

SECTOR BRIEFING

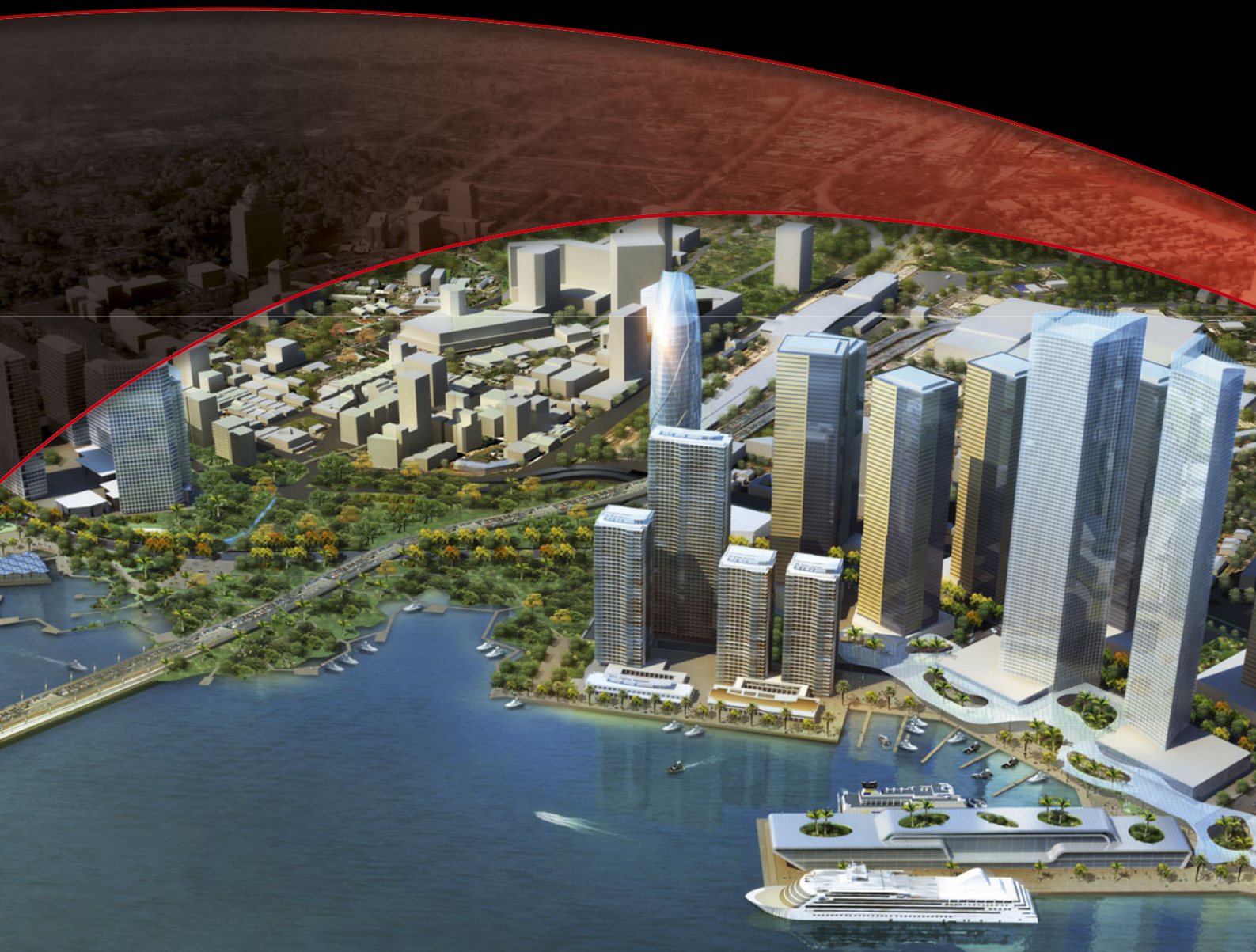
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Iskandar Malaysia

A Tale of Two Cities



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Iskandar Malaysia

A Tale of Two Cities

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Executive Summary

Iskandar Malaysia has come a long way since its inception in 2006 and is poised for greater heights. The region has attracted RM111.4 billion of committed investments as of the first quarter of 2013 with 40% of the investments already realised. The development has also reached its tipping point with the completion of catalyst projects that will drive economic and population growth. In addition, the rapid transit link between Singapore and Johor due to be completed by 2018 will boost connectivity between the two countries.

Property developers and investors are rushing in to acquire landbank and properties at new benchmark prices. The entry of heavyweight foreign investors such as Temasek, Ascendas, Capitaland, China's Country Garden and Australia's Walker Corp is a testament of Iskandar Malaysia's booming prospects.

Political risk has since been removed with the ruling coalition maintaining control of both the federal and Johor state governments in the recent general election. Warming bilateral ties between the Malaysia and Singapore governments is expected to underpin the success of Iskandar Malaysia, which is seen as the hinterland for Singapore, not unlike the Shenzhen-Hong Kong model.

Despite concerns that the authorities may impose more restrictions on foreigners buying properties in Johor, we believe the deep discounts on Johor properties are too attractive to be ignored. Furthermore, given Singapore's scarce land supply and rising land prices, there is a strong business case for lower-end operations to be relocated to Johor, where large contiguous parcels of land are still available on the cheap and with ready infrastructure.

Iskandar Malaysia may still lack a critical mass at this point, but the strong pipeline of projects by master developers such as UEM Land, Iskandar Waterfront and Iskandar Investment Berhad will likely help the special economic zone achieve its vision to be a thriving, sustainable metropolis and a choice location to live, work and play.

Understanding Iskandar

A Strategic Partnership

It's been six years since the Iskandar Malaysia project was first announced in November 2006. Today, the development once known as the Iskandar Development Region (IDR) has evolved and taken on a new dynamism with Singapore's involvement.

Such a strategic partnership can be traced way back to before the initiation of Iskandar Malaysia. In fact, the project has rekindled some memories of the SIJORI Growth Triangle. Announced in 1989 by then deputy prime minister Goh Chok Tong, the growth triangle was a partnership arrangement between Singapore, Johor and the Riau islands (Batam, Bintan and Karimun) in Indonesia. The partnership sought to combine the competitive strengths of the three areas – linking the infrastructure, human capital and industrialisation experiences of Singapore with the natural and labour resources of Johor and Riau – to enhance the attractiveness of the region to foreign investment. But despite the vision, political support and sound economic logic, the project failed to take off. Why then would Iskandar Malaysia be different?

Greater ambition

First and foremost, Iskandar Malaysia is even more ambitious and comprehensive in scope, stretching well beyond collaboration in the manufacturing sector, which dominated the previous arrangement. It also includes the tourism, healthcare, education and property sectors, which has the potential to spark off more opportunities for synergy than its predecessor.

The enhanced connectivity between Iskandar Malaysia and Singapore will allow Singapore service providers to latch on to the opportunities that arise from the development. On the other hand, the southern Johor state will be able to gain valuable experiences and tap on the sophisticated expertise and talents from Singapore.

Structural imperatives

For the Malaysian government, Iskandar Malaysia will be a showcase of its current economic transformation process. Malaysia introduced the Economic Transformation Programme and the Tenth Malaysia Plan in 2010 to address the declining trend in foreign investment and outflow of human capital, as well as to spur the next stage of economic development. With these two initiatives, the government aims to transform Malaysia into a developed nation driven by a knowledge-based economy. In essence, this special economic zone will be the platform to feature Malaysia's structural shift as well as contribute to the broader macro objectives.

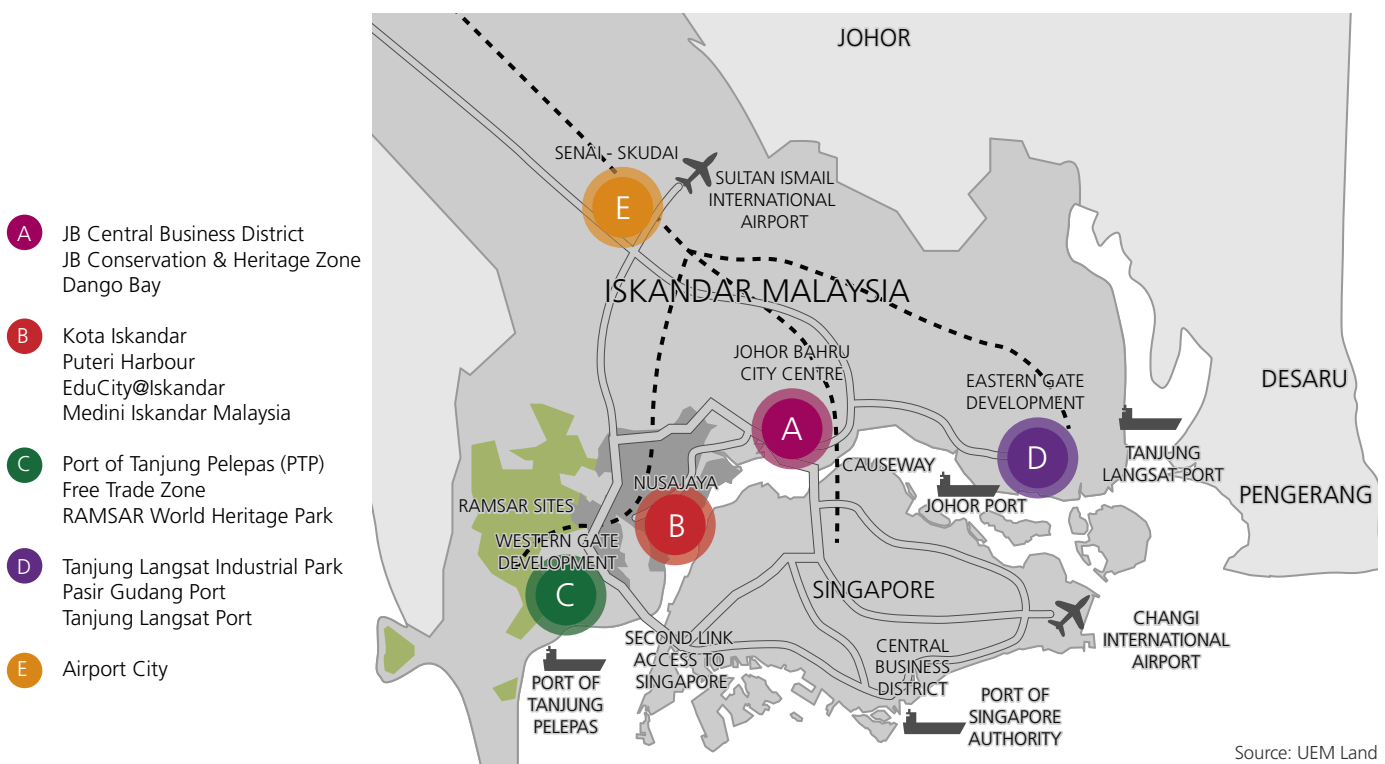
Separately, Singapore's keen interest in Iskandar Malaysia is built on pragmatic and strategic reasons. The potential upside to Iskandar Malaysia is a strong lure. But domestic push factors such as the tremendous cost pressure due to rapid economic growth in the previous years and the current restructuring has created additional impetus for Singapore to be a part of this growth story.

Foreign labour curbs, in a bid to boost productivity and wean off companies' dependence on cheap labour supply, have led to a labour crunch and significant wage pressure. Rental and overall business cost have also risen sharply in the past few years. As a result, profit margins are being eroded and local enterprises that are unable to restructure their businesses or improve productivity face the prospect of relocating their business to cheaper destinations or ceasing their operations altogether. For such companies, Iskandar Malaysia is seen as a natural solution due to its cost competitive advantage and proximity to Singapore.

Iskandar Malaysia's Progress

Iskandar Malaysia was off to a slow start, but the project has since taken off. In 2006 when the ambitious masterplan was first unveiled by the Malaysian government, only RM11 billion was committed. However, as of March 2013, the megaproject has attracted RM111.4 billion in cumulative committed investments with RM44.8 billion or 40% of the investments already realised.

1 Five flagship development zones in Iskandar Malaysia



Over the past seven years, Nusajaya has been in the limelight as the federal and Johor state governments improve infrastructure and develop catalytic projects to attract critical mass. Nusajaya will form the economic backbone of Iskandar Malaysia with eight signature developments, namely Puteri Harbour Waterfront Development, the Southern Industrial and Logistics Clusters (SiLC), Afiat Healthpark, EduCity, the International Destination Resort, Medini, Nusajaya Residences and Kota Iskandar.

Nusajaya This is unsurprising given Nusajaya’s ready infrastructure and strategic location within Johor and its proximity to Singapore. It has direct access to five seaports in Johor and Singapore – Port of Tanjung Pelepas, Johor Port at Pasir Gudang, Tanjung Langsat Port, Jurong Port and the Port of Singapore Authority. The city is 20 minutes from Johor’s Senai International Airport and a 45-minute drive from Changi International Airport in Singapore. It also only takes 15 minutes by car to get to Singapore via the Tuas Second Link.

2012 was touted as the tipping point for Iskandar Malaysia with the completion of a slew of catalytic projects such as Legoland Theme Park, Coastal Highway, Johor Premium Outlets, Marlborough College, Puteri Harbour Family Theme Park and Traders Hotel. Last year also saw the strongest interest in Iskandar Malaysia since its inception in 2006, with RM20.4 billion committed investments for 2012. Out of the RM111.4 billion cumulative committed investments to date, about 65% or RM72.6 billion came from domestic investors, while the remaining 35% or RM38.8 billion were from foreign investments.

2 Catalytic developments in Nusajaya

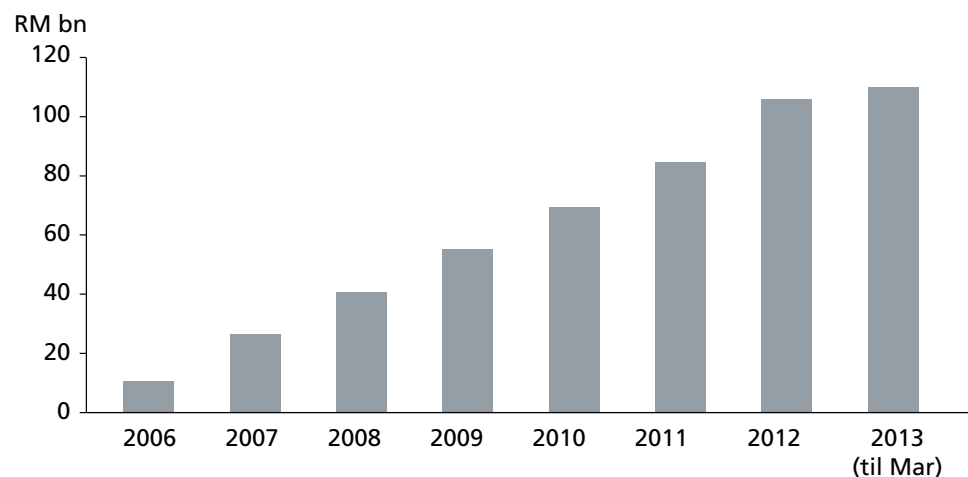


Source: UEM Land

With the foundation and infrastructure already laid down from 2006-2010, 2011 through to 2015 will be all about growth and expansion for Iskandar Malaysia. And as critical mass improves, Nusajaya will lead the charge and is expected to see continued robust commercial activities and overwhelming response for its property launches.

Among the future catalytic projects are phase 2 of the Johor Premium Outlets following Genting Plantation's phase 1 success in attracting visitors especially during weekends and long holidays, Pinewood Studios, Legoland Water Theme Park, Gleneagles Medini Hospital and Legoland Hotel.

3 Cumulative committed investments in Iskandar Malaysia



Source: IRDA

4 Timeline for catalytic developments in Nusajaya

2010	2011	2012	2013	2014
Nusa Bayu launch	Northern Estuary launch	Legoland Theme Park	Pinewood Studios	MSC Cyberport
Columbia Asia Hospital	Johor Premium Outlets	Malborough College	Kota Iskandar (Phase 2&3)	1Medini
Private Marina	Anjung Mall (East Ledang)	Traders Hotel	Management Development Institute of Singapore	Legoland Hotel
Bio Xcell	Newcastle University Medicine Malaysia	Medini Square (Phase 1)	Netherlands Maritime Institute of Technology	Johor Premium Outlets (Phase 2)
	Coastal Highway	Puteri Harbour Family Theme Park	University of Southampton	Agila Biotech facilities
		Medini North	Gleneagles Medini	Sunway property projects
		Lifestyle Retail Mall @ Medini	Legoland Water Theme Park	
			Raffles University Iskandar	

Source: Companies, DBS Vickers

5 Eight signature developments in Nusajaya

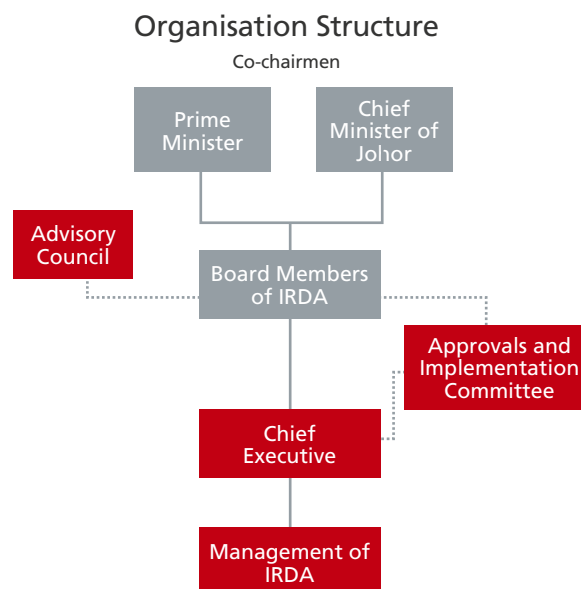
Project	Timeline	GDV/Val (RM mn)	Developments/Progress
UEM Land projects			
Kota Iskandar	2005-2010	505	Phase 1 completed. Johor State Legislative Assembly Building, Chief Minister's and State Secretary office complex. ~2,000 staff have moved in
	2011-2013	1,100	Phase 2 (mosque) is 20% completed. Phase 3 (Johor state government) will start by year end while phase 3 of government administrative centre is in the final stage of discussion
Southern Industrial and Logistics Clusters (SiLC)	2007-2014	1,000	Phase 1, 2A, 2B and 2C measuring 550 acres have been sold. Phase 3 (200 acres) will be launched in 2014
Afiat Healthpark	2008-2015	90	It caters to modern medicine, traditional and complementary medicine, and wellness. Columbia Asia Hospital commenced operation on 17 June 2010
Puteri Harbour	2007-2016	2,500	Inner lagoon, public marina and clubhouse completed in 2009, while private marine and mega yacht marine were completed in 2010. Family Theme Park opened in October 2012 while Traders Hotel and Ferry Terminal will be operational by the first half of 2013
Nusajaya Residences – East Ledang	2008-2015	2,300	Award-winning 275-acre high-end residential area with full amenities launched in February 2008; 90 acres for commercial development. 582 units worth RM800 million launched with 91% take-up
Nusajaya Residences – Horizon Hills	2007-2018	4,000	Joint venture with Gamuda to develop 13 gated and guarded precincts on 1,227 acres launched in March 2007; 1,713 units worth RM1.4 billion launched with 93% take-up
Nusajaya Residences – Nusa Idaman	2006-2015	790	Low density mid-range residential development spanning 250 acres launched in March 2006; 2,001 units worth RM800 million launched with 68% take-up
Nusajaya Residences – Nusa Bayu	2010-2014	700	Offering 4,942 double-storey terraced homes, shophouses and medium- to low-cost apartments. 1,090 units worth RM350 million launched with 88% take up
Iskandar Investment projects			
EduCity@Iskandar	n.a.	n.a.	Newcastle University Medicine Malaysia (NuMed) and Marlborough College Malaysia have been operational. Management Development Institute of Singapore, Netherland's Maritime Institute of Technology and University of Southampton are set to follow suit
Medini	15-20 years	n.a.	Legoland Malaysia opened in September 2012; water theme park currently being constructed and will open by the end of 2013. Various established developers such as WCT, Sunway, E&O, Mah Sing, etc., have also bought land in Medini for future development
International Destination Resort	n.a.	n.a.	Complete destination resort anchored by international brand theme parks and other themed attractions. Designed to complement Singapore's integrated resorts by offering a world-class destination resort located in a lush tropical setting 13.8 times the size of the combined integrated resorts in Singapore

Source: Respective companies, DBS Vickers

Iskandar Regional Development Authority

To further expedite the implementation of projects, a special federal statutory body, the Iskandar Regional Development Authority (IRDA), has been set up to oversee the overall development of Iskandar Malaysia, including acting as a one-stop approval centre. The IRDA is co-chaired by the prime minister and the chief minister of Johor. The IRDA will continue to focus on investments from the Middle East, Singapore, China and India and aims for an annual GDP growth of 8% over the next five years to boost Iskandar Malaysia to an international metropolis status by 2025.

6 Federal-state collaboration via IRDA to develop Iskandar Malaysia



Source: IRDA

Industry clusters

The Malaysian government has identified nine industry clusters that will be key economic thrusts for Iskandar Malaysia. They are: Electrical and Electronics, Petrochemical and Oleochemical, Food & Agro Processing, Logistic & related services, Tourism, Health Services, Educational Services, Financial Services, and ICT & Creative Industries.

Given the catalytic projects that are under progress, Nusajaya and JB City Centre are seeing more keen interest out of the five flagship zones within Iskandar Malaysia. UEM Land and Iskandar Investment Berhad (IIB) – which is 60% owned by Malaysian sovereign wealth fund Khazanah Nasional, with the Employees Provident Fund (EPF) and Johor state government controlling another 20% each – are the master developers for Nusajaya while Iskandar Waterfront Holdings (IWH) has been tasked with the responsibility of redeveloping JB City Centre.

Big Boys are Back in Town

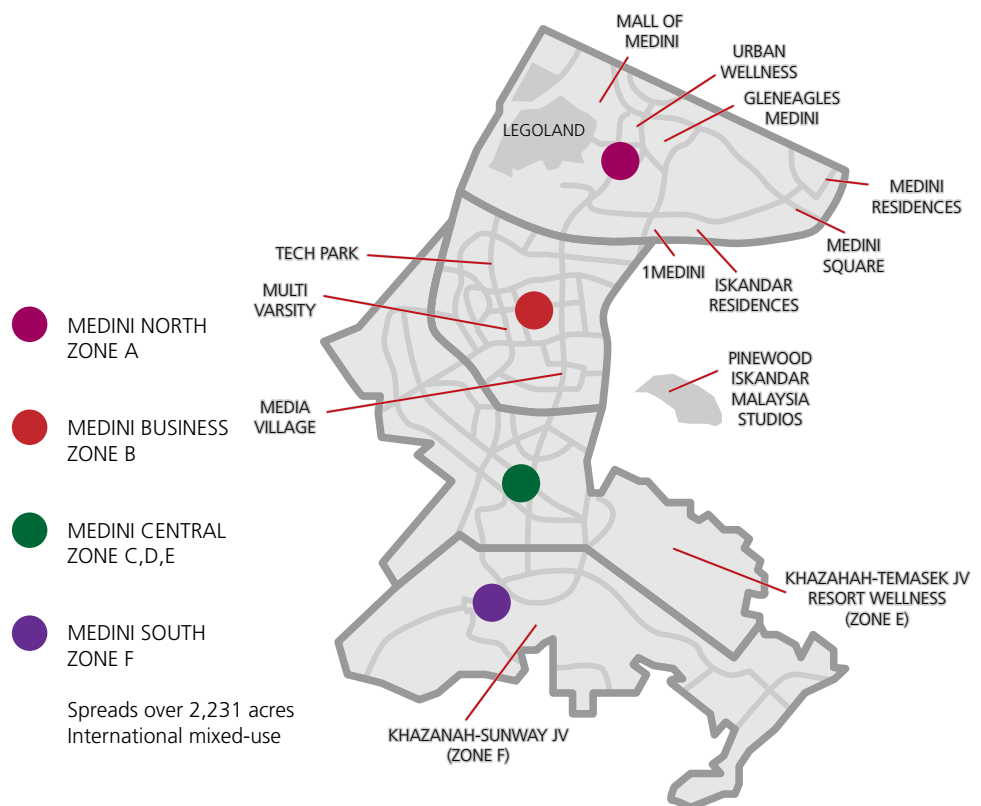
Singapore's sovereign wealth fund

Temasek Holding's entry is a significant milestone as it marks the first large-scale investment by Singapore into Iskandar Malaysia, and this could propel stronger participation by Singapore private investors that have so far been minimal. Singapore's active involvement in Iskandar Malaysia is key as the region hopes to be a hinterland for Singapore with both countries envisioning replicating the successes of the Shenzhen-Hong Kong cooperation.

Given Singapore's scarce land supply, rising land prices, increased property and foreign labour restrictions, there is a strong business case for operations to be relocated to Johor where large parcels of contiguous land are still available on the cheap and with ready infrastructure.

In February, the prime ministers of both Singapore and Malaysia officially launched Khazanah-Temasek's wellness centre in Medini at the recently concluded Annual Leaders' Retreat, which is the highest-level bilateral forum between Malaysia and Singapore leaders.

7 Catalytic developments in Medini



Source: IIB

The project comprises:

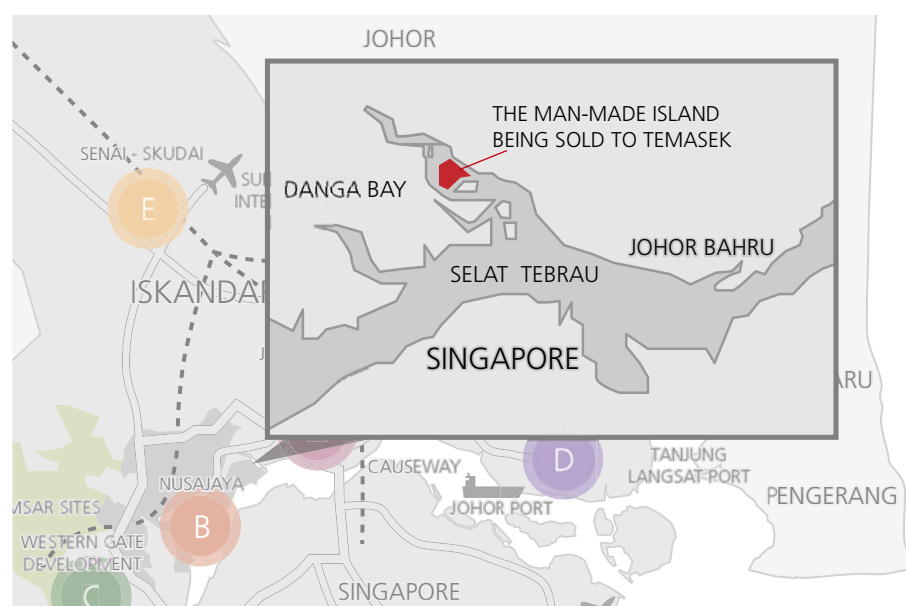
- a) Urban wellness: 5 acres in Medini North including Ascott-managed 310-unit Somerset Medini Iskandar due to open by the end of 2015 (its second serviced residence in Iskandar Malaysia)
- b) Resort wellness: 210 acres in Medini Central, to be jointly developed with Eastern & Oriental (E&O), which will be involved as project and marketing managers. The phase 1 soft launch in April 2013 will comprise 100 terrace units priced between RM800,000 and 1 million per unit.

We expect demand to be strong given Medini's strategic location near the Malaysia-Singapore Second Link and a golf course, its gated and guarded landed offering, the absence of quota restrictions for foreign buyers, E&O's strong execution track record as well as the 'Temasek factor' appeal for Singaporeans.

Jumping on the bandwagon
1

CapitaLand, IWH and Temasek (51-40-9 joint venture) recently signed an agreement to jointly develop a 71-acre man-made island at Danga Bay valued at RM811 million or RM261 per sq ft (psf). The land valuation seems fair based on Chinese firm Country Garden's RM376 psf for prime land in Danga Bay, and recent transactions in Medini (RM126-200 psf for leasehold land) and Puteri Harbour (RM211-220 psf). Danga Bay

8 **Temasek-Capitaland's A2 Island in Danga Bay**

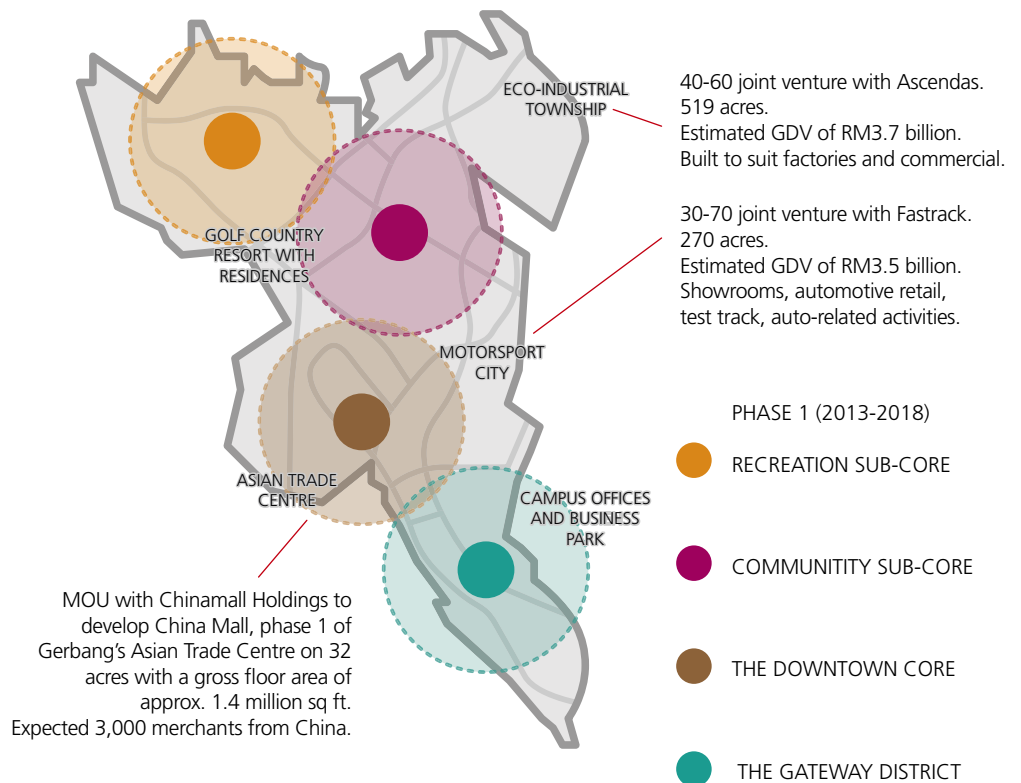


Source: The Star, DBS Vickers

is closer to Johor Bahru city centre and only 15 minutes from Nusajaya. The island, also known as the A2 island, marks CapitaLand's first direct large-scale township development in Malaysia. The Singapore-led mixed development with a gross development value (GDV) of RM8.1 billion will comprise high-rise and landed residential units as well as a central waterfront hub with a marina, shopping mall, F&B outlets, serviced residences, offices and recreational facilities. The project spans 11 million sq ft of gross floor area (3.5x plot ratio) and is expected to be developed in phases over ten to 12 years.

- 2 Singapore tycoon Peter Lim's Fastrack Autosports signed a collaborative agreement with UEM Land in December last year to develop an integrated multi-purpose motorsports hub on a 270-acre land in Gerbang Nusajaya acquired for RM224 million or RM19 psf. The deal is a 70-30 joint venture between Fastrack Autosports and UEM Land. The Motorsports City, due to be completed by 2016, is UEM Land's latest attraction located within its flagship Nusajaya development. The facilities include bonded warehouses, showrooms, garages and entertainment outlets that cater to motoring enthusiasts and car companies.

9 Singapore footprints in UEM Land's Gerbang Nusajaya



Source: UEM Land

- 3 Singapore government-linked Ascendas acquired 368 acres in Gerbang Nusajaya in October last year for an integrated technology park to be developed in three phases over nine years. It will consist of built-to-suit factories, vacant land for factories, semi-detached and detached ready-built factories and commercial products. Phase 1 (120 acres at RM13 psf) of the tech park development is targeted for launch by the end of 2013 with phases 2 and 3 exercisable within nine years at RM13-19 psf. The 60-40 joint venture between Ascendas and UEM Land allows the latter to leverage on Ascendas' brand name, market reach as well as industrial clientele by virtue of its lead in offering business space solutions in Asia.

Aside from Singaporeans, we are also seeing stronger interest in Iskandar Malaysia from both local and foreign developers.

Malaysian developers

Established local developers such as Mah Sing, UM Land, WCT, Sunway and E&O have joined the fray to ride on booming Iskandar Malaysia via investing in Medini. Although Medini is leasehold land, it is the only area in the special economic zone with special incentives such as a ten-year tax exemption, the freedom to source for capital and labour globally, as well as exemptions from Bumi and foreign quotas (typically 40% and 50% respectively).

In April, Johor-born tycoon Robert Kuok, who holds a majority share in Kuok Group, acquired 12.5 acres of land in Puteri Harbour, a key development in Nusajaya, for RM182 million or RM334 psf, setting a new price benchmark for the area. The Group has earmarked a mixed residential and commercial development for the land that will be built in partnership with Khazanah Nasional. Kuok's entry into Iskandar Malaysia is seen as an encouraging sign of the special economic zone's potential and has piqued the interest of investors in the region.

Maiden entry by Chinese investors

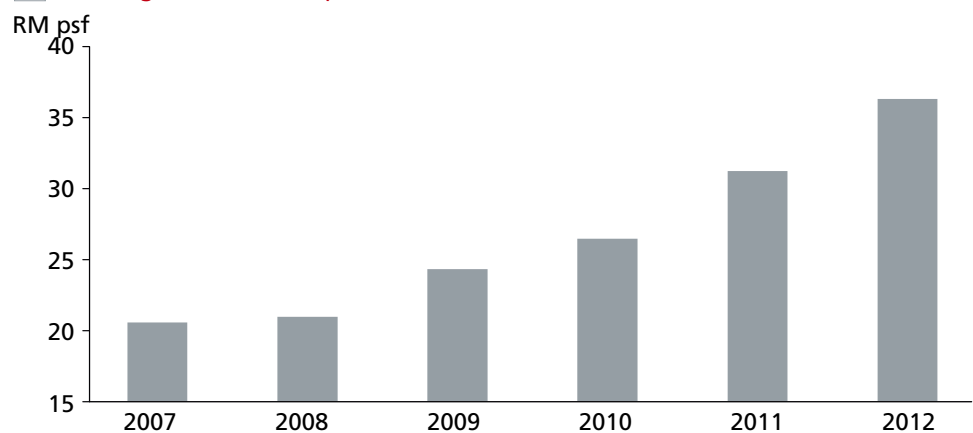
IIB has teamed up with China's Zhuoda Real Estate Group for an RM2.5 billion mixed development in Medini North over the next ten to 15 years. The phase 1 and 2 residential development spanning over 18 acres will be jointly developed while the phase 3 commercial development on 10 acres will be solely developed by the Chinese company. Last December, Country Garden, one of the largest developers in China, acquired 55 acres of prime waterfront land in Danga Bay from IWH for RM900 million or RM376 psf, setting a new price benchmark for land transactions in Iskandar Malaysia. Country Garden is planning an integrated development with a GDV of RM18 billion that will span three development phases. The initial construction will comprise a luxury clubhouse, commercial tower, shopping mall, high-end condominiums and serviced apartments.

Early Gains

Spike in land prices

Demand for industrial land in Nusajaya continues to be robust despite the steep price appreciation over the past few years. It is currently priced at RM40 psf compared to RM24 psf in 2009, with a target to fetch RM50-60 psf for the 200-acre SiIC for phase 3. Prime waterfronting Puteri Harbour and Danga Bay remain the darling of investors and land prices have hit record highs of RM334 psf and RM376 psf respectively. Meanwhile, land prices in Medini have hit RM200 psf, a marked increase from the RM38 psf it fetched a year ago.

10 Rising industrial land prices



Source: UEM Land

Land owners

UEM Land is the biggest beneficiary of rising property prices as it owns the largest land bank in Iskandar Malaysia with 11,000 acres in Nusajaya. IWH is also a major player with 4,500 acres in Danga Bay, Tebrau and Johor Bahru city, while Sunway has recently acquired 1,770 acres in Medini and the surrounding areas. Crescendo is another Iskandar Malaysia-pure play with almost 3,000 acres under its belt.

11 Large landowners in Iskandar Malaysia

Developer	Location	Land (acres)	GDV (Rm bn)	% of total GDV/RNAV	Remarks
IWH	Danga Bay, Tebrau, Johor Bahru	4,500	80	100	
Crescendo	Tebrau, Bandar Cemerlang, Kota Tinggi	2,994	n.a.	100	
Tebrau Teguh	Tebrau	1,200	n.a.	100	47% owned by IWH
Daiman	Ulu Tiram, Senai, Kota Tinggi	2,217	n.a.	100	
UEM Land	Nusajaya	11,049	31	88	Including joint ventures with various parties
KSL	Johor Bahru, Ulu Tiram	1,500	2	46	
Sunway	Medini, Sg Pendas (near Medini)	1,770	30	25	Joint venture with IIB & Khazanah
SP Setia	Nusajaya, Tebrau	1,032	17	24	
Keck Seng	Johor Bahru, Pulai, Ulu Tiram	1,850	n.a.	24	
Dijaya	Danga Bay, Tebrau	316	7	18	Joint venture with IWH
Mah Sing	Tebrau, Pulai, Medini, Tg Pelepas	433	2	14	
E&O	Medini	210	3	6	
Mulpha	Gelang Patah (near Nusajaya)	600	2	n.a.	Assets mainly in Australia

Source: Respective companies, DBS Vickers

12 Land transactions around Nusajaya

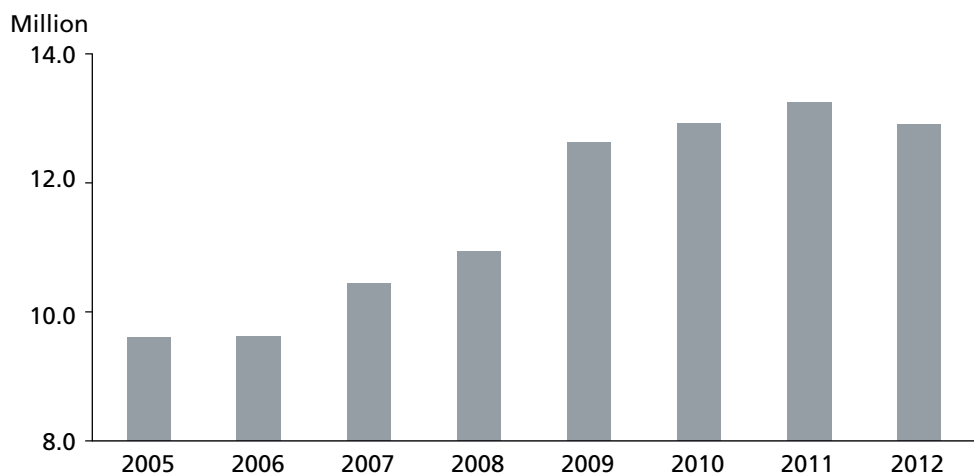
Date	Landbank	Location	Acres	Value RM mn	Value RM psf	Seller	Buyer
Feb 13	Danga Bay	Danga Bay	71.0	811	262.2	IWH	CapitaLand
Jan 13	Eastern Pendas South	Pendas	300.0	184	14.1	IIB	Sunway
Jan 13	Commerical North	Puteri Harbour	14.7	189.6	297.0	UEM Land	Liberty Bridge
Jan 13	Commerical North	Puteri Harbour	29.0	211.2	167.3	UEM Land	Liberty Bridge
Dec 12	Marine fronting	Puteri Harbour	7.8	93.0	275.0	UEM Land	Pacific Star
Dec 12	Medini Zone A	Medini	8.4	73.4	200.4	IIB	B&G Capital Resources
Dec 12	Medini Zone A	Medini	7.9	49.0	142.0	IIB	Tang Group of Companies
Dec 12	Danga Bay	Danga Bay	55.0	900.0	375.7	IWH	Country Garden
Dec 12	Gerbang Nusajaya	Nusajaya	120.0	68.0	13.0	UEM Land	Ascendas
Dec 12	Gerbang Nusajaya	Nusajaya	270.0	223.5	19.0	UEM Land	Crimson Carnival
Dec 12	Mukim Pulai, Mukim Tgn Kupang	District of JB	779.0	413.0	12.2	IIB	Sunway
Nov 12	Medini	Medini	13.2	83.0	144.1	IIB	UM Land
Nov 12	Mukim of Jelutong	District of JB	13.4	42.7	73.4	n.a.	Tiong Nam Logistics
Nov 12	Bandar JB	JB	12.7	99.7	180.0	Total Merit	Salcon
Nov 12	Medini Zone A	Medini	18.1	99.9	127.1	IIB	Distinctive Ace
Nov 12	Medini North	Medini	18.1	99.5	126.0	IIB	WCT
Oct 12	Medini	Medini	8.2	74.7	209.4	IIB	Mah Sing
Oct 12	Mukim Tebrau	District of JB	1.5	11.1	170.1	Ultimate Support	Gromutual
Jun 12	Desaru	Desaru	678.7	485.3	16.4	Khazanah	UEM Land
Apr 12	Kota Iskandar	Nusajaya	122.3	93.2	17.5	Khazanah	UEM Land
Dec 11	Medini Zone F	Medini	691.0	745.0	24.8	Global Capital & Development	Sunway
Aug 11	Johor Bahru	Johor Bahru	2.1	10.7	117.0	n.a.	Hua Yang
Aug 11	Johor Bahru	Bandar Seri Alam	8.9	19.4	50.0	n.a.	UM Land
Aug 11	Plentong	Johor Bahru	227.0	220.0	22.2	Trident World	Dijaya
Jun 11	Medini Zone E	Medini	210.0	350.0	38.3	IIB	E&O
Jun 11	Puteri Harbour	Nusajaya	3.2	31.0	220.0	UEM Land	Tiong Nam Logistics
Apr 11	Tanjung Kupang	Tanjung Pelepas	205.7	54.7	6.1	Individuals	Mah Sing
Dec 10	Puteri Harbour	Nusajaya	6.7	49.6	170.0	UEM Land	UM Land
Aug 10	Danga Bay	Danga Bay	37.3	308	190	Danga Bay S/B	Dijaya
Apr 10	Puteri Harbour	Nusajaya	3.3	26	180	UEM Land	Encorp
Nov 09	Puteri Harbour	Nusajaya	2.2	16	170	UEM Land	UM Land
Nov 09	Puteri Harbour	Nusajaya	4.2	27	145	UEM Land	Khazanah
Sep 09	Southern Industrial & Logistics Cluster	Nusajaya	61.0	69	26	UEM Land	Malaysian Biotech Corp (GLC)
Jun 08	Puteri Harbour	Nusajaya	8.8	67	175	UEM Land	UM Land
Jan 08	Southern Industrial & Logistics Cluster	Nusajaya	19.3	18	21	UEM Land	Tiong Nam Logistics

Source: Respective companies, media reports, DBS Vickers

Rising Tourist Arrivals

Tourism Iskandar Malaysia is well on its way to becoming the latest tourist hotspot. Tourist arrivals from Singapore in December grew at a blistering pace of 18% year-on-year despite a dip of 2.7% in overall tourist arrivals from Singapore in 2012. We believe the encouraging numbers are due to the draw of the Johor Premium Outlets, Puteri Harbour Family Theme Park and Legoland Malaysia that have opened in recent years. We understand that Legoland Malaysia received around 15,000 visitors a day on weekends during the school holidays and many hotels in Johor reported full room occupancy. The opening of the 283-room Traders Hotel and 315-room Legoland Hotel will boost the supply of quality hotels as the completion of more projects draws even more tourists to Iskandar Malaysia.

13 Tourist arrivals from Singapore



Source: Tourism Malaysia, DBS Vickers

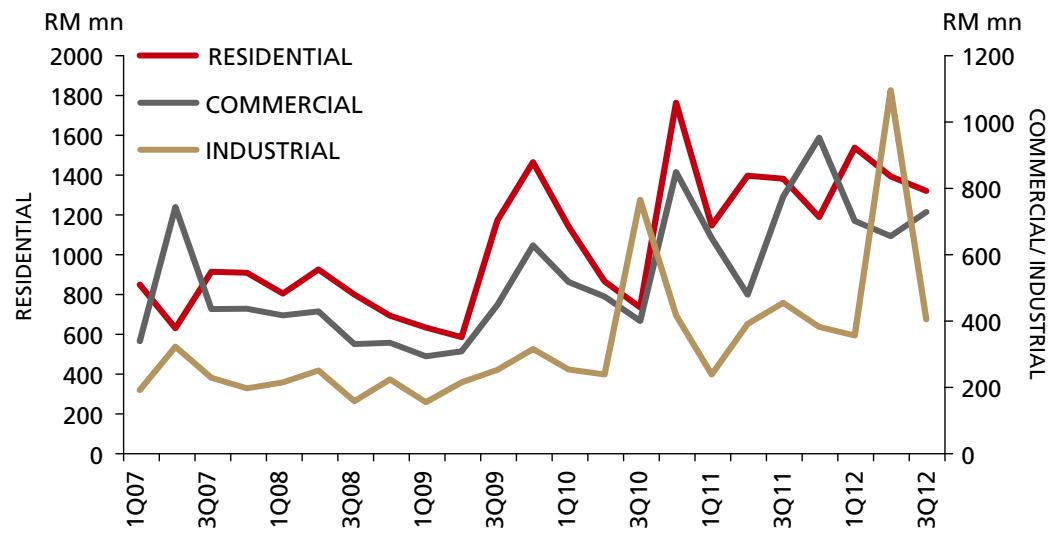
Johor Property Market Coming to Life

Improved perception While Iskandar Malaysia had its fair share of sceptics, general sentiment about the special economic zone has improved significantly over the past few years with the advent of catalytic developments and visible growth prospects. The entry of both local and foreign developers has also helped boost interest in the region.

Admittedly, Iskandar Malaysia has yet to reach a critical mass, especially in Nusajaya. However, the completion of upcoming projects such as EduCity, Medini theme parks and UEM Land's 4500-acre Gerbang Nusajaya (Ascendas industrial park, China Mall, Motorsports City) will address this concern. At a mature stage, Nusajaya is envisaged to be a self-sustainable city and a choice location to live, work and play.

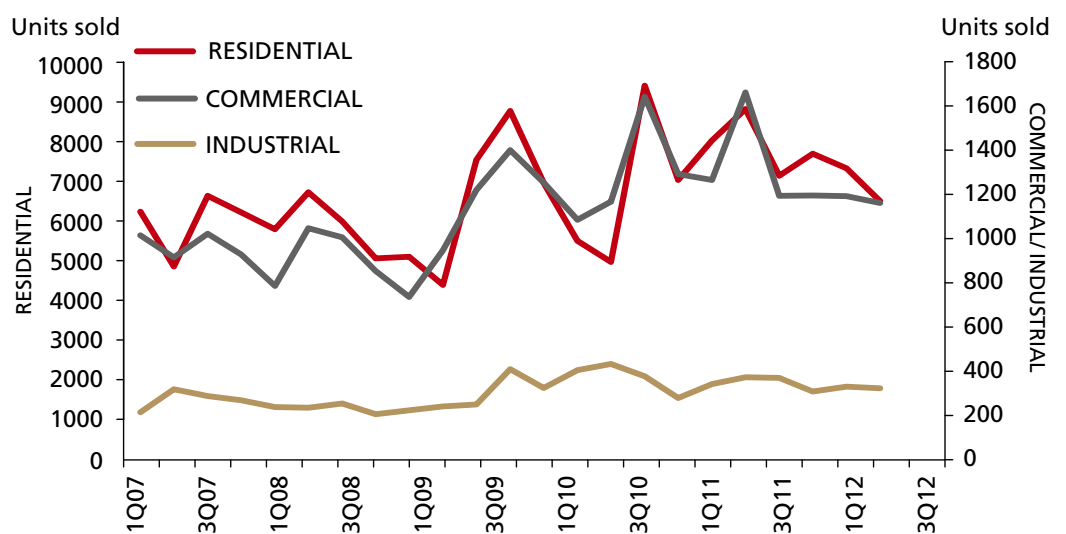
Johor's property market has come to life as a result of the myriad activities and interest in Iskandar Malaysia. Residential and commercial property prices rose 8% and 9% respectively in the first nine months of 2012, surpassing full-year sales in 2011 – a commendable feat given the softer property market last year. Higher average transacted prices helped mitigate the softer volume (-10% and -16% for residential and commercial property respectively) caused by drag due to credit tightening and different product mix as developers move up the value chain.

14 Johor property sales value on the rise



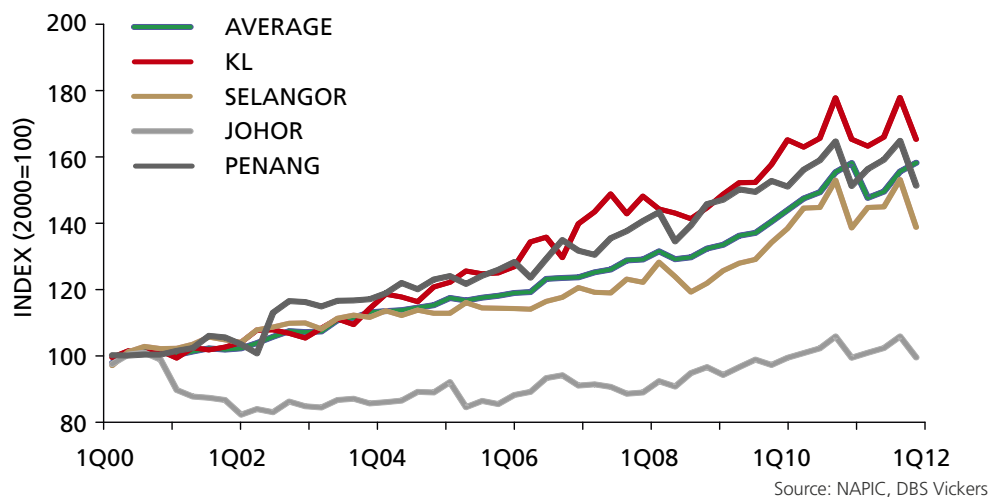
Source: Tourism Malaysia, DBS Vickers

15 Johor property sales volume on the rise

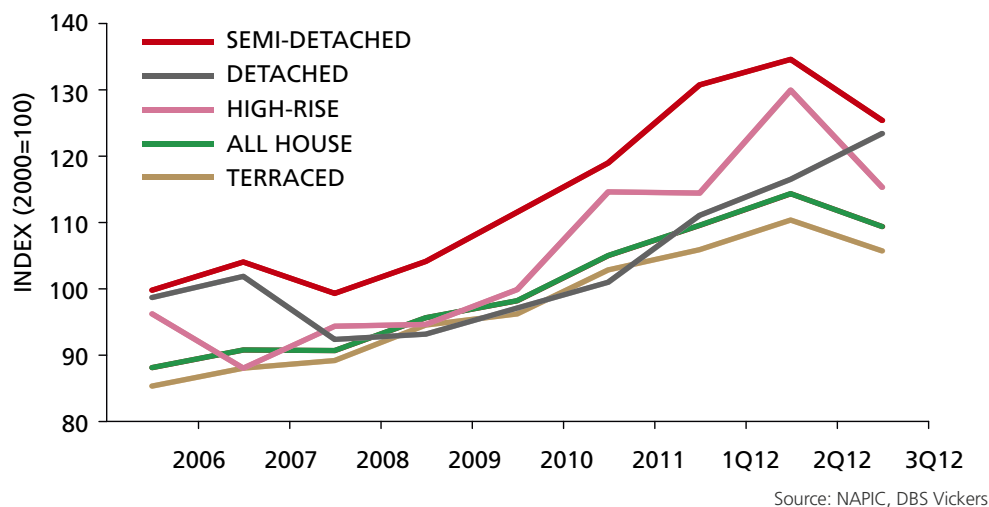


Source: Tourism Malaysia, DBS Vickers

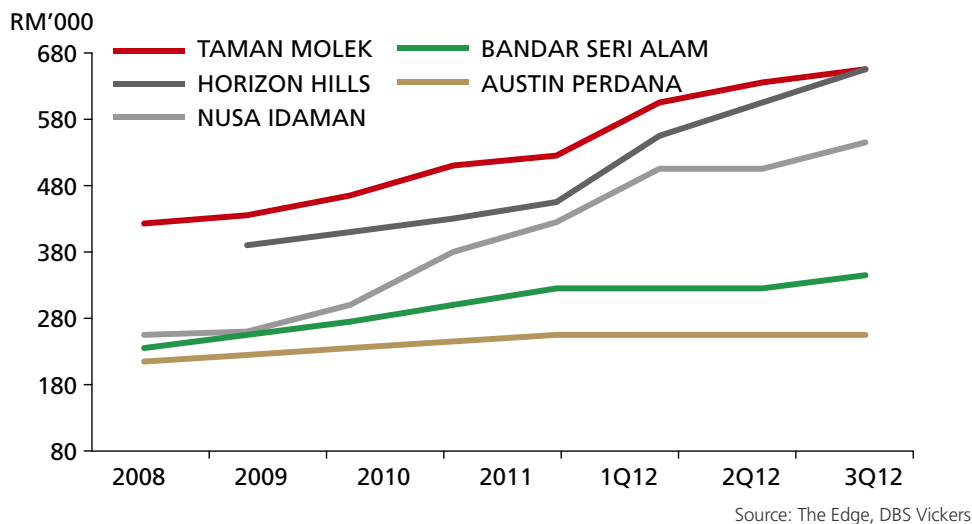
16 Johor still has room to play catch up



17 Johor house prices on the rise



18 Price trend for 2-storey houses in Johor



SP Setia's Johor sales increased by 30% in 2012 to RM1.2 billion, making up 29% of total sales after expanding by 57% in 2011. Similarly, Mah Sing saw its sales in Johor more than double in 2012 and is eyeing RM600 million in 2013, accounting for 20% of total sales from 12% currently.

Playing catch up

Johor property prices still have room to appreciate, having lagged behind other states for the past ten years. Johor's House Price Index has risen by only 24% since 2006 when Iskandar Malaysia was launched, compared to 42% in Kuala Lumpur, 34% in Selangor and 31% in Penang. Strong growth was seen across the board, especially for landed properties (24-26%) versus 20% for high-rises.

Within the state of Johor, developments in Nusajaya have recorded one of the best price appreciations. Double-storey terrace houses in Horizon Hills and Nusa Idaman appreciated by 69% and 112% respectively between 2009 and 2012, which is significantly higher than the

19 Landed property launches by UEM Land in Nusajaya

Property	Launched GMV (RM mn)	Units	RM/unit	Take-up (%)	Remarks
Horizon Hills	1359	1713	793,345	94	Golf-themed integrated residential and leisure development
East Ledang	808.4	582	1,389,003	84	High-end resort style residential
Nusa Idaman	789.7	2001	394,653	72	Mid-market mixed development
Nusa Bayu	345.6	1090	317,064	91	Mixed development for affordable homes

Source: Respective companies, DBS Vickers

20 Recent high-rise launches in Iskandar Malaysia

Date	Project	Location	Developer	ASP (RM psf)	Take-up (%)
Dec 11	Tropez Residences	Danga Bay	Dijaya	650	>85
Jan 12	1Medini	Medini	WCT	450	90
Feb 12	Somerset	Puteri Harbour	UM Land & UEM Land	830	100
Jun 12	Imperia	Puteri Harbour	UEM Land	725	97
Oct 12	Encorp Marina	Puteri Harbour	Encorp	900	>90
Nov 12	Teega	Puteri Harbour	UEM Land	750	90

Source: Respective companies, DBS Vickers

gains from terrace houses in other parts of Johor such as Bandar Seri Alam's 14% (in Plentong) and Austin Perdana's 36% (in Tebrau).

Warm response

Take-up for launches has been more than encouraging despite rising property prices. While landed property has always been sought after, high-rise projects are gaining popularity, setting new price benchmarks especially in the prime marina-fronting Puteri Harbour. UEM Land's Imperia@Puteri Harbour and Teega@Puteri Harbour were launched at RM725 psf and RM750 psf respectively, comparable to prices in more developed suburbs in Klang Valley. Encorp Marina hit an even higher note with an ASP of RM900 psf. Meanwhile, SP Setia set a new price benchmark of RM1,000 psf for Setia Sky 88 in Johor Bahru, located a stone's throw away from the Causeway. Overwhelming response came from both locals and foreigners, although they are more likely investors at this point.

We expect future launches to enjoy continued strong interest, underpinned by positive news flow on foreign direct investments and infrastructure improvements. Launch prices will also likely creep higher, as we have seen for Singapore-based Tiong Nam's Pinetree Residences at Puteri Harbour that was soft launched at RM1,000-1,300 psf. Among the key projects to watch out for include E&O-Temasek-Khazanah's wellness centres, Bandar Raya's Residential North, UEM Land's CS1 and Mah Sing's Meridin@Medini.

21 Upcoming launches

Date	Project	Location	Type	Developer	ASP (RM psf)
Mar 13	Tower 4 Medini Signature	Medini	Condos	WCT	>600
Apr 13	A60 Medini Iskandar	Medini	Condos	WCT	>600
Apr 13	Suburban wellness	Medini	Landed	E&O	800k-1m per unit
2H13	CS1	Puteri Harbour	Condos	UEM Land	>750
2H13	D'Estuary	Puteri Harbour	Mixed	UEM Land	n.a.
2H13	Meridin	Medini	Condos	Mah Sing	576
2H13/14	Residential North	Nusajaya	Landed	Bandar Raya	n.a.

Source: Respective companies, DBS Vickers

Conclusion: Some Risks

Long gestation period

The Nusajaya masterplan is not new; it was first mooted before the Asian financial crisis and was later revived in 2006 as part of the larger Iskandar Malaysia development. The entire development for Nusajaya, which spans 24,000 acres, is expected to be completed in 20 years. The past few years have seen the federal and state governments, and UEM Land focusing on building up necessary infrastructure and attracting investments into Iskandar Malaysia. Despite potential risks of further delays, most of the key catalytic developments were completed last year. Furthermore, Temasek's entry alongside reputable local developers such as SP Setia, Mah Sing, Sunway and Bandar Raya Development should also help expedite the overall development.

Competition for government funds

Under the new Economic Transformation Programme, greenfield Iskandar may compete with the more mature Greater Kuala Lumpur region for limited government funding, with the latter likely to be given preference due to lower execution risk and large multiplier impact on the economy (Greater KL is expected to take up 60% of public funding under the Economic Transformation Programme). A Greater Penang masterplan is also in the works, with funds allocated to help it make the transformational leap to world-class city status.

Nevertheless, this should be mitigated by rising foreign direct and private investments into Iskandar Malaysia. The special economic corridor is also set to benefit from the Rapid Transit System linking Tanjung Puteri in Johor Bahru and Woodlands in Singapore by 2018, and the proposed high speed rail link between Kuala Lumpur and Singapore (with a potential stop in Nusajaya) by 2020.

Highly dependent on foreign direct investment

Slower global economic growth and regional competition for investment funds could impede foreign direct investment flows into Iskandar Malaysia. To be competitive, the federal government has granted special incentives to six key sectors in Medini (education, financial advisory & consulting services, healthcare, logistics, tourism and creative industries) such as a ten-year exemption from corporate tax and withholding tax on royalties and technical fee payments to non-residents, and the freedom to source for capital and labour globally. A lower 15% personal income tax for five years for qualified knowledge workers in Iskandar Malaysia (versus a maximum 26% in other parts of Malaysia) was introduced as well. The Economic Transformation Programme, which aims to propel Southeast Asia's third largest economy to a high-income nation by 2020, should also help to attract investments into Iskandar Malaysia.

MY-SG relations could turn sour

Iskandar Malaysia is highly dependent on investments from Singapore and healthy relations between both countries will bode well for the south Johor economic region. Following the Shenzhen-Hong Kong model, Iskandar Malaysia aims to be Singapore's biggest hinterland. While bilateral economic engagements are strong, it remains to be seen whether the initiatives announced thus far will proceed as planned and if there are

more on the cards such as the construction of a third bridge linking the two countries. Separately, opposition from locals to foreign encroachment is also dissipating, especially under the new Johor state ruler who came into power in 2011. Public outcry has also been largely dampened, with Iskandar Malaysia being promoted as a large-scale development project that will benefit the economy and spur job creation.

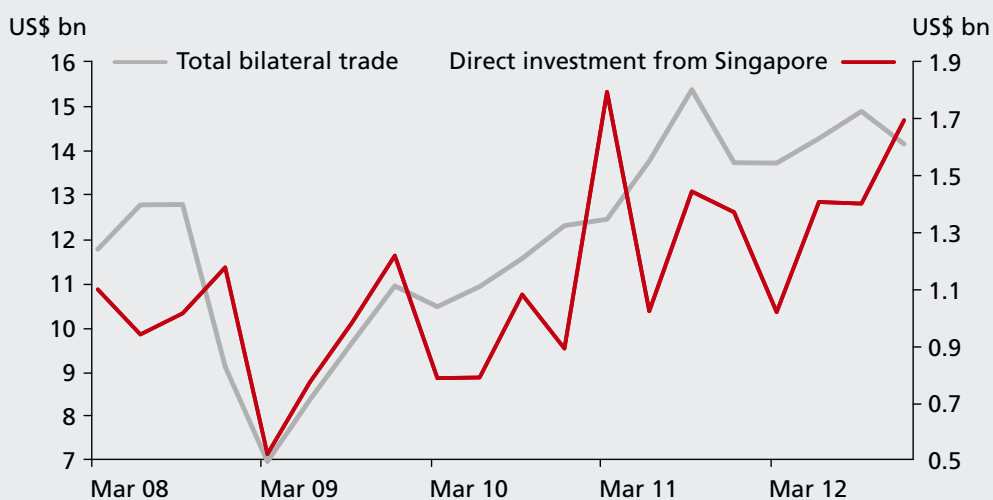
Warming Bilateral Ties Set to Continue

Singapore-Malaysia bilateral relations are warming and economic linkages are strengthening. Investment from Singapore into Malaysia has grown at a rapid pace of about 24.5% per annum over the last three years while total bilateral trade grew an average 18% per year in the same period.

Ties between the two countries received a major boost last year when both states sealed a historic land swap deal. The landmark agreement involving Malaysian railway land in Singapore territory has not only set the stage for the further warming of ties, but it has also freed both states from their historical baggage and allowed them to explore and pursue common economic interests.

With strong political and economic will to support the project and pave the way for business development, synergies will be created and ties will be strengthened. So far, Temasek Holdings has entered the game and its participation in the development of Iskandar Malaysia will encourage more active involvement by Singapore companies as well as attract greater attention from global investors.

22 Total bilateral trade flows and Singapore investment into Malaysia



Source: DBS Vickers

Malaysia-Singapore bilateral economic engagements are improving after both countries came up with a resolution to the long-standing issue of the relocation of the KTM railway station in Tanjong Pagar to Woodlands in June 2010. The initiatives inked by both countries include:

- Relocating the existing KTM railway station from Tanjong Pagar to Woodlands by 1 July 2011
- Setting up M+S Pte Ltd (60-40 joint venture between Khazanah and Temasek) to develop 5.3 hectares of land in Marina South and Ophir–Rochor (land swapped for the 217 hectare KTM land). M+S Pte Ltd has appointed UEM Land, Mapletree and CapitaLand as project managers to oversee the marketing and development of the project
- 50-50 joint venture between Khazanah and Temasek to identify and develop sites in Iskandar Malaysia
- Joint development of a rapid transit link between Tanjung Puteri in Johor Bahru and Woodlands in Singapore by 2018, after which Malaysia can move the KTM railway station to Johor
- Scheduled cross-border bus services to double with eight new routes
- Liberalisation of cross-border taxi services
- Skudai waterworks to be handed over to Malaysia by Singapore upon the expiration of the 1961 water supply agreement on 1 July 2011
- Both governments to reduce their respective toll charges at the Tuas Second Link by 30% from 1 August 2010

Lack of critical mass

While developments in Nusajaya seem to be on track, we are cognisant of the long gestation period for catalytic projects that will not contribute positive earnings in the near term. The area may also not achieve critical mass so soon due to the lack of commercial activities. In addition, there could be an oversupply of residential properties especially high rises given the long list of planned launches by developers that are hoping to ride on the booming Nusajaya township. This trend will likely cast doubts on the sustainability of current high launch prices, which is above the reach of average households in Johor.

What's Next?

Apart from more private sector-driven projects and closer collaboration across more sectors and industries, the partnership seems ready to ratchet up a notch. It requires the creation of synergies and there are at least two ways to bring that about.

Made in Iskandar Malaysia

Firstly, Singapore has a very comprehensive network of bilateral Free Trade Agreements (FTAs). Products produced in Iskandar Malaysia can benefit from Singapore's FTAs with some tweakings in the Rules of Origins section within all the existing agreements. By including the Outward Processing Concept, a product can be deemed to originate from Singapore as long as the final or a particular critical stage of the production is done within Singapore. This is despite the fact that the bulk of the value add is done in Iskandar Malaysia. Such a concept is already in existence within the US-Singapore FTA and the Panama-Singapore FTA. Amendments to the agreements can be easily done during the regular revision of the existing FTAs.

Separately, though Malaysia is part of several ASEAN-centric FTAs, the level of commitments in such a multilateral setting is always less deep compared to that of a bilateral arrangement. By leveraging on Singapore's bilateral FTA network, MNCs will be able to locate their low-end production in Iskandar Malaysia and have their critical processes or headquarter functions based in Singapore so as to benefit from the FTAs. Singapore companies will also be able to continue to enjoy the benefits of the country's FTAs even if they have relocated to Iskandar Malaysia. On a macro level, it is a win-win

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Overall view of the proposed developments in Danga Bay



situation with Malaysia standing to gain from foreign direct investments and Singapore benefiting from higher export value.

More transport links

To solidify the synergies created, connectivity must be enhanced. Most of the enhancements made on connectivity between the two states thus far have focused on the 'hardware' elements. For example, Singapore will be extending its Mass Rapid Transit (MRT) system into Tanjung Puteri in Johor Bahru by 2018 while cross border taxi and bus services have also been upgraded. Connectivity will be further improved by the high speed rail linking Iskandar Malaysia and Kuala Lumpur.

Removing non-tariff barriers

What can be expected in the years ahead is the strengthening of the 'software' aspects of connectivity. This includes the harmonisation of custom clearance procedures to speed up transfers of people, goods and services between the two states¹. A mutual recognition of standards (e.g. product standards, education degrees, medical and legal practices) will also help smoothen the bilateral flows of goods and services. Finally, with increased investment flows, there is a need for comprehensive and in-depth investment and intellectual property protection agreements to safeguard business interests on both ends.

The success of Iskandar Malaysia is important to both countries. To multiply the economic benefits, much will depend on how to create and harness the synergies generated from this strategic partnership going forward. ❌



Source: IRDA

End notes:

[1] There is an existing proposal of setting up a Free Access Zone for Singaporeans.

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