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Sabah's Chinese-led Property Tourism: A Win for Development?

By Sylvia Koh

SYNOPSIS

The growth of Chinese tourism in Sabah has generated much needed revenue and investments for one of Malaysia's poorest states. However, Chinese-backed luxury properties is contributing to Sabah's already high property prices and urban land scarcity, factors that hamper locals' access to affordable housing.

COMMENTARY

In March 2023, Sabah welcomed the first commercial flight from China since the COVID-19 pandemic hit in early 2020. The state's Assistant Minister for Tourism, Culture, and Environment and China's Consul-General were both present to greet the first group of passengers.

This welcome delegation highlights how important China has become to Sabah's tourism industry, a key driver of the state economy.

China has contributed significantly to the industry's growth in the last decade. It had formed the largest group of international tourists prior to the COVID-19 pandemic, boosting tourist spending in related industries. Moreover, the rise in Chinese tourism has also influenced how other business sectors in Sabah have developed.

This is particularly evident in the influx of real estate investments, from both Malaysian and Chinese firms, to develop high-end residential and retail properties that explicitly target wealthy Malaysians and foreign buyers from East Asia.

While the rise of "[property tourism](#)" has exacerbated already high housing prices in the state capital of Kota Kinabalu (KK), the state government has shown little sign of

imposing stricter regulation on this industry. Instead, state leaders have [framed](#) luxury property investments as development achievements.

Rise in Chinese Tourism and Property Investments

Sabah's tourism saw record growth in the last decade, as total arrivals shot up from 2.9 million in 2012 to a peak of 4.1 million in 2019 prior to the pandemic. While international tourists made up only about a third of total arrivals, businesses have depended on higher foreign spending for profit, making China and South Korea especially important tourist markets.

Growing international tourism has contributed significantly to the services sector, which generated the largest share of the state's GDP in the last decade, reaching 46.1 per cent, or RM39.4 billion (US\$8.95 billion), in 2019.

The state government has played a major role in driving the industry's growth, promoting tourism under the Sabah Development Corridor (SDC). Efforts have included securing federal funding for airport and road upgrades and increasing direct flights and frequencies with major cities in China, Hong Kong and South Korea.

The growth of East Asian tourism has also driven private property investors into the state, looking to capitalise on increased demand for luxury holiday homes and high-end retail experiences. These properties specifically target wealthy Malaysians and buyers from China, Hong Kong, South Korea and Singapore, places with comparatively high property prices.

The Sabah government has been quick to frame these investments as part of its own developmental achievements. This is evident in a 2016 [speech](#) by Sabah's longest-running Chief Minister (2003-2018), Musa Haji Aman, marking the launch of one such property, stating, "*Our decision* to focus on tourism... has led to a significant increase in terms of foreign direct investment into Sabah and has translated into our economy flourishing." (emphasis added).

Impact on Housing Affordability

However, the growth of property tourism, especially in urban areas, has contributed to Sabah's already "severely unaffordable" housing market.

Housing unaffordability has been a longstanding and complex challenge for Sabah, with a shortage of affordable housing for lower- and middle-income groups, especially in the Greater KK area where many are employed, being particularly acute.

Supply shortages have stemmed in part from the scarcity of land in KK, where a lack of supporting infrastructure in the city's outskirts has [limited urban expansion](#) and driven up land and property prices in the city and surrounding districts such as Penampang.

High-end developments have also exacerbated this situation. In response to increased direct flights to Hong Kong and China, developers rushed to build luxury residential high-rises, which saw a [reported](#) 50 per cent growth in KK between 2007-2012. This

had an immediate impact on landed housing prices in surrounding areas, which [rose](#) from less than RM250,000 (US\$57,000) to at least RM350,000 (US\$80,000) between 2010-2012.

This trend gained further traction from 2015, with the opening of the Chinese Consulate and the entry of several Chinese construction firms and investors to Sabah.

Chinese construction firms have since become dominant partners and investors for local developers, providing capital that have enabled them to undertake larger-scale projects, with new high rises often priced above RM500,000 (US\$113,600).

The issue of housing affordability is stark in Sabah, which has [among the lowest](#) median household incomes and holds the highest rate of poverty in Malaysia. Sabah's median house prices now stand at [RM470,000](#) (US\$106,700), far above the [estimated](#) average affordable house price of RM265,000 (US\$60,000) for the state.

Political Implications of Chinese-backed Property Tourism

The housing shortage and high prices have been prominent electoral issues in state and general elections. However, it is not clear how voter sentiments are shaped by these narratives — no one political party has proposed significant housing policy changes beyond one-off schemes to build more affordable homes, an approach that has been consistent despite changes in state leadership in 2018 and 2020.

For example, state opposition party Parti Warisan accused the long-ruling Barisan Nasional (BN) government of being “non-committal” in curbing high housing prices in 2018 but did little to implement changes while in power (2018-2020). Furthermore, the Warisan government reinforced property tourism by implementing Sabah My Second Home (Sabah-MM2H) in 2020, a visa programme tying high-value property purchases, at RM600,000 (US\$135,800) and above to long-term residency, seemingly to compete with the same national-level programme, Malaysia My Second Home (MM2H). As one state opposition lawmaker noted, Sabah-MM2H would only further encourage developers to build housing that would be out of reach for many Sabahans.

Yet the state government has continued to [embrace](#) such projects as development wins. State leaders have even presented increasing residential, commercial and industrial property prices in KK [positively](#), presumably as it would also contribute higher revenues to state coffers.

The Sabah government's investment-friendly position may be understandable given Sabah's overall lag in economic development and hitherto struggle to secure large investments, but it is also revealing of the need for more careful planning by the government.

In particular, the state government has failed to direct the influx of private investments towards housing for lower- and middle-income groups, such as establishing [incentives](#) for private sector investors to build more affordable housing.

Consequently, the cash-strapped state government has struggled, amidst increasing [pressure](#) from opposition leaders, the [public](#) and its own [housing state agency](#), to

deliver more affordable housing and to stem the increase in property prices. While the state housing agency has [stepped up efforts](#) to build more housing units for lower-income groups, it is [hampered](#) by high costs of construction.

Meanwhile, Sabah's middle class, especially the young, continue to be [priced out](#) of KK and surrounding suburban districts, an issue that may become increasingly pressing for the state government to address. Sabah Youth Council have noted that "soaring house prices" was the "[main concern](#)" among youths, even for those with stable incomes, while a recent survey conducted by youth NGOs reported that [92 per cent of youths](#) from East Malaysia want to see more affordable housing for young families.

Conclusion

The growth of Chinese tourism in Sabah has intensified an existing trend of property tourism in the state. In this, Chinese firms and investors in Sabah have merely supported local developers in delivering projects of larger scale.

Importantly, the influx of Chinese real estate investments has enabled the Sabah government, which has hitherto struggled to secure large investments, to demonstrate its successes in implementing the SDC, a position which informs its continued support of property tourism.

The government's friendly approach to investment and lack of careful planning, however, have contributed to steeper property prices in land-scarce KK. While construction necessarily slowed during the first years of the pandemic, demand for more land development may increase as Sabah's tourism industry continues to recover, especially with the resumption of Chinese travel. These market-driven forces would require more proactive action by the Sabah leadership to implement stronger coordination between property investments and land use, particularly as pressures mount to build affordable housing in areas close to the capital city.

Sylvia Koh is a Senior Analyst at the Malaysia Programme, S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU), Singapore.

S. Rajaratnam School of International Studies, NTU Singapore
Block S4, Level B3, 50 Nanyang Avenue, Singapore 639798
T: +65 6790 6982 | E: rsispublications@ntu.edu.sg | W: www.rsis.edu.sg