Colliers Flash

MALAYSIA / SINGAPORE / CHINA "ONE BELT, ONE ROAD" SERIES

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Still on the Rails

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The new government of Malaysia reportedly plans to renegotiate agreements with Singapore and China to build two high-speed railway connections. While renegotiation of these flagship infrastructure plans is disappointing, this news alone will not derail China's "One Belt, One Road" (OBOR) project – a huge long-term project covering over 70 countries. It is possible that the Malaysian government will revisit the railway plans in the future. In any case, we think that countries in South East Asia besides Malaysia, including Singapore, Indonesia, the Philippines and Vietnam, still offer good prospects for property investment and development. Over time we believe that OBOR will accentuate existing opportunities in these countries, especially in industrial and residential property.

New Malaysian government aims to cancel key infrastructure plans

The surprising recent re-election of the veteran politician Mahathir Mohamad (age 92) as prime minister of Malaysia has had unexpected consequences for major infrastructure projects in South East Asia. As reported in various news sources including the Straits Times[1], Malaysia's mysinchew.com[2] and the Financial Times (see the articles dated 15 May and 28 May), Mr Mahathir's new government intends to renegotiate the agreements with Singapore and China regarding, respectively, the planned high-speed rail connection between Kuala Lumpur and Singapore and the Chinese-backed East Coast Rail Link. The reasons cited are the need to save money and inadequate benefits to the Malaysian people.

The planned Kuala Lumpur-Singapore high-speed railway would not have been funded by China, and was the outcome of an agreement between the governments of Malaysia and Singapore. However, it is fair to say that the route is an integral part of the vision under the OBOR project of a network of high-speed rail connections across South-East Asia. For its part, the East Coast Rail Link to be built by China was the chief element in the OBOR infrastructure plans for Malaysia, and by most estimates would have cost USD13-14 billion. We discussed this project on page 19 of the English version of our comprehensive report "China's 'One Belt, One Road': The Dragon Spreads its Wings over Asia" (6 March, 2018). The desire of the new Malaysian government to renegotiate both agreements is disappointing for the OBOR project.

Renegotiation does not necessarily imply cancellation. With regard to the Kuala Lumpur-Singapore high-speed line, it may be that the primary objective of the new government is to reduce Malaysia's share of the cost. In any case, it is possible that the Malaysian government will revisit the plans for both railway lines in the future – perhaps under a new prime minister. It is noteworthy that Mr Mahathir has reportedly pledged to hand over the premiership to Anwar Ibrahim within one or two years.[3] We should also note that, according to the new Malaysian transport minister, the much shorter Rapid Transit System (RTS) Link, a 4km line intended to connect Johor Bahru in southern Malaysia with Woodlands North in northern Singapore, will probably go ahead, subject to a review of terms and conditions.[4]

Malaysian news does not derail OBOR project

We do not know what will be the outcome of the Malaysian government's renegotiation of the infrastructure agreements with Singapore and China. It is far too early to assume that renegotiation in itself

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[1] See https://www.straitstimes.com/asia/se-asia/malaysia-pm-mahathir-mohamad-to-drop-high-speed-rail-project-with-singapore.

[2] See http://mysinchew.com/node/119719/tid=13.

[3] See, for example, https://www.reuters.com/article/us-malaysia-politics-mahathir/malaysias-92-year-old-pm-says-hell-stay-in-office-for-1-2-years-idUSKCN1IG0J7.

[4] See https://www.todayonline.com/world/s134-billion-johor-singapore-rts-link-go-ahead-planned-malaysian-transport-minister.

South East Asian markets: economic snapshot

	Singapore	Malaysia	Thailand	Indonesia	Philippines	Vietnam
Population (mn)	5.6	31.2	68.9	261.5	103.5	94.5
GDP/capita (USD)	52,963	9,508	5,978	3,570	2,951	2,131
Real GDP 2018E	3.1%	5.3%	3.2%	5.2%	6.4%	6.6%
Real GDP 2020E	2.6%	4.1%	3.0%	5.4%	5.6%	6.2%
Real int. rate 2017	0.5%	-0.4%	0.9%	2.5%	-0.2%	2.8%
Real int. rate 2020E	0.9%	1.4%	0.7%	3.5%	0.6%	2.5%
Political situation	Very stable	Mixed	Uncertain	Fairly stable	Mixed	Fairly stable

Source: Oxford Economics, political assessment by Colliers International

threatens the future of the whole OBOR project. OBOR is a very ambitious long-term project which in its original conception covered about 70 countries along the maritime and overland trading routes from China to Europe, and which has expanded in scope more recently. In any project involving so many participants, there will always be some that are more or less enthusiastic than others. For example, the OBOR project covers India and that country has huge growth potential, but we do not expect Chinese capital to become a driving force in India for political reasons. Malaysia may have become more cautious about OBOR. Conversely, relations between the Philippines and China have improved under the administration of President Duterte, which has also made infrastructure investment a priority.

Other SE Asian markets offer superior investment opportunities

Among Colliers' clients in mainland China with plans to invest in OBOR markets, we know that Malaysia is the most popular target. Malaysia's popularity has puzzled the author of this report. In terms of population, on 31.2 million Malaysia is smaller than any other major market in South East Asia except Singapore. In terms of long-run GDP growth prospects, Malaysia is superior to developed Singapore and military-ruled Thailand, but according to most forecasts inferior to Vietnam, the Philippines and Indonesia. In terms of political stability, Malaysia ranks ahead of Thailand (given Thailand's propensity to *coups d'état*), but probably behind several other markets in the region, above all Singapore.

Singapore top for near-term appeal

In the near term, we think that Singapore remains the most attractive investment property market in South East Asia. We think Singapore's property market will stay buoyant in 2018, supported by broader GDP growth and a probable multi-year recovery in the underlying office and residential markets. Physical supply in the office, residential and industrial sectors is also easing from the oversupply situation of past years. Capital flows should stay firm as we expect interest rate hikes to be benign and yield spreads are relatively attractive. Barring external shocks, we expect rents and prices in 2018 to improve over 2017. Indeed, we predict growth in Premium and Grade A office rents in Singapore of 2018 to 10-12%. This is one of our highest forecasts for office markets in Asia.

Looking further ahead, as South East Asia's financial and logistics hub, Singapore is the top urban real estate market in the ASEAN region. Singapore is likely to retain this position for many years regardless of the success of OBOR. If OBOR results in continued long-run Chinese infrastructure investment in other South East Asian countries (even if Malaysia is not among them), Singapore will be the natural location for the regional headquarters of Chinese enterprises. This should help ensure prolonged firm demand for office and residential property in Singapore.

Indonesia, the Philippines and Vietnam also attractive

South East Asian emerging markets other than Malaysia mostly look attractive for property investment and development over the medium term. As the world's fourth most populous country and ASEAN's largest economy, Indonesia stands out for long-term growth potential. Colliers sees development opportunities in both the residential sector (for example, in low to mid-income strata-titled apartment blocks) and the expanding industrial segment of the market. At the same time,

South East Asian markets: property yields

	Singapore	Bangkok	Jakarta	Manila	Ho Chi Minh City	Hanoi
Grade A office yield	3.6%	5.0%	6.5%	5.0-6.0%	7.0-7.5%	7.5-8.0%
Industrial yield	6.0%	6.5-7.5%	8.5%	n/a	10.0-10.5%	9.5-10.0%

Source: Colliers International

oversupply of offices in Jakarta presents the opportunity to invest in office buildings at distressed prices.

The Philippines stands out for breadth of development opportunities. The government is promoting infrastructure development projects, while demand from online gaming companies from China has been driving the office market and China is the second biggest source of tourist visitors. Looking ahead, we would highlight four opportunities for long-run investment and development potential in the Philippines: the residential market outside Metro Manila, industrial park developments in the north of Luzon, townships outside Metro Manila, and resort-oriented hotels across the country.

Vietnam is another market of interest. We have not heard that the Vietnamese government intends to retreat from OBOR-linked infrastructure plans such as the construction of a new port at Haiphong or the Cat Linh-Ha Dong urban railway project in Hanoi. As noted in our major OBOR report, property investment in Vietnam so far has focused on land development sites. Shortage of office stock is a significant drawback: there are only 12 Grade A office buildings in Ho Chi Minh City. Apartment development is proving popular for investors as a method of targeting the young population in the country and capitalising on rising household income.

Investors interested in Vietnam should note that regulations affecting the property market have been liberalised recently. Foreigners cannot buy land, but they can buy property. It is no longer a requirement to have a joint venture with a local partner. Sale and leaseback transactions are now possible. Colliers sees particular opportunities in industrial development projects, relating to factory relocation and similar purposes.

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