



## Speculative residential developers and foreign retirees' market segment in Malaysia



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### ABSTRACT

Over the last decade in particular, there has been a steady stream of foreign retirees, and more recently foreign high net worth individuals, who have joined Malaysia's My Second Home (MM2H) Programme which provides them with long-stay period visas. This opened up a new but small market segment for residential developers. A study was conducted to determine how the developers accommodate the MM2H participants by using the 4Ps framework. Data was collected using the mixed method of postal questionnaire survey and follow-up interviews. Customisation for the MM2H residential segment was generally limited to promotion of new dwellings. Total customisation in terms of product, price, place and promotion was found to be highly risky. Another 'P' for people cannot be excluded from 4Ps framework as speculative developers associate different nationalities with different house purchasing tendencies.

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### 1. Introduction

Retirees from industrialised countries taking up residence in host countries has become a growing phenomenon (Müller, 2002) and this trend is expected to become even more pronounced (Jones, 2008; Haseen and Punpuing, 2010) as the proportion of the elderly in the future increases (United Nations, 2002). Hoping to cash in on this trend (Otero, 1997; Müller, 1999; Hall and Müller, 2004; Sunil et al., 2007), certain countries are offering long-term residence status to well-to-do and affluent foreign retirees (Ono, 2008; Haseen and Punpuing, 2010). Similarly, the Malaysian government launched the Silver Hair Programme in 1987 which in 2002 was rebranded as Malaysia My Second Home (MM2H) Programme.

Studies on second homes in general are lacking, especially from an international perspective (Müller and Marjavaara, 2012). Past studies on later-life migration have looked at motivations (Benson, 2010), policy ramifications (Casado-Díaz, 2006), host communities impact (Hoogendoorn and Visser, 2004; Baldacchino, 2012), property values escalation (Marjavaara and Müller, 2007; Hjalager et al., 2011) and natural environment degradation (Pallares-Blanch, 2012; Aviles et al., 2012). One of the spin-offs of second home programmes is the production or construction of second homes (Müller, 2001). However there has been academic neglect on how speculative property developers go about addressing the second homes market segment. Hence, a study examining how Malaysian

residential developers cater for the MM2H markets was conducted with the following objectives:

- To identify the types of dwellings constructed;
- To investigate the price ranges of these dwellings;
- To determine their locations; and
- To investigate the promotion methods adopted.

For this, the 4P's marketing framework devised by McCarthy (1960) was used.

### 2. International retirement homes

American retirees started migrating to Latin America in the 1990s (Truly, 2002; Sunil et al., 2007). In Europe, large scale migration of retirees from northern to southern Europe became significant in the 1960s (Williams et al., 2000) while Japan began encouraging its senior citizens to reside overseas from 1986 (Miyazaki, 2008; Ono, 2008). Korean retirees have also embraced cross-border migration choosing Thailand, Malaysia and Indonesia as their preferred host nations (Haseen and Punpuing, 2010). During the 1990s, the entire industrialised world experienced renewed interest in second home tourism (Müller, 2002). Essentially, foreign second home ownership falls within lifestyle migration fuelled by the desire to lead a more fulfilling and better quality of life (Benson, 2010; Benson and O'Reilly, 2009). Increased longevity, earlier retirement age, more disposable wealth, differential living costs, inadequate pension funds, mass tourism, flexible working arrangements, low-priced air travel and relaxation of border rules are among the factors that have prompted foreign second home

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ownership among retirees (Hogan, 1987; Longino, 1992; Buller and Hoggart, 1994; Williams et al., 2000; Müller, 2002; Sunil et al., 2007; Jones, 2008; Gustafson, 2008; Benson and O'Reilly, 2009).

The United Nations (2002) predicts that the percentage of older persons will more than triple between 2000 and 2050. By extension, international retirement migration is also expected to intensify (Jones, 2008; Haseen and Punpuing, 2010). To boost domestic economies (Otero, 1997; Müller, 1999; Hall and Müller, 2004), some countries such as Costa Rica and Panama in Latin America (Pera, 2008), and Thailand, Indonesia and Philippines in Asia (Ono, 2008; Haseen and Punpuing, 2010) have started offering long-term residency programmes for foreign retirees. As clarified earlier, Malaysia joined the bandwagon by launching the Silver Hair Programme in 1987.

The Silver Hair Programme targeted retirees who were 50 years of age and above who met certain minimum financial requirements. Successful applicants were granted visas and year-to-year social visit passes for a maximum of 5 years. In March 2002, the programme was rebranded as Malaysia My Second Home (MM2H) programme following its predecessor's lack-lustre performance (Lee et al., 2010). Rules and requirements were amended to make the programme more attractive; for example anyone below 50 years of age could also apply while local sponsors and security bonds became redundant. Furthermore, successful applicants were given social visit passes with multiple-entry visas valid for 10 years. The task of promoting the programme was assigned to the Ministry of Tourism even though the programme remained under the purview of the Ministry of Home Affairs. However, the Ministry of Tourism was given full control of the programme beginning April, 2006. In 2009, the programme was further fine-tuned to attract high net-worth individuals below 50 years of age. In addition, retirees with certain specialised skills were allowed to work up to 20 hours a week, invest and/or run businesses. Table 1 shows the performance of Malaysia's long-term residency programme which has been steadily improving.

### 3. The 4 Ps framework

Inspired by Culliton (1948) who described the business executive as a 'mixer of ingredients', Borden (1964) coined the term marketing mix in 1953. In the 1960s, McCarthy (1960) reclassified Borden's 12 elements of marketing mix into 4Ps – product, price, promotion and distribution – which marketers should focus on after selecting a target market. The 4Ps marketing mix concept has since dominated marketing literature, research and practice (Bevan, 1991; Grönroos, 1994; Möller, 2006) despite criticisms (Grönroos, 1994; Constantinides, 2006; Möller, 2006) as no satisfactory replacement has appeared (Kent and Brown, 2006; Dominici, 2009; Donovan and Henley, 2010). The sections below elaborate on the four elements of the 4Ps model in relation to housing for international retirees.

#### 3.1. Product

Residential properties can be classified either as horizontal (e.g. bungalow and terraces) or vertical (e.g. flats, apartments and condominiums). Within these two broad segments, there are further sub-segments catering to low, medium and high income earners. Different house types may not necessarily make good substitutes; for example, international retirees in Tuscany, Italy, and Algarve, Portugal, preferred landed properties (Casado-Díaz et al., 2004) whereas in Spain, they preferred apartments and flats (Casado-Díaz et al., 2004; Bahar et al., 2009). House size also matters; in Alicante, Spain, the houses of international retirees were between 74 and 149 m<sup>2</sup> with two or three bedrooms (Gibler et al., 2009).

The amenities that are provided also influence housing choice. In Spain, features such as garage, parking space, garden, no-stairs design and emergency call system were considered vital for elderly migrants (Gibler et al., 2009). They may also expect low maintenance costs (Hansen and Gottschalk, 2006), keep-fit facilities (Regnier, 1987), personal care, housekeeping, and on-site nursing services (Gibler et al., 2009). Around Lake Chapala Riviera in Mexico, North American developers constructed gated communities and 'modern' homes to cater for American retirees (Truly, 2002).

#### 3.2. Price

Homebuyers will start to consider other elements of the marketing mix only when the house prices are attractive (Mar Iman, 2002). The 'right' price depends on the prospective house-buyers' income level and perception about price–quality relationship. Low house prices were a strong pull factor for other Europeans to purchase second homes in the Pomurska region of Slovenia (Lampič and Mrak, 2012).

#### 3.3. Place

'Idyllic havens' (McHugh, 2006) such as coastal, countryside and highland areas (Serow, 2001; Truly, 2002; Gustafson, 2002; Paris, 2006) are hotspots for foreign retirees. Europeans were drawn to purchase second homes in the Pomurska region in Slovenia for its rural idyllic environment (Lampič and Mrak, 2012). Korean retirees were more diverse in their preference and lived in rural, urban and resort areas (Kim et al., 2003). The majority of British retirees in southwest France converged in well-serviced small towns and villages with shops, dental and medical clinics, and entertainment centres (Benson, 2010). Low cost of living that enhances the purchasing power of retirement income was a major consideration for American retirees in Mexico (Sunil et al., 2007).

Irrespective of the surrounding neighbourhood (Goodman and Thibodeau, 1998), property developers can render their development attractive by providing ample green spaces, landscaping, parks, and recreational facilities (Yam and McGreal, 2010). Local communities can also influence location choice. British retirees migrated to southwest France because of the greater respect that locals accord to the elderly (Benson and O'Reilly, 2009). On the other hand, locals of Prince Edward Island in Canada do not welcome long-term foreign stayers (Baldacchino, 2012) as they are perceived as outsiders, even invaders who drive up house prices (Hall and Müller, 2004).

#### 3.4. Promotion

In Malaysia, newspaper advertising is the preferred medium among housing developers (Mar Iman, 2002). The less-expensive internet marketing has become a key advertising choice for residential real estate sales in the U.S. and Australia (Kummerow and Chan, 2005), though it does not reach non-internet users (Norwood and Tasso, 2006). Property agents, by virtue of their superior expertise on property transaction procedures and regulations, area characteristics and contact networks may be able to influence the decisions of prospective second home purchasers (Åkerlund, 2012).

Property sales and promotions include incentives (e.g. contest, prize, free gifts and guaranteed returns), promotional pricing (e.g. rebate, discount and legal fees waiver) and informational activities (e.g. show house and trade show) (Mar Iman, 2002). Costly promotions (e.g. high quality brochures and golf package offers) are aimed at high disposable income house buyers (Hobson, 2002). Property fairs abroad are also held to attract foreign purchasers (Kunzmann, 2011).

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