



RESEARCH PAPER

Drivers of house price inflation in Penang, Malaysia: Planning a more sustainable future

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Stuart MacDonald,
Head of City, Urbanisation & Environment Penang Institute

stuartmacdonald@penanginstitute.org

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Executive summary

The liveability of cities has become a key factor in the competitive advantage of nations, and decisive elements in international competition now centre on factors such as quality of life, urban infrastructure and amenities. Housing therefore has a key role to play in achieving strategies to further develop Penang, however, the average price of property has increased by 50% over the past five years, placing pressures on affordability and quality of life for lower and middle income groups which make up the backbone of the economy. This paper examines a wide range of factors that have been observed as driving house price inflation in Penang, concluding by identifying how the state can intervene through the development of the planning system to promote a more equitable and sustainable housing market.

Drivers of house price inflation

Supply side factors - Penang is the second smallest state in Malaysia, but is the eighth most populous and as such has a declining supply of land available for development, in part due to its geographical constraints but also due to its colonial and cultural history that has left a lasting legacy on the pattern of land ownership which means that the Penang state government has less power over land than other state governments in Malaysia. The scarcity of land for development, the mismatch in housing supply and the competing pressures on available land has pushed up prices, with a knock on effect of pushing up the price of housing.

Economic factors – Asia has emerged from the worst effects of the global financial crisis, returning to growth ahead of Western markets and as a result the global economic climate has made property more attractive as an investment. Low interest rates and easy home ownership have also developed a new breed of property investor, with low returns from stocks, shares and bank interest the average person is now able to make money by redirecting savings into property. Speculation in a rising market only pushes up the price further, making the cost of housing higher.

Industry factors - A number of factors faced by the development industry are placing pressures on the costs of construction. The price of raw materials for example has increased significantly, added pressures are being placed on the industry to provide supporting infrastructure, and the liberalisation of markets has opened up competition for the declining supply of land available in Penang. All of these factors are translating in to higher house prices.

Physical connectivity & internationalisation - Penang is becoming more and more accessible, and improvements in physical connectivity have opened up the market to a wider population. In an increasingly globalised world, barriers of distance have declined to almost nothing, information and knowledge flow at an instant and increasing disposable incomes, combined with the falling real costs of travel, make now even the most remote parts of the world accessible. Penang has increased its international profile in recent years and the development industry has been quick to capitalise, attracting house buyers from across the globe which are driving demand for high end property and skewing the market.

Demographic factors - Planning for housing needs to take account of the needs of the whole population; the extent to which current planning for housing needs takes account of net migration is unclear. There needs to be a move to a demand model for housing which considers incoming groups such as the retiring Diaspora, foreign buyers and foreign workers, all need to be better understood so that these needs can be better balanced in housing supply, as currently supply is focused on those with the largest means, which is driving up the price of housing.

The role of planning - Planning has not contributed to the sustainable development of the state, and not produced a supply of housing to meet the demand of all sections of society, allowing a skewed developer driven market to address the demands of wealthy buyers has contributed to the rise in house price inflation. The discipline requires significant review to enable it to plan for a better future. Planning should be viewed as an essential tool for economic development, but should also balance the social and environmental needs to create a sustainable economy.

Conclusions

The rise in house prices are largely the unintended consequences of desired economic development combined with geographical constraints, factors such as high levels of entrepreneurialism, FDI investment, increased physical connectivity to local and global markets, the increasing international profile of Penang and more generally the wider global economic climate which has made the state an attractive place to invest, have meant that demand is stronger than supply, and therefore prices have gone up. Penang would not wish to inhibit economic development; however, sustainable economic development needs to have detailed consideration and strategies for the mitigation of the negative impacts of growth and the management of demand. Economic and physical planning need to be much closer aligned, and housing supply needs to take account of demand from all sections of society.

Penang can reform its approach to planning and the management of land to ensure a more sustainable model is promoted, this can then induce more balanced and equitable housing development (managed by the housing board), which can in turn stimulate a greater and more sustainable economic development of the state. Without effective policies to address issues such as housing affordability; people, jobs, talent, demand and investment may go elsewhere. While high quality housing outcomes alone may not be enough to attract significant inward investment, a lack of affordable housing may start to preclude it.

- Recommendation 1: Review planning as a profession, considering skills shortages, capacity & profile;
- Recommendation 2: Review planning with the aim of promoting sustainable economic development;
- Recommendation 3: Reform planning powers to rebalance in favour of the state;
- Recommendation 4: Review existing mechanisms for promoting affordable housing.

Introduction

Penang aspires to transform itself into an international city state and a high income economy. Creating a more efficient, sustainable and liveable state will be important in reaching this ambition. Liveable cities can attract and retain the creative and knowledge workers of the 21st century, who are now infinitely mobile and can pick and choose where they wish to live and work. The liveability of cities has become a key factor in the competitive advantage of nations, and decisive elements in international competition now centre on factors such as quality of life, urban infrastructure and amenities, the overall image of a city, and the vitality of social and cultural life.¹

The planning of housing therefore has a key role to play in achieving strategies to further develop Penang. Housing policies can contribute to a more sustainable and green state (through for example the Green Building Index and Transit Orientated Development), and can support the development of more cohesive and more sustainable communities. In recent years however, house price inflation has been significant, with the average price of property increasing by 50% over the past five years. If house price inflation continues on the past five years' historical rates, the issue of affordability will become significantly more acute, and will affect significantly more of the population. Left to market forces, housing will continue to develop in an unsustainable fashion. Penang's concern should be: what impact this will have, not only on the lower and middle classes who are increasingly priced out of the market, but also the economy of Penang and its environment?

This paper examines a wide range of factors that have been observed as driving house price inflation in Penang. This paper explores drivers under a range of headings, including:

- Section 1: Supply side factors;
- Section 2: Economic factors;
- Section 3: Industry factors;
- Section 4: Physical connectivity and internationalisation;
- Section 5: Demographic factors;
- Section 6: Managing demand.

This paper concludes by focusing on how Penang can intervene through the development of the planning system to promote a more equitable housing market and develop policies that can support Penang's aspirations to transform itself into an international city and a high income economy.

Section 1: Supply side factors

Penang is the second smallest state in Malaysia after Perlis in terms of geographical coverage, but is the eighth most populous with 1,578,000 residents (2009 est.). Penang has the highest population density in Malaysia with 2,457 people per sq km on Penang island and 1,056 people per sq km on the mainland. This

high level of population density puts competing pressures on land use, and therefore property prices. Penang has a declining supply of land available for development on the island, in part due to its geographical constraints, but its colonial and cultural history has also left a lasting legacy on the pattern of land ownership.

Colonial history in relation to land

Much of the land on Penang island is in private ownership, with freehold titles the most common, and the state land bank is equal to around 12% of the land mass. Part of Penang's colonial legacy is evident in its land titles, with a unique land tenure in Penang, 'First Grade title'². Owners of such titles do not need to apply to change land use, and have greater rights than owners of ordinary freehold land. Land carrying these special titles does not have a category of use such as "agriculture" or "industry", making it unnecessary for an owner to convert the land use.³ Therefore, as a general rule, the Penang state government has less power over land than other state governments in Malaysia, where 'First Grade' titles do not exist.

Cultural history in relation to land

Wakaf

Religious groupings such as Wakaf hold significant land. In Malaysia, thousands of acres of Wakaf lands and properties are left idle, underdeveloped or underperforming, argued to be due to their unequal treatment by law, market forces in the property market⁴ and a lack of clarity regarding who makes decisions in the name of the larger group,⁵ however Wakaf land should be closely examined for its potential in supporting more sustainable development. Y.B. Tan Sri Nor Mohamed, Minister in the Prime Minister's Department said in April 2010 "*Wakaf land is an asset and should be utilised. On Penang Island, many Malays cannot afford to live in the city due to the high prices of property and have to move to the mainland. The Wakaf land in Penang can be developed to meet the housing needs of the people.*"⁶

Chinese clans

Cultural institutions such as Chinese clans hold large amounts of land, the 'Big Five' Hokkien families of Penang, the Tan, the Yeoh, the Lim, the Cheah and the Ong have over time developed significant ownership of land. The 'Big Five' were involved in revenue farming from the late 1800's, especially opium, a lucrative commodity at this time. Sales generated a high level of cash flow and thus created large pools of capital, which in turn helped the 'Big Five' to open larger plantations or mines. The 'Big Five' and their associates organised themselves into syndicates to secure farm land in Penang. Coconut oil and brown sugar were also important crops grown on Penang Island. By 1874 the island had about 17,000 acres of coconut estates, most of which were owned by the 'Big Five', and this has set a pattern of land ownership still evident today.⁷

Existing housing stock¹

By using population, household income data, and stock volumes within 'affordable' price ranges a huge mismatch in the supply and demand for property on the basis of income groups is evident. Significant caution needs to be taken with this rough calculation, as many factors are not considered or controlled for⁸, however it does start to identify the potential scale of the issue.

- The low income group, the 1st and 2nd quintiles (which has a household income of less than RM2,700 per month), is equal to 152,048 households who can afford property costing less than RM150,000. According to NAPIC stock and transaction data, there are 306,896 properties with an average price which is under RM150,000, which is double the number of households required.
- The middle income group, the 3rd and 4th quintiles (which has a household income of between RM2,700 and RM6,200) is equal to 152,048 households (40%) who and can afford property between RM150,000 and RM350,000, of which, according to NAPIC there are 81,966 units, half the required units for this income group.

This would suggest that middle income groups are forced into sub optimal housing choices by a lack of supply in the market, which will then drive up the price of available housing.

Summary

The limited supply of land on the island and the mismatch in supply increases demand and therefore prices, developers respond by building at higher densities, hence we see the growth of flats and high rise condominiums on the island. The state land bank is small, and as such land is a valuable resource. Greater clarity in planning, over the location of state land and assets (along with local authority owned land and assets) and communal lands is required so that these may be managed for the benefit of the state with a longer term view and be used to start to rebalance supply so that it matches demand.

Section 2: Economic factors

The global economic downturn since 2008 has resulted in under-performing markets and lower bank savings rates. While European and North American economies continue to be marked by debt, and cuts in public spending along with poor rates of growth, Asia, comparatively, has emerged from the worst effects of the global financial crisis, returning to growth ahead of Western markets. Some unintended consequences of economic growth and the recent global economic climate have been displayed in pressure on house prices; the following section explores further.

¹ See accompanying paper 'Supply and demand in the Penang housing market – the impact on affordability (2011) Penang Institute'

Foreign direct investment

Continued investment by Multi National Corporations (MNCs) in Penang can in part be argued to be driving requirements for property. The state government set a target of RM4.2bil in both local and foreign investments into Penang for 2010, however achieved a record RM12.2billion, almost six times that achieved in 2009 (RM2.1bil).⁹ According to MIDA, Penang has ranked second for approved manufacturing investment projects from January to May 2011, with total investment of RM4.488 billion in the first five months of the year.¹⁰ GDP per capita in Penang has increased from RM26,457 in 2005 to RM30,753.50 in 2010 despite the global financial crisis, and the stated ambition is to increase GDP per capita to RM50,000 by 2020.¹¹

This continued economic growth is central to supporting the development of the state, and will drive housing demand locally. However the housing demand created by foreign direct investment (FDI) has not been planned for. The majority of jobs created by FDI are low wage assembly jobs which are filled by foreign labour, however the housing needs of foreign labourers have not been planned for and as a result, high concentrations of labourers reside in low cost housing, a subsidised state asset, which is rented to them by private outsourcing companies. This is now creating social problems which the state will need to address and is pushing up the price of low cost housing which is attractive to those who want to make a profit from rental to MNC's, this is however pushing the price of this property beyond the means of the local population it was intended to support.

To reach its ambitions Penang needs to move up the value added chain and attract a greater proportion of higher value and higher skilled jobs, this investment will require a skilled labour force to match, and the housing requirements of these skilled employees will need to be planned for.

Entrepreneurialism

Local business owners are cited as among those driving high end property requirements in Penang, contributing to demand, and increasing average house prices. Not restricted by salary levels, business owners can earn significantly more than the average salaried person. Business registration data provides an indicator of the level of entrepreneurialism in the state, and with 212.3 business registrations per 1,000 population (see figure 1), only Kuala Lumpur has a higher number of business registrations.

Figure 1: Business registrations per '000 population according to the States of Malaysia¹²

Penang compares well against its neighbouring states, all of which display significantly lower business registration, with Perlis 22% lower, Perak 28.8% lower and Kedah 29.2% lower. This would suggest that Penang provides a climate for entrepreneurialism, and that it may well act as a magnet in the northern region for entrepreneurs.

	Registered businesses, 2010	Population, 2009 estimates	Business registrations per '000
Kuala Lumpur	600,875	1,809,699	332.03
Penang	341,797	1,610,000	212.3
Malacca	150,188	770,000	195.05
N. Sembilan	190,171	1,014,000	187.55
Johor	624,519	3,385,000	184.5
Selangor	900,786	5,180,000	173.9
Perlis	39,910	241,000	165.6
Pahang	254,960	1,543,000	165.24
Kelantan	248,929	1,635,000	152.25
Perak	361,571	2,393,000	151.1
Kedah	300,438	2,000,000	150.22
Terengganu	167,930	1,121,000	149.8
W.P. Labuan	8,709	90,000	96.77
W.P. Putrajaya	1,311	65,000	20.17
Sabah	103	3,202,880	0.03
Sarawak	38	2,504,000	0.02
Total	4,192,235	28,563,579	146.77

Source: Suruhanjaya Syarikat Malaysia & Department of Statistics Malaysia.

A strong entrepreneurial class brings investment, vital for Penang’s development; however it is also influencing the skew in housing developments, which are catering increasingly for the higher end of the market.

Housing speculation

Global Property Guide¹³ lists Malaysia as the top Asian country to invest in. Malaysia has a combination of relatively low round-trip purchase costs, low capital gains taxes and high rental yields which combined make property investment in the country very attractive (see figure 2).

Figure 2: Round-trip costs, capital gains tax and rental yields in selected Asian countries¹⁴

A Consumer Trends Survey (October to December 2010) by Malaysian website iProperty.com.my¹⁵ has shown that high end properties are increasing in popularity for Malaysian investors. The survey attracted 1,069 respondents, one third already owned a property, around 20% owned two properties while a further 20% owned 3 or more properties. 51% were investors looking

	Round-trip costs	Capital gains tax	Rental yield
Hong Kong	2.77%	n/a	3.25%
Singapore	4.67%	10%	3.79%
China	5.26%	20%	3.24%
Malaysia	5.50%	5%	8.76%
Vietnam	6.20%	25%	n/a
Thailand	6.89%	37%	6.43%
Cambodia	8.44%	20%	4.33%
Philippines	18.23%	32%	8.98%
Indonesia	26.37%	20%	11.30%

Source: Global Property Guide.

to expand their financial portfolio with real estate, with goals of reaping rental income and capital appreciation. 40% of all respondents were in the market for high end properties, valued between RM400,000 and RM5,000,000. Country manager of iProperty.com Malaysia, Ken Tsurumaru said on the surveys release “As confidence in the property market grows, we are seeing more home buyers and investors turning to high end properties as a means to profit from capital appreciation and to expand their financial portfolios.”

Off plan gains

A recently highlighted practice of developers selling or reserving units for friends, family, and business contacts prior to their release to the general public is argued to push up the price of newly built property before it even reaches the open market, as these temporary investors/speculators, quickly turn around or ‘flip’ property at a profit as newly released property is often in high demand. With low down payments of 5% and no requirement to start making repayments until receiving the keys to the property, people are able to make huge windfall gains, even using credit cards (with 24 months at 0% interest) to fund the initial deposit, with certainty that within a few months the property can be resold at a huge profit, without even making a single mortgage repayment. The process of ‘soft’ launches, part of a developers marketing strategy needs to be reviewed as it promotes speculation.

A new breed of property investors

Property investment is no longer the reserve of financial investors and institutions, everyday people are reinvesting their savings in property in a period of low returns on stocks, shares and bank savings. Under performing retirement funds are being withdrawn and reinvested in property, a strategy for preserving wealth. Datuk Jerry Chan of the Northern Branch of the Real Estate and Housing Developers' Association (Rehda) supports the view that local money is being reinvested in property in a rising market. Lots of people are thought to own multiple houses in Penang, with some becoming landlords.

Low interest rates have made housing loans particularly attractive, which is argued to have led to growth in the number of people investing in property. The introduction of easy home financing with deposits as low as five per cent, has brought home ownership entry costs to an all time low. Banks however should be cautious of high levels of indebtedness, especially in an overheating market, which was the key driver in the global financial crisis which began in the US as a result of excessive sub-prime mortgage lending. Recent moves to enforce a 70% Loan to Value ration on 3rd Mortgages may help, however household credit, which accounted for 34.4% of the banking systems loans in 2000, increased to 56% of total outstanding bank loans by 2007 (see figure 3). Total loans for housing purchases grew at an average annual rate of 15% during the period, in line with government efforts to promote home ownership. Financial institutions have been willing to finance residential mortgages because such loans are typically viewed as low risk, but this loosening of the purse strings has undoubtedly contributed to increasing house prices.

Cash

The high savings rate among Asians and a culture of saving are argued to have facilitated increasing property ownership. This is especially true of Chinese cultures that are known for their thrift. The lack of a social safety net, absence of unemployment benefits, historically underfunded health care system, and previous limited ability to borrow are argued to have forced Asian cultures to self-insure, which means they save on average much more than they need to cover their costs. Without easy availability of consumer credit historically, households who wanted to borrow had little choice but to save for a future purchases.

As the wealth of society increases, rapidly in the case of Malaysian Chinese, it is argued that the savings culture remains, as it takes time for people to change their consumption habits. So growth in consumption lags behind growth in wealth, and the difference between the two is a rising savings rate.¹⁶ This high level of personal savings, combined with low interest rates and easy home ownership (5% deposits), have made property investment not only attractive, but increasingly achievable for many in Penang.

Summary

As Penang attracts investment and creates jobs, it also creates housing demand. Higher value and higher skilled jobs will require housing for skilled middle income employees. As such, poor housing affordability presents a risk to development in a world where skilled individuals can rank liveability factors highly in their

employment location choice. Penang should review how the current planning framework can be better linked to economic development, so that the failure to plan for the housing demand of foreign workers is not repeated in ambitions to grow the knowledge economy. While there is little that Penang can do to address global economic conditions that have made property speculation attractive in Penang, the state is not completely powerless in curbing speculation. A greater understanding of property ownership patterns is required to develop more effective housing policies and Penang should initiate a review of all existing mechanisms for affecting the housing market in a way which would curb speculation, potentially raise additional revenue and regulate off plan gains.

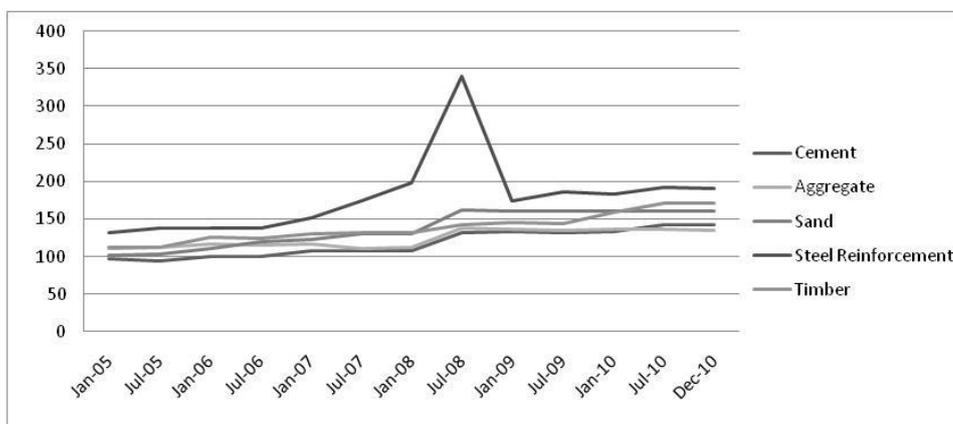
Section 3: Industry factors

A number of factors faced by the development industry are placing pressures on the costs of construction, which are translating in to higher house prices. The price of raw materials for example has increased, added pressures are being placed on the industry to move to a greater provision of supporting infrastructure, and the liberalisation of markets has opened up competition for the declining supply of land available in Penang.

Construction costs

Construction costs have risen significantly in recent years. Across the board, the prices of all types of commonly used construction materials have increased by 15% to 30%, and Malaysian developers expect raw material prices to continue to rise. The Construction Industry Development Board of Malaysia collects raw material costs by region, presenting them in an index based on 2002 prices.¹⁷ From this data it is evident that the cost of core construction materials has increased significantly since 2006, with cement increasing by 42.8%, sand increasing by 48.9%, timber by 45.4% and steel by 61%. A huge price hike in the cost of steel was evident in 2008, with the price jumping by 150% between 2006 and 2008 (see figure 4). These increasing construction costs translate into higher house prices as developers seek to protect their bottom line and remain profitable.

Figure 4: Building Material Cost Index in Penang, Kedah and Perlis (Jul 2002=100)



Conditions on development (infrastructure)

Due to the rising cost of providing public infrastructure, there has been a shift from public to private sector provision of this infrastructure in Malaysia since the mid-1980s, and the Fourth Malaysia Plan. Traditionally, most local infrastructure was undertaken by local authorities, however under the present planning system, the local authority has the power to impose requirements of off-site public amenities and appropriate infrastructure facilities on private developers, prior to planning permission being granted. Private developers may be required to provide on-site requirements such as road improvements, construction of new roads and the provision of other facilities, while off-site there are increasing conditions on housing developers to provide community facilities such as schools, mosques and hospitals.

The system of planning and development control is used as an instrument for growth and the government has stressed that the development of the country relies on the private sector as the primary engine. The privatisation concept is a comprehensive policy which promoted liberalisation and deregulation strategies, and resulted in a significant downsizing of the public sector, while simultaneously widening the involvement of the private sector.¹⁸ Because the Malaysian authorities require local developers to meet various obligations, overall construction costs are increased, and these costs are inevitably passed on in house prices, and as these requirements increase so does the costs of housing.

Conditions on development (low medium cost housing)

The state intervenes in the housing market by imposing a 30% low cost housing quota on private sector residential development, therefore ensuring that the private sector constructs sufficient subsidised low cost housing¹⁹. This low cost housing is constructed through a direct cross subsidy of private sector residential development, and so the true cost of housing reflects these conditions, which with increasing construction costs are becoming more expensive to fulfil.

Low cost housing must be provided in the same district as any developments led by the private sector, which should help to sustain property mix at the district level, but to what degree this is enforced is unclear. The low cost housing market is argued to have operated inefficiently, with developers being able to transfer and sell quotas, and the state allocation process also argued to be inefficient. Low cost housing developments are over represented in abandoned projects. Outsourcing the role of 'social' housing provider to the private sector without sufficient controls from the public sector has resulted in an inefficient condition on private sector development. Conflicts of interest arise and private developers are driven to minimise their costs on low cost housing to protect their bottom line. The low cost housing market needs detailed examination.

Development industry

The liberalisation of the local property market has opened up a bigger catchment and created more opportunities for the development industry. More developers from Kuala Lumpur are entering the market in Penang, increasing the competition for available sites, and pushing up land prices further. Government

action to level the playing field has allowed easier access to the market, and while there have always been Kuala Lumpur developers, the number operating in Penang has increased in the past five years. Penang has however been praised for its high quality of housing developments, attributed in part to increasing competition and Kuala Lumpur standards.

Despite this competition, developers remain confident about the current market conditions (demand). The Rehda Property Industry Survey in 2010 showed that 62% of developers were more optimistic of the market conditions, compared with 43% in 2009. The majority of developers also anticipated prices to rise further in 2011, with 41% saying their properties will increase in value up to 10%, while another 40% of developers expect their property prices to increase from 10% to 20%.²⁰ Developers have been making up for lost time from stalled developments during the global economic crisis. Unlike the previous 1997/98 Asian financial crisis, (when the Penang property sector was badly hit due to impacts on the Malaysia banking system), the country has seen a quick recovery, and the housing market in Penang has not been badly affected, providing a ideal climate for developer investment (and speculator interest).

Summary

While the state of Penang has no control over the price of materials for construction, and cannot control entry into the market, it can however examine its development control policies and the conditions placed on developers. Penang should seek to streamline and reform its planning powers to rebalance in favour of the state, and place conditions on developers which better reflect the demand for housing. The housing board offers an opportunity to re-examine conditions on development, and an improved planning environment that examines all development holistically may be able to reduce the infrastructure costs of development by moving away from the piecemeal approach that currently prevails.

Section 4: Physical connectivity & internationalisation

Penang is becoming more and more accessible, and improvements in physical connectivity have opened up the market to a wider population. In recent years air connectivity has improved, with the aviation industry dramatically changed by the low cost carrier model, and locally, Penang is investing in greater connectivity to the mainland with a second bridge under construction and the airport currently being expanded. In an increasingly globalised world, barriers of distance have declined to almost nothing, information and knowledge flow at an instant and increasing disposable incomes, combined with the falling real costs of travel, make now even the most remote parts of the world accessible. Penang has increased its international profile in recent years and the development industry has been quick to capitalise, attracting house buyers from across the globe, driving requirements for high end property.

Increased air connectivity

Air connectivity with Penang has increased significantly in recent years. There has been considerable success from low cost carriers, with AirAsia, the pioneer of low cost flights in Asia now operating flights to 57 destinations in 12 countries. Low cost airlines offer frequent and cheap flights to the majority of the major cities in the region, with the heaviest routes being to Kuala Lumpur and Singapore, where connecting flights are available to any destination around the world.

Low cost carriers are increasingly developing their model for long haul destinations, making Penang a cheaper destination to reach from many more places around the world. In May 2007 for example, AirAsia X commenced flights from Malaysia to Australia, with fares from around RM800 and to London Standstead from RM745 each way; these are significantly cheaper ticket prices than those offered by the traditional carriers. In a company Statement, Azran Osman-Rani, chief executive officer of AirAsia X, said: “AirAsia X is providing fares people have never seen before for these routes, and making travel more affordable and accessible”.²¹ There is discussion of destinations in Spain, Turkey, Morocco and the Czech Republic from a planned Abu Dhabi hub for AirAsia. This opens the market to greater tourism, but also increased foreign ownership of property, in particular high end property, as compared to more developed nations, housing in Malaysia still offers good value.

Penang International Airport is being developed further, part of a RM250million expansion plan. Phases two and three of the plan involve expanding the terminal floor space to 36,000 sq m from 27,526 sq m, equal to a 31% increase. Once completed in 2012, the airport will be able to handle five million passengers per year, up from 3.5 million at present, a 43% increase,²² facilitating greater access to Penang and its property market.

Penang Second Bridge

The ongoing construction of the second bridge connecting Batu Kawan on the mainland with Batu Maung on the island (see figure 5) has stimulated developer interest in these sites, with land prices in the Seberang Perai Selatan district doubling since 2008. The 24km bridge due to open in November 2013, is expected to benefit the State’s economic development and create at least 1,200 jobs.²³ The bridge, which is anticipated to stimulate development in a mirror image of the first bridge, will be the longest in the region when completed and average time taken to drive from Batu Kawan to Batu Maung is expected to be 20 minutes. This new connection is having a knock on effect on housing in this district, with the price of a detached property increasing by 19% in the past twelve months and by 95% in the past five years.

Figure 5: Map of Penang Second Bridge



Source: Penang Structure Plan 2020.

International profile

In 2008 the inscription of George Town as a World Heritage Site (along with Malacca) under UNESCO has raised the international exposure of Penang. The first cultural sites in Malaysia inscribed, George Town and Malacca were listed for their cultural Outstanding Universal Values. George Town demonstrates a succession of historical and cultural influences arising from its former function as trading port linking East and West. With a multi-cultural living heritage, where many religions and cultures have met and coexisted, George Town has a unique architecture, culture and townscape.²⁴

George Town has also received recognition for its overall quality of life, moving up from the 10th to eighth most liveable city in Asia in 2010, in the ECA international survey. The survey now puts George Town on par with Kuala Lumpur and Bangkok with the rating for the cities based on an analysis of living standards, including climate, health services, housing and utilities, social networks, leisure facilities, infrastructure, personal safety, political tension and air quality.²⁵

This rising profile and recognised quality of life attracts people from all over the world, some to live and work in a place of rich heritage, some for an enriching holiday, and some for second homes or retirement, escaping the harsh winters of many northern climates. Cultural and quality of life factors support the development of a Penang brand and image, increasingly important in attracting tourists and travellers who now have unlimited choices of destination.

International marketing

Developers are capitalising on this raised international profile, and are increasingly marketing properties at property road shows and expos around the world. The 'London Property Exhibition: A Place in the Sun' for example was first attended by developers from Penang in 2008. This is the world's biggest overseas property exhibition and the best-attended show of its kind in the UK. The Exhibition attracts over 18,000 visitors seeking a property investment or a dream home abroad. Henry Butcher Malaysia Penang, Asia Green Group, Mah Sing Group & Sunway Group have all attended the London event.²⁶ Specialist companies have established to support developers to attend these overseas property exhibitions. Property Talk for example, has a Penang office and organises property exhibitions in Malaysia, Indonesia, China, Australia and Hong Kong, and offers a range of services to developers looking to access foreign markets through events and expos.²⁷

Federal promotion of the housing industry

Malaysia Property Incorporated (MPI), a joint public-private sector initiative, has been developed to promote Malaysia's real estate internationally. Promotional programmes include road shows and conferences in the target markets of Britain, Japan and the Middle East. The MPI was provided with a start up grant of RM25 million by the federal Economic Planning Unit (EPU). Established in December 2008, MPI has set a target of RM20billion in total sales of local real estate in its first 10 years. MPI chairman Datuk Richard Fong is quoted

as saying, "In 2008, foreigners purchased RM200million worth of properties in the country. Our objective of RM20billion, or RM2billion a year, is quite significant".²⁸

State promotion of the housing industry

Major developers have called for greater efforts to promote the Penang brand overseas, especially to prospective investors in China. The Star Property Fair roundtable discussions in 2010 brought together key representatives of the state with developers, who highlighted that many wealthy businessmen in Northern China (Shanghai and Beijing for example) were still unaware of what Penang had to offer, perhaps a surprising concern given the cultural similarities and Chinese influences in Penang. The discussions focused on joint strategies for Penang to focus its offer and re-brand itself around its niche product offers.²⁹

Impact of foreign and overseas buyers

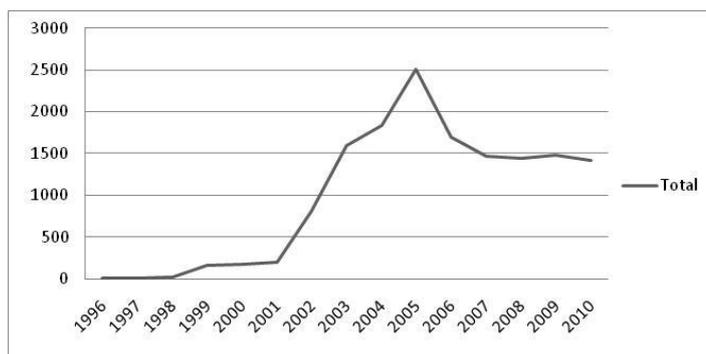
Foreign buyers are argued to be putting pressure on house prices in Penang, with Singaporeans comprising the largest grouping of foreign buyers. Statistics and data on foreign ownership are not readily available, however Pejabat Tanah dan Galian (PTG) should hold data on foreign buyers, and this should be collected and monitored at state level. Foreign house buyers want quality developments and they want professional management services to look after their investments, both increasingly available in Penang.³⁰

MM2H

Malaysia My Second Home (MM2H) is a programme promoted by the Government of Malaysia to allow foreigners who fulfil certain criteria, to stay in Malaysia for as long as possible on a multiple-entry social visit pass. Initially, foreigners living in Penang under the MM2H programme had only been able to buy properties priced over RM250,000, however the Malaysian government announced that effective January 2010 the minimum price for properties that foreigners could buy under the programme would be increased to RM500,000. While intended to protect lower priced property for locals, this limit should have been reviewed and implemented at a state level, as this is now argued to be pulling up property prices in Penang to the RM500,000 price, allowing them to be marketed to MM2H participants, and this limit has also influenced a skew in the development of new property above this price. Available national data on MM2H (and its predecessor, Silver Hair) has shown that the number of foreign arrivals with extended visas, as well as house and vehicle purchase privileges has increased from under 500 in 2001 to almost 1,500 in 2010. This data however shows that the total volume of entrants, which peaked in 2005 with 2,615 entrants has since fallen back to 2003 levels with around 1,500 entrants per year (see figure 6).

Figure 6: Foreign entry under successive programmes (Silver Hair from 1996-2003 & MM2H from 2003-2010)³¹

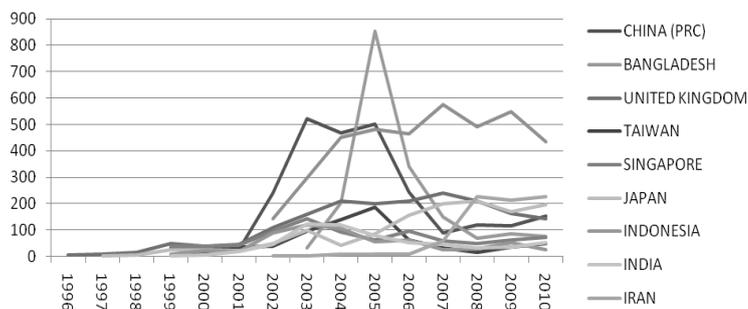
The peak of arrivals in 2005 is explained in more detail by examining the nationality of arrivals (see figure 7). Available data indicates that between 2001 and 2005 there was a significant influx of Chinese residents, while between 2003 and 2005 a significant spike in Bangladeshi arrivals was evident. On the release of data in 2006, Tourism Malaysia



director-general Datuk Kamaruddin Siaraf said, “Contrary to what most people think, the Chinese and Bangladeshis are very wealthy people and many of them have set up second homes here (in Malaysia).”³² Many of these expatriates were thought to have set up homes in Penang and Sabah.

Figure 7: Silver Hair & MM2H entrants by nationality

There is however no formal data on where these entrants located, although Penang is thought to be the most popular destination, and Rehda estimates that approximately one third of these entrants head to Penang, but not all will purchase property. According to Rehda, MM2H buyers are increasingly interested in the World Heritage site, and restoring properties for commercial use. Many are interested in condominiums, and are happy with a relatively modest floor space as they are seeking second homes or holiday homes, and few are purchasing landed properties as they seek the security of something they can lock up and leave without worry.



Quantifying the impact of foreign buyers

Taking the assumption that one third of MM2H arrivals head for Penang, there may be up to 500 new foreign buyers entering the Penang housing market each year under MM2H status. As this group is limited to purchases over RM500,000, we can establish from housing transaction data, that this group could account for 24% of all high end property transactions. It is however very important to note that MM2H is only an indicator of foreign purchases, as it is not a requirement to purchase. This indicator importantly does not indicate speculative or investment purchasers per se, although many MM2H participants will be attracted by the investment potential.

Reducing barriers to skilled foreign workers

Under the 10th Malaysia Plan, the barriers to entry for skilled foreign workers have been lowered. Supporting ambitions to increase its per capita income to RM38,845 by 2015, Malaysia set itself a growth target of six per cent over the plan period (2011-2015). Under the plan, proposals for a Talent Corporation were announced, to be set under the Prime Minister's Department in 2011 to source talent from around the world including the Malaysian Diaspora. The plan proposes simplifying the hiring of foreign talent, greater flexibility for foreign talent to change jobs, removal of time limits on employment visas of skilled foreign talent earning more than RM8,000 per month and allowing highly skilled foreign professionals to purchase houses costing RM250,000 and above, which will drive additional competition for property purchased by lower and middle income households, anticipated to further drive up prices.³³

Summary

Increased connectivity and greater internationalisation is key to continued economic development. Penang should seek to exploit its niche's for attracting foreign investment, skilled workers, and foreigners looking for a holiday destination or a second home. However, these development strategies need to be reflected in planning for housing which equally balances the demands of the local population and the unskilled workers that are a significant driver of the economy.

Section 5: Demographic factors

Demographic trends display changes in the population over time and are a key factor in planning for the housing needs of any location. In understanding demographic trends, net migration needs to be factored in, so both immigration (incoming) and emigration (outgoing) need detailed consideration.

Population growth and household formation

Penang has a growing population. The Penang Structure Plan (PSP) 2020³⁴, forecasts a population growth from 1.6 million in 2010 to 2 million by 2020, with 40% of this population anticipated to reside on the island. This will place significant burden on existing infrastructure and resources, including housing. Greater demand for housing will contribute to increases in prices. Using an established methodology newly created housing needs in the time period 2015-2020 in Penang range from around 20,000 to 27,500, however there is currently an oversupply of property, with 21% more housing units than households. This level of needs analysis needs to be much more detailed and linked to economic factors such as household income.

Foreign workers

Penang is home to around 125,000 legally registered foreign workers, and an estimated 100,000 'illegal' foreign workers. These foreign workers play a significant role in the economic functioning of the state, with the majority of the legal workers in the manufacturing (electronics) and construction sectors, with less known about the employment of 'illegal' workers, although the food and beverage industry is thought to be a major employer. Penang however has only 400 units of foreign worker hostel accommodation, as a result foreign

workers largely reside in low cost housing units across the state. As highlighted in section 1 of this paper, this is driving up the costs of low cost housing, and the future requirements for foreign workers needs to be factored into planning for housing.

A returning Diaspora?

Many of those who left the country during the 1970s may have been abroad for around 40 years and many are now reaching retirement age. It is argued that many are returning to Malaysia to retire, and seeking a relaxed, high quality of life, many are choosing to settle in Penang. Having completed careers abroad, this population is argued to have generated wealth in foreign currency which allows them to purchase high end property on their return to the country, driving the demand for high cost housing and skewing the market. Occasionally, the government releases data on Malaysians who had surrendered their Malaysian citizenship, but it is very difficult to quantify the size of the retiring Diaspora, as data is not collected. However, there are an estimated 1 million Malaysians abroad³⁵, and looking at destination country data can give an indication of the age profile of these expatriates:

- About 18.3% of the resident population of Singapore³⁶ were born outside Singapore, with Malaysian's representing 9.4% of these (306,998). From 2009 estimates, 8.9% of the population is aged over 65, so applying this to Malaysian-born residents would give a retiring Diaspora of 27,323.
- The Malaysian community in the UK is one of the West's largest, this is mainly due to the influence of the British Empire on Malaysia. The 2001 UK Census recorded 49,886 Malaysian-born people, with the Office for National Statistics estimate putting the figure at around 63,000 in 2009. In 2001, 18,000 of the Malaysians correctly identified in the Census were over the age of 45, suggesting that this age group is now reaching retirement age (10 years later this group is aged over 55).³⁷

From just these two countries, an estimated 45,000 Singapore and UK based Malaysians are reaching retirement, if just one per cent of these returned to Malaysia and sought Penang as a location to retire, they would equal the estimated number of MM2H participants arriving, and could be representing a significant share of house purchasers, especially in the high end market. This has not considered data from the US, Australia, Canada, New Zealand, Hong Kong or China and the impact of the retiring and returning Diaspora needs further quantification.

Summary

Understanding the mismatch between supply and demand is essential and Penang needs a much better understanding of who is buying its property, so that it can develop policies accordingly that can promote economic development, while balancing the needs of the indigenous population. The extent to which planning for housing has taken account of net migration is unclear, and the extent to which housing supply meets the demands of the local population are limited. The strong demand for housing from incoming groups needs to be much better understood so that these needs can be better balanced in housing supply.

Section 6: Managing demand

Planning in Penang and Malaysia has long been undervalued, systems and laws are outdated and need reviewing to address the challenges of the 21st century. Investment in the human capital required for effective planning can pay dividends with longer term, sustainable development. The 1976 Local Government Act and the 1976 Town and Country Planning Act form an important basis for housing policy in Penang and Malaysia, however the continuous application of the approach developed in the British era, coupled with the familiarity of the approach on the part of the planning officers, consultants, land owners and developers, can be argued to be part of the cause of many of the prevailing urban ills (including house price inflation).

Undervalued planning profession

Planning is argued to be insufficient for the needs of the state. Penang Chief Minister Lim Guan Eng said on May 19, 2009 that “there was an absence of competent and professional development in Penang as there has never been proper planning”. There are only an estimated 60 members of the Malaysian Institute of Planners in the state of Penang, with the majority of these working in private practice. The salary structure for planners in the civil service is unattractive in comparison to private sector opportunities and as a result, public sector planning is poorly valued as a profession.

Outdated system

Penang inherited its planning system and guidelines from the British; however no major reform has taken place since its adoption. There have two amendments to the Town and Country Planning Act in recent years (1996 and 2001),³⁸ and the 1995 Town Planners Act (Act 538) which have incorporated environmental, physical, topography, landscape and preservation aspects, enhanced the professionalism of town planners and established the National Physical Planning Council (MFPN), Regional Planning Committee, and the National Physical Plan, however in the context of globalisation and climate change, planning policy and procedures need to deliver economic growth and prosperity alongside other sustainable development goals. *“The planning system has a profound impact on our quality of life. Its outcomes influence the quality of our urban environment, the price and size of our homes, the employment opportunities available to us, the price of goods in the shops and the amount of open space we have in our towns and countryside.”*³⁹

Lack of enforcement

Planning control laws are argued to be difficult to enforce due to the separation of responsibilities and powers between different levels of government and different agencies. Existing development control policies have been in place since the 1980s. However, the enforcement of development control is argued to be inconsistent, with little enforcement action taken against breaches of rules, which only encourages further noncompliance. The lack of clear guidelines is perceived to increase uncertainty and create the possibility for

manipulation. Worse, flexibility in enforcement creates opportunity for and perception of corruption. The housing board offers an opportunity to streamline the planning process for housing.

Lack of skills and capacity

Penang has no capacity to conduct strategic planning as it is constantly overwhelmed by the day to day of planning applications and is forced to outsource its requirements for strategic planning. Capacity within planning departments needs to be increased to reduce stress and constraints on existing planners, attract future planners and ensure that senior planners can engage in more strategic planning. Planners in development control rely on town planner approved layout plans, which are overly reliant on private architectural firms, paid for by developers. There is a lack of investigation of the wider economic, social or environmental impacts of proposed developments, or scrutiny of the results of studies presented, and as such planning has been developer led.

Summary

Planning should contribute to the sustainable development of the state, however the discipline requires significant review to enable it to plan for a better future. Current trends in house price inflation can in part be attributed to a failure of planning, which should be viewed as an essential tool for economic development, but should also balance social and environmental needs to create a sustainable economy.

Conclusions

This paper has focused on how Penang can create a more sustainable housing market through developing its planning system. The rise in house prices are largely the unintended consequences of desired economic development, such as high levels of entrepreneurialism, FDI investment, increased physical connectivity to local and global markets, the increasing international profile of Penang and more generally the wider global economic climate which has made the state an attractive place to invest.⁴⁰ Combined with geographical constraints, demand is greater than supply and therefore prices have gone up. Penang would not wish to inhibit its economic development; however, sustainable economic development needs to have detailed consideration and strategies for the mitigation of the negative impacts of growth, economic and physical planning need to be much closer aligned, and housing supply needs to take account of demand from all sections of society.

Penang should reform its approach to land use planning to ensure a more sustainable model is promoted, this can then induce more balanced and equitable housing development, managed by the housing board, which can in turn stimulate a greater and more sustainable economic development of the state. Without effective strategies to address issues such as housing affordability; people, jobs, talent, demand and investment may go elsewhere. There is evidence that the quality and range of housing available in an area is an important consideration in attracting skilled labour. As the knowledge economy grows globally there will be increasing competition for skills, and businesses location decisions will increasingly be influenced by whether an area has the right environment (including housing) to attract skilled workers, and while high quality

housing outcomes alone may not be enough to attract significant inward investment, a lack of affordable housing may start to preclude it.

Recommendations

The state should review its existing policies in relation to land use planning (and housing) to explore potential mechanisms for influencing a more desirable and more sustainable pattern of development. This review should start at a macro level of the planning profession, and work through to the micro level of particular mechanisms of control (e.g. local authority policies).

Recommendation 1 - Review planning as a profession in Penang, considering skills shortages and capacity, and take action to raise the profile of the profession.

The planning profession needs to attract planners who want to make a difference, but to do this it needs to offer an attractive career. The study of planning needs to be given higher profile to those entering university to study built environment courses, and while planning is already offered a higher status than other civil service disciplines, more should be done to ensure that public sector planning can attract and retain the right people with a clear progression into higher more strategic planning roles. A study of skills shortages, academic teaching and the professions standing needs to be undertaken to further understand the issues of skills supply for the future.

Recommendation 2 - Review planning and housing functions with the aim of promoting sustainable economic development.

Understaffing, lack of clear direction, and lack of competent staff all point to the core issue of inadequate manpower in planning and the management of development in Penang. The framework for delivery in Penang needs streamlining with the rationale for promoting economic development as a starting point. The Penang housing board offers an opportunity to review how the current planning and housing framework and related delivery agencies may be acting as an inhibitor of economic development, and can seek to develop fit for purpose policies and required capacity, systems and processes to address the challenges of the current and future development of Penang. The state should look to forge closer partnership working between the State Economic Planning Unit and the State Town & Country Planning Department, and also realign Exco portfolios to bring together planning and economic development.

Recommendation 3 – Reform planning powers to rebalance in favour of the state.

Policies can be easily developed to rebalance power in favour of the state, for example

- By requiring developers to fund the cost of independent consultants hired by local authorities, rather than directly funding them themselves, would remove the potential for conflicts of interest, promote

truly 'independent' studies, benefit the most professional consultancy firms and force the local authorities to develop the capacity to understand and scrutinise the studies presented, allowing a more strategic and holistic view to be taken.

- A policy to regulate the process of 'soft' launches can prevent developers selling properties to favoured purchasers, prior to general release, which forces up the price of property. The state can request the details of intended unit prices early in the development process and compare these with sales prices post launch to highlight developers that are restricting public access to units through their practices.
- The state should publically develop clear policies on issues such as land reclamation and hill cutting, with the public benefits of such policies clearly articulated. The state should also halt the process of converting leasehold land into freehold land (with exceptions where it may harm investment or economic development), until a clear policy has been developed which considers the long term benefits and risks to the state.
- The amendment of regulations that prevent mixed commercial and residential development need urgent attention, as this is resulting in developments classifying its residential property as serviced apartments, which is also exempt of a requirement to provide a low cost housing quota.
- Greater clarity over the location of state land and assets (along with local authority owned land and assets) and communal lands is also required so that these may be managed for the benefit of the state with a longer term view.

Recommendation 4 - Review existing mechanisms for promoting affordable housing.

The state government, having developed the housing board, should initiate a review of all existing mechanisms for affecting the housing market in a way which would either raise revenue or reduce home ownership costs for those in middle to lower income groups or encourage developers and land owners to build housing appropriate to the needs of the people. Existing mechanisms, from density controls, to assessment rates should be reviewed, measured and evaluated in their total sum, understanding how one impacts upon another and assessing how progressive they are as forms of control or taxation, how feasible it may be to revise these mechanisms, taking into account the local context, cultural or historical and the political sensitivity of such reforms.

Endnotes

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