices and rents in Jurong East, Jurong West and Woodlands, due to their proximity to IM. The median rental psf/month for non-landed residential properties is S\$2.85, S\$3.54 and S\$2.87 respectively while the average rental yield is slightly below 4%.
- At what price would those living in Singapore be willing to move to IM? Our hypothesis is that a 60% discount would be necessary. In other words, a Singapore dollar for Ringgit equivalent is a fair base case assumption in terms of rent.
- As the buildings in IM will only be completed in 2-4 years, we have also assumed a 4-5% annual increase in IM rental rates until then.
- Using a 5-6% discount rate, the implied valuation of residential properties in IM is RM700-RM1,000 psf for Medini and RM900-RM1,300 psf for Puteri Harbour. This valuation is obviously dependent on one's own evaluation of risks and outlook and we have incorporated a sensitivity analysis table in this report.

- **IM a secular change.** Secular bull property prices come about only after there has been a structural change in the economy and point to strong long-term directional moves while cyclical trends represent short term movements around the primary trend. IM was first identified as one of the key catalysts and high-impact developments under the Ninth Malaysia Plan in Mar 2006. Progress was relatively slow over the period 2006-2010 but since end-3Q2011, we have seen accelerated progress in IM with closer ties and better working relationship with Singapore. Our analysis of average land prices in Johor Bahru versus the Johor House Price Index (HPI) from 2006 to 1Q 2013 reveals that Johor HPI rose from 2Q2011 and average land prices started rising from 2Q 2012. In the chart, the land prices of Nusajaya are grouped under Pulai district. Based on recent SPAs signed, the latest transaction in Puteri Harbour was RM334psf (April 2013) compared with RM180psf in April 2010. In Medini, the latest land transaction was close to RM250psf (S\$97psf). Over in Singapore, the last residential transactions (URA land sales) recorded in Jurong East, Jurong West and Woodlands is S\$705psf, S\$652psf and S\$367psf respectively.

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Average land price in  
Pulai, Plentong and  
Tebrau more than  
doubled since 2010



Source: Valuation and Property Services Department MOF Malaysia, HSR Research

- Fundamentals have changed in IM.** Cumulative committed investment in IM from 2006 to June 2013 amounted to RM118.93 billion, of which 45% has been deployed. With such huge investments, coupled with future connectivity via the Rapid Transit System (RTS) by 2018 and High-Speed Rail link by 2020, the fundamentals have changed in IM. We are seeing a secular change in property prices and how much of this is sustainable depends largely on whether policies are in place and market forces are allowed to operate freely, and no new “restrictive” policies are introduced. The recently tabled Budget 2014 has affected property market sentiment, and in our view, secondary market asking prices (in Malaysia overall) could soften in the near term due to the property cooling measures.

Committed Investment in Iskandar Malaysia			
Cluster	Catalytic Projects	Commence	Comments
Education	<b>EduCity</b>		Education hub - 16,000 student capacity
	Netherlands Maritime Institute of Technology (NMIT)	May-11	Will move to EduCity by the end of this year
	Newcastle Medical University (NuMed)	Sep-11	A range of undergraduate biomedical and medical degree programmes
	Raffles University	Apr-12	Temporary premises at Menara Kotaraya. Will operate in EduCity in 2014. Offers undergraduate and postgraduate programmes including Design & Art, Business Administration, Accountancy, Education and Applied Psychology
	Marlborough College	Aug-12	Independent boarding and day school
	University of Southampton	Oct-12	A branch campus for engineering
	Raffles American School (RAS)	Aug-13	First phase of the RAS main campus will begin in Aug 2014
	University of Reading	Sep-13	Undergraduate and postgraduate degrees in the Built Environment, Business & Law and Chemistry & Pharmacy. First group of Foundation in Business students begin their studies at Menara Kotaraya. Opening of campus in 2015
	Multimedia University/University of Southern California	mid 2014	Bachelor of Cinematic Arts degree

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**Tourism & Leisure**

Johor Premium Outlets - Phase I	Dec-11	80 designer and name brand outlet stores
LEGOLAND	Sep-12	Integrated theme park targeting families with children aged 2-12. 40 interactive rides, shows & attractions
Sanrio Hello Kitty Town and The Little Big Club	Oct-12	Family theme park
Traders Hotel	Apr-13	
LEGOLAND Water Park	Oct-13	10 acres
Johor Premium Outlets - Phase II	4Q 2013	40 outlet stores
LEGOLAND Hotel	Jan-14	250 LEGO-themed rooms

**Healthcare & Wellness**

Columbia Asia	2010	
Gleneagles Medini	2014	For the 1st phase, 300-bed capacity. Future developments will include a medical office block, rehabilitation centre, a nursing home, a hospital residency and other healthcare facilities
Resort Wellness Project	2015	207-acre development anchored on the concept of Wellness with an adjacent 12.6-acre park reserve and the Wellness Centre as the heart
Urban Wellness Project	2017	Includes a wellness centre, a corporate training centre, service apartments, strata residences and retail

**Creative**

Pinewood Iskandar Malaysia Studios	2013	Purpose built hub of world-class film and television production facilities. 100,000 sq ft of film studios, 35,000 sq ft of production office space, and 24,000 sq ft of television studios
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*Note: List is not exhaustive. Source: IRDA, IIB, Company websites*

- Average primary prices in Puteri Harbour up 107% in less than 2 years.** The 688-acre Puteri Harbour is an urban waterfront development on Johor's southern coastline at its closest point to Singapore. To recap, UEM Sunrise launched Imperia project at an average price of RM725psf in September 2011. Residential property prices hit a high of RM1,500psf (average price) or S\$584psf with the launch of Pinetree Residences by Tiong Nam in Dec 2012. The penthouse in Pinetree Residences was priced at RM1,800psf (S\$700psf). Projects in Puteri Harbour have recorded good take-up rates. Within Puteri Harbour, there is a Custom, Immigration and Quarantine (CIQ) centre where the plan is for commercial private ferries to connect the Puteri Harbour CIQ to a suitable CIQ in Singapore. When this materialises, one would be able to commute to work in Singapore via the sea route from Puteri Harbour. The ferry connection will be the third link to Singapore soon, to complement the existing Causeway and Tuas Second Link.

**Puteri Harbour - Pricing**

Projects	Pricing RMpsf	Take-up rate	Developer/Parent Co.
Imperia	725 (average)	98%	UEM Sunrise
Somersset	900 (average)	100%	UEM Sunrise & United Malayan Land
Teega	750 (average) for first 2 towers and between 820-850 for Tower 3	91% based on SPA and close to 100% based on bookings	UEM Sunrise
Encorp Marina	1,300 (average)	100%	Encorp
Pinetree Residences	1,500 (average)	80%	Tiong Nam

*Source: Companies, HSR Research*

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**Medini - No foreign ownership restriction and Incentive Support Package**

- **Malaysia Budget 2014 could be a brake on price hikes.** The property cooling measures announced in Budget 2014 such as higher Real Property Gains Tax, removal of the Developer Interest Bearing Scheme, increase in the minimum price of property that can be purchased by foreigners from RM500,000 to RM1 million and a GST of 6% that takes effect from 1 April 2015, would temporarily be a brake on price increases and we think property prices in IM will be relatively flattish over the next two years. We understand that IRDA is in the process of obtaining written confirmation from the MOF for exemptions such as the RM1 million minimum price of property that can be purchased by foreigners. Similarly, UEM Sunrise is requesting exemptions for Puteri Harbour. If there are exemptions for Medini and Puteri Harbour, foreign buying will remain relatively strong in both these locations. Of all the states in Malaysia, Johor has the highest percentage of foreign ownership of residential properties.
- **Medini's international appeal.** This is a strategic 2,230 acres (2,008 acres on a net basis) development with no foreign ownership restrictions as it is specially designed as a global metropolis to attract an international population and tourists to live in a sustainable development. It is intended for mixed-use developments and Iskandar Investment Bhd (IIB) has planned and designed it as the Central Business District of Nusajaya. It is also the only site in Johor where foreigners are allowed to purchase properties priced below RM500,000 (prior to Budget 2014). There is also the Medini Incentive Support Package for individuals such as a 15% tax rate scheme for qualified knowledge workers and for foreign knowledge workers (refer to table). With the attractive plus points, some developers are able to sell properties without even having to put up a show unit.

**Medini Incentive Support Package for Foreign Knowledge Workers**

1) Exemption from import/excise duties and sales tax on one imported or locally assembled car

Conditions:

- i) Non Malaysian citizen working with an IDR status company, Approved Developer, Approved Development Manager or Approved Node Project Development Company
- ii) Must reside in IM
- iii) Possess the required qualifications including tertiary education and with 5 or more years of professional experience in the following categories [eg. 6 services sectors (tourism, healthcare, education, creative, financial and logistics), property and construction, real estate management etc]

2) Exemption from RPGT on disposal of land (until 2015) and property (until 2020)

Source: Iskandar Investment

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Medini - Pricing			
Project	Pricing RMpsf	Take-up rate	Developer/Parent Co.
1 Medini	450 (avg)	100%	WCT
Medini Signature	Tower 1 - 650 (avg), Tower 2 - 680 (avg)	Tower 1 - 80%, Tower 2 - 20% (launched in Aug 2013)	WCT
Meridin @ Medini	Tower A - 695 (avg), Tower C - 724 (avg) and Tower B - 798 (avg)	Tower A & C - 82% (preview in May 2013), Retail - 70% and Tower B - 30% (launched in July 2013)	Mah Sing
Iskandar Residences	767 (avg)	Soft launch in July. Official launch early next year. Tower A - 90% booked, Tower B - 75% booked	Distinctive Resources
D'Pristine	650-900	Close to 60% booked	MCT
Afiniti Medini	850-1,000	100%	Pulau Indah Ventures (a 50:50 JV between Khazanah Nasional and Temasek Holdings)
Paradiso Nuova	around 900	Targeting ground-breaking ceremony on 5 Dec 2013. Official launch expected at the end of 4Q2013/1Q2014	Zhuoyuan Iskandar (a JV company by China's Zhuoda Real Estate Group and Iskandar Investment Bhd)

Source: Companies, HSR Research

- Singapore's population vs. Johor's.** Singapore's total population was 5.31 million as at end-June 2012, with non-residents accounting for 28% of it. In fact, growth over the last few years, came mainly from the non-residents. Johor's population in 2012 was estimated at 3.4 million (preliminary figures from the Department of Statistics Malaysia). For comparison purposes, we looked at Jurong East and West and the Woodlands area. The population of Jurong East and West was 86,400 and 271,800 respectively in 2012 while that of Woodlands was 247,700. IM's population is estimated at close to 1.6 million currently.
- Average price psf in Jurong and Woodlands vs. Puteri Harbour and Medini.** Will those who work in Singapore be willing to live in IM? At what price differentials? And assuming the issues of security and connectivity are eventually addressed. In other words, can IM be an integral suburb of Singapore? And if that were possible, what is the outlook for property prices in IM? Our analysis reveals that average non-landed residential property prices in Jurong and Woodlands are 192% higher than Puteri Harbour's and 303% higher than Medini's on a S\$ comparison (based on an exchange rate of S\$1 = RM2.57).

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**Singapore Prices psf - Areas near Iskandar Malaysia**

	Jurong East	Jurong West (S\$ psf)	Woodlands
Residential (Non-Landed excluding EC)	599 - 1,774	559 - 1,434	594 - 1,359
Residential (Semi-Detached)	NA	795 - 845	NA
Residential (Terrace)	NA	772 - 1,107	798 - 1,084
Commercial	NA	NA	1,000 - 3,964
Industrial, Warehouse	69 - 455		NA
Industrial, Factory	44 - 668		82 - 934

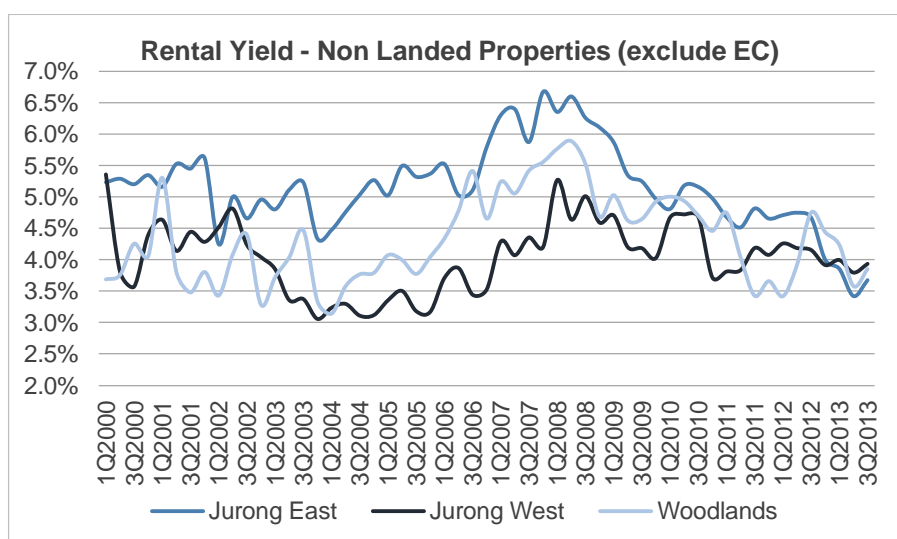
Source: URA, HSR Research

**Singapore Rental – Areas near to Iskandar Malaysia**

	Jurong East	Jurong West	Woodlands
<b>Rental</b>	S\$psf/month (Jul - Oct 2013)		
Residential (Non-Landed excluding EC)	2.85	3.54	2.87
Residential (Detached)	NA	NA	2.81
Residential (Semi-Detached)	NA	NA	NA
Residential (Terrace)	NA	1.85	2.93
Commercial (Office)	3.46	NA	NA
Commercial (Shop)	15.38	31.50	19.20
Commercial (Shophouses)	NA	NA	NA
Commercial (HDB Shop)	3.27	8.52	5.33
Industrial, Warehouse	1.95		NA
Industrial, Business Park	4.40		NA
Industrial, Multiple-use Factory	2.29		1.42
Industrial, Single-use Factory	1.57		1.70

Source: URA, HSR Research

Long-term average yields in Jurong and Woodlands are between 4-5%



Source: URA, HSR Research

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**Medini and Puteri Harbour non-landed rental yields to be closer to 5-6%**

- **Rents on the fringe of Singapore near Johor are close to S\$3psf.** Recent median rental psf/month for non-landed residential properties in Jurong East, West and Woodlands was S\$2.85, S\$3.54 and S\$2.87 respectively while average rental yield was 3.7%, 3.9% and 3.9% respectively. On a dollar-to-dollar equivalent, a fair rent currently for high-end condominiums in Johor is RM3-3.50psf, which translates into 40% of what a working professional would pay (in terms of rent) to stay in Johor while earning in Singapore dollars. The discount is justified, taking into account present inconveniences, especially in terms of travelling time.
- **Projects in Medini and Puteri Harbour will be ready in 3-4 years.** Long-term average yields in Jurong and Woodlands are between 4-5%. While the non-landed rental yields in Johor based on selected schemes were between 5.1-7.5% in 2Q2013 (source: KGV International Property Consultants). Our base case assumption is rents of RM3-3.50psf for Medini and RM4-4.50psf for Puteri Harbour. In our forecast, we assume rental increases of 4-5% per annum, hence by 2017, rents are expected to be RM3.50-RM4.20psf in Medini and between RM4.60-5.50psf in Puteri Harbour. From a cost perspective, this makes sense, especially with connectivity and relatively smooth customs and immigration, as it would lower the overall cost of living, mostly for families.
- **Fair value for Medini and Puteri Harbour.** After factoring in exchange rate risk, we think a fair discount rate for projects in Medini and Puteri Harbour would be between 5-6%. Based on our sensitivity analysis, the fair value for Medini would be between RM700-1,000psf (S\$272-389psf) and between RM900-1,300psf (S\$350-506psf) for Puteri Harbour (refer to sensitivity table). Hence, in our view, most developers have priced their projects fairly.

**Sensitivity Table: Implied Value RMpsf for Medini and Puteri Harbour**

		Rental psf/month (RM)							
		2.50	3.00	3.50	4.00	4.50	5.00	5.50	6.00
Discount Rate	3.0%	1,000	1,200	1,400	1,600	1,800	2,000	2,200	2,400
	3.5%	857	1,029	1,200	1,371	1,543	1,714	1,886	2,057
	4.0%	750	900	1,050	1,200	1,350	1,500	1,650	1,800
	4.5%	667	800	933	1,067	1,200	1,333	1,467	1,600
	5.0%	600	720	840	960	1,080	1,200	1,320	1,440
	5.5%	545	655	764	873	982	1,091	1,200	1,309
	6.0%	500	600	700	800	900	1,000	1,100	1,200
	6.5%	462	554	646	738	831	923	1,015	1,108
	7.0%	429	514	600	686	771	857	943	1,029

Source: HSR Research

- **Property developers likely to see margin squeeze.** The market did not foresee the severity of the measures imposed on the Malaysian property sector in Budget 2014. The measures have dented sentiments somewhat and it will be difficult for property developers to continue to raise prices over the short term. Hence, we foresee margin compression for developers.

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## APPENDIX

- **Decentralisation with Jurong Lake District and Woodlands Regional Centre (WRC).** Back in 2008, URA announced a blueprint for Jurong Lake District that was to transform it into a unique lakeside destination for business and leisure within 10 to 15 years. According to URA, WRC is one of the four regional centres identified under the recently announced Land Use Plan, as part of the government's decentralisation strategy to provide jobs closer to homes and business hubs outside the city centre, thus reducing the need to travel towards the city centre.

### Commonly Used Abbreviations & Glossary

Avg – average

GST – Goods and Services Tax

JV – joint venture

MOF – Ministry of Finance Malaysia

NA – not applicable, not available

RPGT – real property gains tax

SPA – sale & purchase agreement

URA – Urban Redevelopment Authority

Vs. – versus

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