



BLOOMBERG NEWS

\$100 Billion Chinese-Made City Near Singapore ‘Scares the Hell Out of Everybody’

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In November 2016, *Bloomberg News* described the impact that Forest City might have on the housing market in Johor.

While Chinese home buyers have sent prices soaring from Vancouver to Sydney, Chinese developers in Malaysia are swamping the market, pushing prices lower with a glut of hundreds of thousands of new homes.

“These Chinese players build by the thousands at one go, and they scare the hell out of everybody,” said Siva Shanker, head of investments at Axis-REIT Managers Bhd. and a former president of the Malaysian Institute of Estate Agents. “God only knows who is going to buy all these units, and when it’s completed, the bigger question is, who is going to stay in them?”

Chinese companies have come to Malaysia as growth in many of their home cities is slowing, forcing some of the world’s biggest builders to look abroad to keep erecting the giant residential complexes that sprouted across China during the boom years. They found a prime spot in Malaysia’s special economic zone, three times the size of Singapore, on the southern tip of the Asian mainland.

The scale of the projects is dizzying. Country Garden’s **Forest City**, on four artificial islands, will house 700,000 people on an area four times the size of New York’s Central Park. It will have office towers, parks, hotels, shopping malls and an international school, all “draped with greenery.” Construction began in February 2016 and by November 8,000 apartments had been sold.

It’s the biggest of about 60 projects in the Iskandar Malaysia zone around Johor Bahru, known as JB, that could add more than half-a-million homes. The influx has contributed to a drop of almost one-third in the value of residential sales in the state last year, with some developers offering discounts of 20 percent or more. Average resale prices per square foot for high-rise flats in JB fell 10 percent last

year, according to property consultant CH Williams Talhar & Wong.

“The Chinese are attracted by lower prices and the proximity to Singapore,” said Alice Tan, Singapore-based head of consultancy and research at real-estate brokers Knight Frank LLP. “It remains to be seen if the upcoming supply of homes can be absorbed in the next five years.”

The influx of Chinese competition has affected local developers like UEM Sunrise Bhd., Sunway Bhd and SP Setia Bhd., who have been building projects around JB for years as part of a government plan to promote the area. First-half profit slumped 58 percent at UEM, the largest landowner in JB.

A decade ago, Malaysia decided to leverage Singapore’s success by building the Iskandar zone across the causeway that connects the two countries. Malaysia sovereign fund Khazanah Nasional Bhd. Unveiled a 20-year plan in 2006 that required a total investment of \$87 billion. Singapore’s high costs and property prices encouraged some companies to relocate to Iskandar, while JB’s shopping malls and amusement parks have become a favorite for day-tripping Singaporeans.

Construction, however, soon outpaced demand. To sell the hundreds of new units being built every month, some companies took to flying in plane-loads of potential buyers from China, prompting low-cost carrier AirAsia to start direct flights between JB and the southern Chinese city of Guangzhou. On the first such flight, 150 of 180 seats were taken by a subsidize tour group organized by Country Garden. Almost half of them ended up buying a residence.

Visitors filed into a vast sales gallery where agents explained the enormity of the project using a replica of the finished town with model buildings as tall as people. They were shown flats with marble floors and gold-trimmed furniture, dined on a buffet spread and were encouraged to sign on the spot. A two-bedroom apartment cost as little as \$181,400, about one-fifth the price of a similar-sized apartment in central Singapore.

In Malaysia, investment growth has slowed, slipping to 2% a year in the third quarter of 2016, from more than 6% in the previous quarter. The value of residential sales in Malaysia fell almost 11% in 2016, while in Johor the drop was 32%, according to government data.

“I am very concerned because the market is joined

at the hip, if Johor goes down, the rest of Malaysia would follow,” said Shanker, at Axis-REIT Managers, who estimates that about half the units in Iskandar may remain empty. “If the developers stop building today, I think it would take 10 years for the condos to fill up the current supply. But they won’t stop.”

Developers have a pipeline of more than 350,000 private homes planned or under construction in Johor state, according to data from Malaysia’s National Property Information Centre. That’s more than all the privately built homes in Singapore.

“Land is plentiful and cheap,” said Alan Cheong, senior director of research & consultancy at Savills Singapore. “But buyers don’t understand how real estate values play out when there is no shortage of land.”

The developers haven’t been helped by government measures designed to prevent overseas investors pushing up prices. In 2014, Malaysia doubled the minimum price of homes that foreigners can buy to \$235,000, and raised capital gains tax to as much as 30 per cent for most properties resold by foreigners within five years.

The stream of new developments has scared away some investors, pushing developers to concentrate more on finding families who will live in the apartments, said Lo at CH Williams. Profit margins have fallen to around 20 percent, from 30 percent when land was cheap a few years ago.

Source:

<https://www.bloomberg.com/news/features/2016-11-21/-100-billion-chinese-made-city-near-singapore-scares-the-hell-out-of-everybody>

WALLSTREET JOURNAL

“Ambitious Chinese Developers Plan Cities Abroad From the Ground Up, Country Garden invests in big projects globally”

3/1/2016

In this March 2016 *Wall Street Journal* article, Jake Maxwell Watts and Esther Fung describes how Chinese property developers have become a familiar

site at construction projects in some of the world's wealthiest and least developed cities. Their point is that Chinese developers are becoming more ambitious, seeking to build not just skyscrapers and roads, but entire cities. They also point out that many of these project face skepticism from analysts of various kinds. Since the article was written, Chinese developers are being pressed to invest more of their funds inside China.

In January 2016, Chinese developer Country Garden Holdings launched a marketing campaign to sell as yet unbuilt apartments in a project in Malaysia called Forest City. The company had plans to reclaim four new islands just north of Singapore, with the goal of constructing a \$40 billion "eco-city" to house as many as 700,000 people.

In partnership with a company owned by the Sultan of Johor, the state in which Forest City will be located, County Garden invested more than \$530 million to build the city foundations "into the ocean." Early plans included a surface area that is almost entirely pedestrianized with road traffic traveling underground.

In 2016, Chinese groups spent more than \$33 billion on development sites around the world. This continued a trend, up from \$6 billion in 2014 and up more than 100 times from a mere \$87 million in 2009, according to data from real estate services firm JLL. The forecast for 2017, though, is for the trend to reverse.

Country Garden's largest shareholder is Yan Huiyan, China's 24th richest person in 2016 with assets of more than US \$5 billion according to *Forbes*. Ms. Yang is the daughter of the company's founder, Yeung Kwok Keung, who transferred his holdings to her in 2007.

In Malaysia, an economic slowdown has hurt demand for properties in Johor state, and Country Garden clashed in 2014 with Singapore officials over the environmental impact of dredging. Singapore's Environmental Ministry said that it was concerned that reclamation work on some of the Malaysian projects in the Straits of Johor commenced without the requisite environmental impact assessments. That was indeed the case.

The current project design doesn't include a direct link between Forest City and Singapore, despite the latter being promoted as a source of demand for properties in the new gated community. In 2016, Country Garden managed to sell only about 70% of the units built in another of its projects in Johor,

known as Danga Bay. A company representative said "Country Garden's philosophy is that we will create the market and the customers will arrive."

Source:

<https://www.wsj.com/articles/ambitious-chinese-developers-plan-cities-abroad-from-ground-up-1456815602>