

City&Country: Cover Story - Recovery amidst challenges

By Sharon Kam

Sunday, 07 February 2010 00:00

What's in store for 2010

We can expect a steady recovery of the property market in 2010, although challenges remain for certain sectors. Last year began on a cautious note due to the global financial crisis, but we saw established developers rising to the occasion by offering innovative financing schemes to boost sales. The market took heart in the robust sales achieved last year by some major developers in the Klang Valley and Penang. This momentum and improved sentiment among consumers are expected to carry on into 2010, and a poll of local property consultants found that many were positive about the property market in 2010.

There is optimism about the residential market, especially landed homes, as demand remains good, particularly among owner-occupiers. The high-end, high-rise residential sector however may take longer to recover in view of impending new supply, especially in the KLCC area.

The office sector may not fare as well as the residential market, and occupancy and rents may be affected due to a combination of factors, including completed office space coming onstream.

The property sector's performance in 2010 however, will hinge on the performance of the overall economy both globally and domestically, say the consultants.

Many of them feel the government could do more to boost the housing sector and to attract foreign property investors. They also wish that it would stop flip-flopping over its policies, especially those which affect foreign investment, citing the imposition of the 5% Real Property Gains Tax as an example. Nevertheless, despite the RPGT and indications of rising interest rates, the residential property market is expected to be active.

Read on for some experts' view of last year and their take on what to expect in 2010. They also share some investments strategies as well as their wish list for the sector.

James Wong

Managing director, VPC Alliance (Malaysia) Sdn Bhd



Residential market

Last year was a difficult one as the impact from the global crisis was only felt then. National Property Information Centre housing transaction data show that the volume of transactions for 2009 was lower than in 2008.

The residential market was generally flat over the last three quarters of 2009, with many developers postponing and scaling back on property projects. As a result, the take-up rate of existing housing stock improved, partly assisted by developers offering easy home loan packages. The outlook for 2010 is expected to improve with developers launching new residential property projects which they have held back for the past 1½ years.

Office market

The office market did not do well in 2009. Many office buildings were completed last year, including G Tower and The Icon @ Tun Razak. Owing to a drop in foreign direct investments and a slowdown in the economy, the take-up rate for new office buildings in KL was affected. There was also a trend of companies downsizing or relocating to cheaper office buildings.

Grade A office average rents which peaked before the global crisis at RM8 psf have come down slightly. The outlook for the office market will still “not be good” as new supply comes in 2010.

Investment strategy

As there will be a lot more new supply in the market in 2010, the investment strategy is to consider as many choices as possible and look for the best value-for-money deal. In 2010, there will still be strong demand for landed residential property in good locations, as well as small niche upmarket residential developments with emphasis on quality finishes. Also look for shopoffices and developments close to proposed LRT stations.

Wish list

- More measures to improve the competitive edge of the country.
- More incentives to promote Malaysia as a preferred property destination for foreign buyers.

Eric Ooi

Managing director, Knight Frank Malaysia



Residential market

Last year was relatively quiet compared with 2008 as the market felt the impact of the global financial crisis. Property prices declined, particularly the high-end condominiums in the

KLCC area and the suburbs of Kuala Lumpur. The market picked up in 2H2009, but prices still closed below 2008 levels.

While the high-end condominium market suffered the brunt of the financial crisis, the mass residential market did reasonably well, encouraged by the various flexi-payment schemes offered by developers. This and low home-loan rates resulted in higher commitment from buyers for mass housing.

In 2010, we expect market sentiment for high-end condominiums to improve but with new completions in both the KLCC locality and Mont'Kiara, the market will still be very competitive.

Office market

In 2009, the office market saw a mix of “ups and downs”. The “ups” include the rationalisation exercise undertaken by multinational corporations, which led to a higher commitment of office space in new prime buildings. One example is Shell’s commitment in 348 Sentral, occupying some 340,000 sq ft of a green building. Towards the end of the year, we saw Shell committing to another green building in Cyberjaya for its Shared Service Centre. Knight Frank Malaysia is the appointed exclusive tenant representative for Shell in both deals.

The downside was the shrinking of demand due to the financial crisis, with occupancies declining and rents and prices softening. Average occupancy of prime buildings in KLCC was about 92% to 99%, slightly down from 94% to 100% last year. Prime rents declined by 2.5% y-o-y and currently range between RM6.50 to RM9 psf.

The office market will continue to be competitive in 2010, not just due to new completions but also from refurbished buildings in good locations. Competition also comes from suburban office locations such as Damansara Heights, KL Sentral, Mid Valley and Bangsar.

Investment strategy

High-end condominiums in good locations, as prices are likely to recover to peak levels or even exceed peak levels in two or three years’ time.

Wish list

Further improvements in the public transport system.

Christopher Boyd

Executive chairman, CBRE Malaysia Sdn Bhd



Residential market

The year 2009 was “the crash that never happened”. Sales dropped in the first half of the year, but there is a sense that the mid-market is returning to normal. At the top end, we saw an adjustment in values but very few “fire sales”. In fact, there were some very successful new launches, such as E&O’s St Mary’s serviced residences. The outlook for 2010 will remain challenging in the face of substantial new supply with investors looking for value for money. Nevertheless there is reason for optimism, with a return to GNP growth and abundant end-financing.

Office market

The first half of 2009 saw the office market almost at a standstill. There was some pick-up in the second half, and we have been in discussion with more than one company on their expansion plans for the future. The outlook for this year is one of increasing supply and landlords will have take a longer-term view in order to secure tenants.

Investment strategy

Look for yield and try to lock in some of the low-interest finance that is currently available. Industrial property let to strong tenants are interesting, particularly in west Klang Valley. On the eastern side of KL, there may be some continued growth in residential values as a result of the newly opened DUKE Highway and the prospect of the Outer Ring Road.

Wish list

That incentives for new industries be clearly laid out and targeting developing companies which can offer technology transfer.

Anthony Chua

Director, KGV Lambert Smith Hampton



Residential market

Last year was a tough time, especially during the first half of the year. However, all credit to our property and financial markets which were resilient enough to see us through. The residential property market surprisingly, did not see a drastic drop in prices except for those in the KLCC and Mont’Kiara areas, which were speculative markets in the two years before 2009.

The outlook for 2010 is expected to be positive. The pent-up demand in 1H2009 and the perception that property prices are on the uptrend, coupled with the anticipation that mortgage rates may rise further, are driving demand for residential properties.

Office market

The market in 2009 remained relatively stable. Capital values and rents did not drop significantly despite the onslaught of the economic crisis. The challenge for 2010 will be to fill up the new office space that has just entered the market especially those in the KLCC and KL Sentral/Bangsar areas. Rents are expected to dip for the older buildings.

Investment strategy

Focus on strategic development land to meet rising demand.

Wish list

The recovery in the property market will be managed responsibly by all the industry players to provide sustainable, long-term growth.

Jerome Hong

Managing director — Agency & Corporate Services, PA International Property Consultants (KL) Sdn Bhd



Residential market

In general, prices and rents of landed properties in the Klang Valley have been resilient. New launches of landed units did well, as was seen at Temasya Suria and the latest phases of Bandar Kinrara, Puchong, which saw queues forming days before actual sales. In 2010, landed homes sales are expected to further improve with unabated interest from new purchasers and upgraders.

High-end condominiums, particularly in KLCC and Mont'Kiara, where supply was high in a diminishing rental market, led many developers to defer their launches during 1H2009. However, things improved in 2H2009, with the successful launch of East Tower (Block C) of St Mary Residences by E&O in June and the launch of Pavilion Residences Tower 1 at the end of the year.

In anticipation of an improved economy, many developers are preparing to launch their projects in 2010. However, in view of the impending supply of more condominium units in the near term, prices are expected to remain competitive.

Office market

The office market in 2009 was resilient as there was limited supply of existing good grade office space in KL city. Rents and occupancies of prime buildings held firm. More new office buildings are going for Multimedia Super Corridor status and green building accreditation. The office investment market appeared to be more active in 2H2009, with the sale of a 50% stake in Menara Citibank to Hap Seng and the forward sale of Tower D of Glomac Damansara, among others.

With more future supply of quality office space coming onstream, particularly in KL City and KL Sentral, the rental market is expected to become more competitive. Landlords of older buildings will have to renovate and refurbish their buildings and offer competitive rents to maintain existing tenants.

Investment strategy

Gated and guarded residential communities in prime localities of Damansara, Saujana Subang-Ara Damansara, Taman Tun Dr Ismail, Damansara Heights. Launches in existing schemes such as the proposed semi-detached/villa units in Bandar Utama would be a sure pick. Equally attractive are existing houses in established areas like TTDI, Bandar Utama, Taman Desa, Damansara Utama/Jaya and SS2, which are still affordable and can be renovated.

Wish list

- That the RPGT will be put on hold.
- That the recent liberalisation of the 27 services sub-sectors will be a boost for the local property sector.
- That the economy will continue to improve.
- That concerted efforts are made to tackle issues such as crime, poor public transport system, which are major concerns/drawbacks in attracting investors.
- That the government will not introduce flip-flop policies in the future.

Goh Tian Sui

Managing director, C H Williams Talhar & Wong Sdn Bhd



Residential market

It was a cautious market at the beginning of 2009. Confidence was down and there were expectations of falling values, with many waiting for “cheap buys”, but there were few such opportunities. Developers responded to the situation admirably by providing innovative payment schemes. This resulted in good home sales by developers. Sales and prices firmed towards 2H2009, but the market was surprised with the RPGT announcement in Budget 2010. This was generally perceived as having a negative impact.

Office market

The office market softened as a result of the global financial crisis, with absorption rates lower than that of 2008. Amidst the oncoming supply, especially in the Klang Valley, rents faced downward pressure and will continue to do so. The property market’s performance in 2010 would very much depend on economic recovery, both domestic and global.

Investment strategy

Properties in good townships as well as prime locations continue to be in good demand, including landed residential as well as shophouses/shopoffices.

Wish list

- That the government will relook the RGPT.
- That stamp duties on transfers and loans be reduced to lower the cost of transactions in Malaysia.
- That housing loan interest for the “principal place of residence” be allowed against income tax.

Brian Koh

Executive director for investments, DTZ Nawawi Tie Leung Sdn Bhd



Residential market

The financial crisis was a wake-up call for the property market that was speeding on an unsustainable path in terms of new speculative supply and prices. Nevertheless, 2009 has not been a particularly bad year, as the market held up quite well. Although economically, we see 2010 as a recovery year and presenting opportunities with current market liquidity, challenges remain ahead for the property market as issues such as asset inflation, construction cost escalation, environmental protection, personal and property security issues need to be resolved.

Office market

Last year marked the decline of the office market cycle, which saw construction and new completion peaking off. To date, the market has not fared badly in terms of rental and capital value declines, but we continue to see pressure on rents as the demand/supply gap develops rapidly.

This year will see major challenges in maintaining office occupancy and rents, as demand is not able to grow fast enough in the shorter term to absorb new supply. The liberalisation in the service sector will need time to take effect and national competitiveness need to be resolved to make it attractive for foreign companies to come and invest.

Investment strategy

The hospitality sector holds promising prospects, with tourist arrival figures on the upside. AirAsia's vision to make KL a low-cost air hub, with the new terminal being planned, will augur well for the hotel industry. Kota Kinabalu, Kuching and the East Coast have strong potential in the leisure hotel sector and Iskandar Malaysia for business hotels.

Wish list

- To see clean rivers and green lungs protected.
- Enhanced security.
- Better public transport and a restriction on private vehicles into city centres.

L H Lim

Executive director, Raine & Horne International Zaki + Partners



Residential market

Since March 2009, the residential market has been active and vibrant, especially in Mont'Kiara, KLCC and Bangsar. Most sought-after properties were newly completed ones like One Menerung in Bangsar, Pavilion KL and MK10 in Mont'Kiara. Terraced houses and bungalows in prime areas of PJ and KL experienced a price escalation of 20% to 30%. Our agents closed an intermediate terraced house in SS2, PJ, for RM768,000 (24ft x 80ft, renovated).

We are optimistic about 2010 and think the residential market will do well. The condo market will continue to thrive in selected locations in Mont'Kiara, PJ and Bangsar, while landed properties in prime areas will continue to be in good demand.

Office market

In 2009, office rents were stable in KL and PJ. There will be increasing supply coming into the market in 2010, but we foresee rents remaining stable. Certain modern office buildings with good amenities and location will do better.

Investment strategy

Look out for condos in good locations with high yields. Some shophots and offices may be good, provided service charges are low, at 20 sen psf or below.

Wish list

- Interest rate to remain low.
- Reduce stamp duty for property transactions.
- Reduce personal income tax.

Samuel Tan
Executive director, KGV-Lambert Smith Hampton
(Johor)



Residential market

It was a mixed year in 2009 for the property market in Johor Baru. 1Q fared poorly due to the global financial crisis from the end of 2008. The following two quarters saw an upward swing in the primary market as developers went into overdrive with creative marketing packages. Confidence in the market was good. The reintroduction of the RPGT with 5% tax on profit across the board was a major dampener to the “just recovering market”. Although the government announced on Dec 23 that the RPGT applies only to properties sold within five years of purchase, the damage had already been done. Flip-flop was the key message to all investors. The RGPT should be reintroduced when the property market has fully recovered, not when it is recovering. There is hardly any speculative element in the market. People are buying to live or for upgrading purposes, hence the need to dispose of the previous house. This is good for the economy and the imposition of 5% even within five years is unnecessary. It is a question of timing.

Office market

Johor Baru’s office market is not an active one. Professional firms and the like prefer to rent than to buy. Rents remain stable at RM1.80 to RM2.70 psf per month depending on the quality and location. We expect 2010 to be the same although Iskandar Malaysia’s progress may spur demand for office space next year.

Investment strategy

Gated and guarded communities will command a premium. As JB is perceived to be a “less than safe” place, security will remain a major consideration in property investment. For first-time entrants, small-sized serviced apartments or houses in good locations would be the logical choice. There are many of these in the Tebrau corridor or the more mature section of Nusajaya.

For seasoned investors, they should consider — apart from land — shopoffices in strategic locations that can offer both good returns of over 6% and potential capital appreciation.

Wish list

- No flip-flop in our housing policies.
- That Iskandar Malaysia will successfully bring in developers who will be able to market properties to foreigners as well as locals.
- That local developers be given equal footing in making Iskandar Malaysia a success in terms of tax incentives, approvals and so on.

Y Y Lau

Director, YY Property Solutions Sdn Bhd, in conjunction with Cushman & Wakefield



Residential market

The 1Q of 2009 was slow and uncertain. The next two quarters saw more active sales activity as buyers accepted the fact that there were hardly any “fire sales”. They were also motivated by the financing packages offered.

In 2010, the residential market will remain active in general despite the 5% RPGT and higher financing costs. It will be interesting to see what other strategies developers will adopt to boost sales.

Office market

The high-rise commercial market at the beginning of 2009 saw capital values decreasing with cautious activities. Towards end-2009, activities intensified with transactions dominated by local players. Yields decreased.

For 2010, we expect the investment market for this sector to be more active. A lot of foreign investors are already back in the market looking for the right property. Overall, rents in 2009 decreased with leasing activities subdued, but momentum picked up towards end-2009 and we expect this momentum to continue in 2010, with rents remaining at a realistic level.

Investment strategy

Consider new and secondary strata offices, shophouses in good locations; new and secondary landed properties with facilities — especially security and safety features in good locations in the CBD; and city fringes such as Bangsar and PJ North. Small investors can invest in small units of condos because of their limited budget and rent them out.

Wish list

- End to all political problems.
- To see Malaysia’s international ranking improve in terms of ease of doing business and transparency.
- Government focused on attracting FDIs.
- More updated and transparent property records.
- Concrete plans to combat social problems such as safety issues.

Datuk Abdul Rahim Rahman
Executive chairman, Rahim & Co



Residential market

Due to negative sentiments and uncertainties over the global and local economy, transactions declined by 10.3% (1Q2008-1Q2009). Nevertheless, prices for prime landed properties have been stable except for high-end properties in KLCC as speculative purchasers, especially foreigners, shied away.

For 2010, residential properties, especially landed and those in the primary owner-occupier market, will see the highest growth. There will be interest in growth areas, especially along LRT lines. We expect prices in certain parts of Subang Jaya to increase by 30%.

Office market

The year 2009 saw a rise in awareness and demand for green-rated office buildings. External factors and the financial crisis have some negative impact on the market, but demand was rather stable.

The KL office market may see further decline in 2010, with lower occupancy and downward pressure on rents in KLCC and the Golden Triangle due to a combination of recession, new supply and companies downsizing to reduce cost. Some tenants will also take advantage of good value new office premises in the suburbs, such as Bangsar and PJ.

Investment strategy

Traditional strong real estate/urban centres such as KL, PJ, Penan mainland, Johor Baru — Iskandar, Gelang Patah, Lima Kedai and Pasir Gudang; dilapidated industrial buildings in potential commercial areas for refurbishment/redesignation of use. This allows the freedom of new uses to be applied with realisation of returns in three years.

Wish list

- Better enforcement and better maintenance culture.
- “Free up” foreign investment regulations further.
- Fast track approval methods and have truly one-stop centres.

Michael Geh

Senior partner, Raine & Horne International Zaki + Partners



Residential market

2009 was a great year for the Malaysian property market. Residential market was on a bull run charging across Malaysia. Developers had a great sales run while investors and speculators were able to buy properties extensively. This was mainly due to banks giving attractive financial packages for property purchases. I think this bull run can sustain for at least another six months.

Office market

Generally, the purpose-built office market in Penang was flat due to the abundance of choice for offices, including shophouses.

Investment strategy

I would buy some shophouses in fairly good locations.

Wish list

That banks would prioritise lending to first-time homebuyers and be more stringent with property speculators.

Chan Wai Seen

Director, JS Valuers Research & Consultancy Sdn Bhd



Residential market

There was strong take-up for homes located in prime locations, particularly landed units in KL and Petaling district. This was spurred by low interest rates and ample liquidity in the market. Established developers led the market by introducing various incentives to boost sales. In 2010, developers are expected to continue collaborating with financial institutions to generate sales for their projects. The 5% RPGT is not expected to affect the property market significantly as the amount levied is perceived to be low in relation to potential gains.

Location, product innovations and attractive financing packages will be the key success factors for newly launched projects.

Office market

The overall absorption rate of office space in 2009 has been low due to the financial crisis. This has imposed downward pressure on office rental and occupancy rates, especially for older buildings. The recovery has been slow as unlike the residential market, the office market has not directly benefited from the expansionary fiscal policy adopted by the government.

In 2010, the office property market is expected to stabilise in line with the country's economic growth. Old office buildings, which have suffered low occupancy but located in strategic locations are good acquisition targets for upgrade and refurbishment.

Investment strategy

Target properties that are less volatile to economic slumps or which can recover quickly from a slump. Look at landed residential properties located within well-planned and comprehensive townships in the Petaling district or prime office space near LRT stations, such as KL Sentral, Bangsar, PJ and KL City.

Wish list

- To have more economic sectors liberalised to encourage new investments in the country
- Base Lending Rate to remain at a level that supports economic growth

Tang Chee Meng

COO, Henry Butcher Marketing Sdn Bhd



Residential market

The primary market since 2Q2009 has been rather active with many new launches and attractive incentives for purchasers. Prevailing low interest rates also encouraged purchasers to buy. Towards the later part of the year, new condominium projects launched within the city, such as St Mary's Residence, attracted strong sales due to their location and smaller built-ups, which made the units more affordable.

The secondary market was quieter. Buyers in the KLCC area were mainly local investors looking for smaller units with existing tenants. Prices of larger units in the KLCC area continued to slide and vacancy rates increased as more projects were completed.

Landed properties were more popular and in some locations, terraced homes breached the RM1 million mark. New launches saw queues forming days before the official launch. The

reintroduction of the RPGT woke investors up to the fact that the RPGT was never abolished. Investors now realise that the government is at liberty to increase the RPGT rate. This has somewhat deterred foreign investors who are put off by frequent changes in policy.

We foresee a steady recovery of the residential market in 2010, provided the Malaysian economy maintains a steady course. The recent financial woes seen in Dubai has put investors on high alert and may have adverse impact on the local residential market if there are more such events.

Residential prices are expected to be stable. The luxury condo market will take a while more to recover due to concerns of oversupply, increasing vacancy rates and compressed yields. Newer condominium projects could see higher density and smaller units being built to make pricing more affordable.

Office market

The office market in KL was fairly stable in 2009 with a slight decline in occupancy rates. More eco-friendly green-rated buildings were built but the market did not seem prepared to pay higher rents for such buildings. With new buildings completing in 2010, occupancy may be under pressure, especially in older buildings which have not been refurbished. There may be an overall softening of rents, especially in 1H2010.

Investment strategy

Invest in established areas like Bangsar, Damansara Heights and U Thant/Ampang Hilir in KL as property prices in these areas recover faster after a recession.

Newer but high growth areas are good bets as values will appreciate when these areas mature. My picks include the stretch between Bandar Utama to Country Heights Damansara and the area near the old Subang airport — Ara Damansara and Glenmarie — and Kota Damansara.

Wish list

- Defer the RPGT until the market recovers fully.
- Stamp duty waivers or increase EPF contributors withdrawal amount to purchase houses.
- Attract more foreign property investors.
- Keep interest rates at current levels.

This article appeared in City & Country, the property pullout of The Edge Malaysia, Issue 788, Jan 11-17, 2010.