

WHAT IS DRIVING THIS "DEVELOPMENT" MANIA ?

Lim Mah-Hui

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OUTLINE

- I – Fallacy of Standard Arguments for Property-centric Development
 - II – Drivers of this "Development"
 - International Forces
 - National Policies
 - State & Local Policies
 - Developers & Financiers
 - People – investors & speculators
 - III – Impact & Conclusion
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Fallacy of Standard Reasons for Property-centric Development

- ❑ 1) **To create jobs** – but our economy is in full employment. Construction industry create jobs for foreign labor
 - Problem is not unemployment but labor mismatch, shortage of skilled labor
- ❑ 2) **Not enough houses** – 20% more housing units than households
 - Problem is not inadequate houses, but mismatch of housing needs

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Fallacies

- ❑ 3) **To create affordable housing** – but what's built are non-affordable houses and apartments
- ❑ need separate state policy to meet affordable housing needs
- ❑ present model of relying on private sector to do this does not work

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Fallacies...

- 4) Must support "development"** – question is what type of development?
- Adjective more important than noun
- Unbalanced development and unchecked development OR
- Balanced and Sustainable development
- Development for Who? – for people? For developers?
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Forces Driving This Mania - International Forces

- Globalization, neo-liberalism and free capital flows
- Loose Monetary Policies to counteract 2001 recession in U.S. > housing bubble and Great Financial Crisis
- Globally more loose Monetary and Fiscal Policies to get out of crisis and recession
- QE 1 & 2 and effect on asset inflation

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National Policies

- ❑ Bank Negara – low interest rates & fiscal stimulus to stimulate economy
- ❑ Whenever have negative interest rate, get housing bubble
- ❑ Encourage foreign investments in property – MM2H, foreigners allowed own landed property; premium lifted
- ❑ No serious measures to cool housing speculation – LTV ratio, cap gains tax

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Developers & Bankers

- ❑ Entry national developers up the ante
- ❑ 5%-95% financing started in 2008 to counteract slow demand
- ❑ “Free” financing during construction
- ❑ Different treatment for selected clients and mass clients
- ❑ Building in stages with price increment in every stage
- ❑ Guaranteed rentals for initial years

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State and Local Government Policies

- Developers most organized lobby group
- Big financiers of political parties >
- Regulatory Capture
- State and local government "outsource" planning to private sector
- No local plan to guide development
- Planning and approval – technocratic; driven by inappropriate KPIs
- Example – need to approve 87 units/ac

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Vision of State

- Development = mega projects
- International, intelligent, livable city
- Which adjective to emphasise?
- Lesson fr Singapore – so focused on international, local citizens left behind
- Singapore and Hong Kong int’nl city-states – not suitable models
- Penang – heritage city & state within a nation; ~~no monetary powers~~

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Investors & Speculators

- ❑ Expensive apartments and houses built for local rich, Msian overseas, foreign buyers
 - ❑ Visual review – most high end condominiums and housing estates like Sri Tanjong < 30% occupied
 - ❑ Sri Tanjong – foreign buyers purchase multiple units; some money laundering; guaranteed rentals
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Investors....

- ❑ Times Square over 50% are Indonesian buyers
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Impact on Local Population & Environment

- Even if limit foreign buyers to property over RM 500K, you have capillary effect – pull up prices
- Local population driven out of property market; wage increases way below house price inflation
- Penang housing affordability index is 10x – highest in Malaysia
- Price benchmark sh be local wages; not international house prices

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Impact....

- Blanket increase of density to 87 units/acre drives up land prices and > building mania
- Traffic Congestion
- No green spaces
- Unlivable city

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CONCLUSIONS

- There is NO SHORTAGE of housing units; only a MISMATCH
- Excess of expensive property and shortage of affordable & social hsg
- Building more luxury property DOES NOT solve the latter problems
- On contrary, it aggravates them
- What should be done ?

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THANK YOU

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