

Challenging times for condominium segment

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By THEAN LEE CHENG

THERE is an oft-quoted line: what goes up, must come down. With the anticipated recovery in the property sector, the focus now turns to the condominium market. Over the last decade or so, this segment has increasingly become a very big sub-segment of the property market.

The overall perception today is that there is a general oversupply of condominiums and serviced apartments. Because of this overhang of more than 90%, the market is expected to be rather challenging this year.

According to the National Property Information Centre (Napic), in the last 24 months the oversupply exceeded 90% for both the luxury and non-luxury category. This is significant when compared with other sub-segments of the property market, namely detached units (zero overhang), semi-detached (1%) and terraced housing (3%).

Henry Butcher Marketing Sdn Bhd chief operating officer Tang Chee Meng says if one were to look at the stock of residential properties coming onstream, the bulk in Penang, Selangor and Kuala Lumpur are condominiums. Because land is scarce, developers are trying to maximise land use.

Area	Completed (units)	Under construction (units)	Total (units)
KLCC*	4,954	2,396	7,350
Ampang Hilir/ U-Thant**	1,421	1,521	2,942
Mont' Kiara**	9,954	3,818	13,772
Bangsar/ Bukit Pantai**	2,384	1,170	3,554
Damansara Heights**	841	426	1,267
Total	19,554	9,331	28,885

Source : Henry Butcher Malaysia Sdn Bhd
* > RM700psf
** > RM400psf
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In a recent talk on the luxury condominium market, he says his main concern is the oversupply in KLCC and Mont'Kiara. Tang is focusing on the luxury segment of RM700 per sq ft and above.

He says there are difficulties in renting out the larger units because there is a scarcity of expatriates.

The number of skilled, trained and professional foreigners entering the country has been dwindling since early last year. Although the situation may reverse, for the next year or so this seems unlikely.

There are other issues haunting this segment. The recent return of the real property gains tax (RPGT) and a possible future increases have also resulted in wary resignation.

Incidentally, sales of luxury condominiums were boosted by the suspension of RPGT in 2006. Besides the RPGT, the possible rise in interest rate is another cause for potential buyers to be more circumspect.



Source: Henry Butcher Malaysia

Investment options

At the global level, the weak and uncertain economic situation has also lowered the level of interest among foreign investors.

“There are more attractive investment options offered by overseas properties where prices have dropped more significantly and currency exchange rates have become more favourable,” says Tang.

He says although some have reported that up to 40% of their units have been sold to foreigners, the percentage of Malaysia’s properties bought by professional foreigners is actually less than 3%, taking into consideration the middle and high-end category.

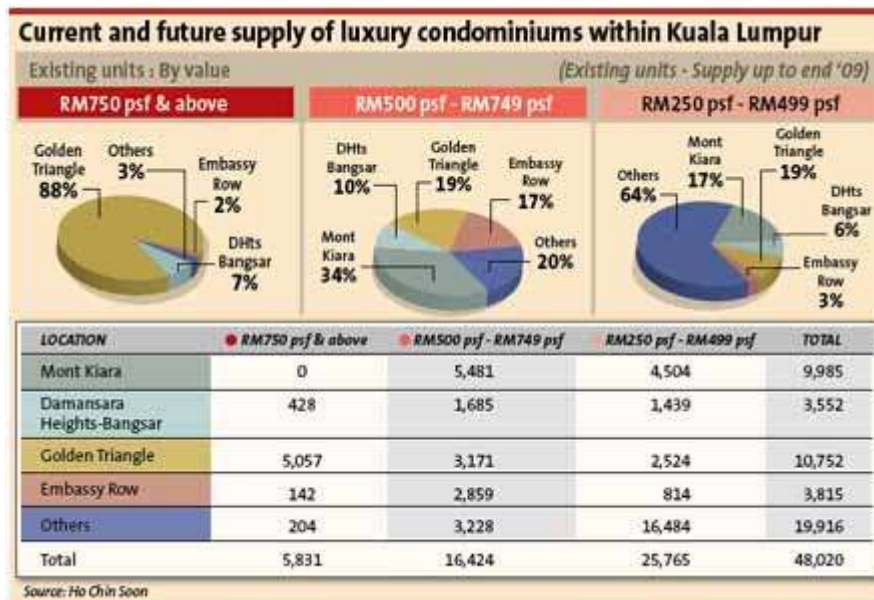
“Some of them have been living here for many years. They are not speculators or investors. We are not seeing foreign investors coming back in a big way. Most of the buying is done by locals at the moment and they go for smaller units so the large units are difficult to sell. They also prefer to buy units that come with tenants,” he says.

He says the completion of several new projects in the KLCC area has also put further pressure on occupancy and rental rates.

There are luxury condominiums in other locations like Bangsar, U-Thant and Damansara Heights but they do not boast such massive numbers. Tang, therefore, expects the market in Bangsar and Damansara Heights to recover fast.

Giving an overall picture of the situation around the KLCC and Mont'Kiara area, Elvin Fernandez, managing director of Khong & Jaafar group of companies, says the KLCC and Mont'Kiara condo market is high-end that appeals to modern singles or households that prefer city centre living that one may buy to stay or to invest in. City centre living is a growing long-term trend as opposed to the suburban living. Notwithstanding that broad trend, the micro factors insofar as Kuala Lumpur's high-end condo is concerned, the financial crisis has rocked this market quite a bit.

“Although many believe the global crisis is behind us, equally as many believe the issues and problems that caused and came with the crisis will continue to impact us as we go forward.



“City centre condos are presently pressured by low rental yields of below 5% net. That is not sufficiently attractive as it ought to be more than 5% to commensurate with long term and sustainable risks in the hierarchy of risks within and outside the property market,” he says.

Suburban condominiums, on the other hand, are higher density substitutes for landed properties.

Landed properties are preferred and the low initial net yields reflect this, but with the scarcity of land in suburban areas, particularly just outside the city centre areas, higher density housing is an increasingly acceptable substitute.

The pricing and returns of suburban condos will follow the substitute landed except that a slightly higher risk will prevail and this will translate to a higher expected net yield. Higher yield also means a lower unit value.

While net yields for landed houses in prime locations may be 2% to 3% net at present (they ought to be moving to higher numbers going forward) the long-term sustainable net yield for suburban condos should rightly be about 6% net and above.

Change in conditions

Taking the cue from the current market conditions, over at Mont'Kiara, Sunrise Bhd being the biggest player there, says it will not be giving emphasis to large units of 2,000 sq ft and above.

Incidentally, these two locations – KLCC and Mont'Kiara – have come under scrutiny because of their sheer numbers which go into several thousands.

Says Sunrise executive chairman Tong Kooi Ong: “The profile of the Mont'Kiara resident has changed. The old strategy of selling to Malaysians and renting to a professional foreigner worked many years ago. It will be a sunset industry if we follow this strategy today and this is obvious if you look carefully at the tenancy market.”

“There is a shift in the expatriate population and this will affect the property market. The average occupancy is 75% in Mont'Kiara. Now it takes about two years to fill a condo; last time, we could have filled it up faster. Our buyers have become residents themselves. If you cannot get RM15K a month, why buy a RM3mil unit? The guy who buys a RM3mil unit is not renting it. He is buying to stay,” he adds.

At its peak, owners have reported exuberant yields of double-digit with 9% being on the conservative side. Today, the yield has dropped to about 5%.

Known as a one-product, one-location developer, Tong says the company will be going into different locations offering different projects from now on. It recently signed a joint venture with the Sime Darby group to go into commercial development in Bukit Jelutong, Shah Alam. The company has secured more than 50% bookings, valued at about RM500mil, when it launched condominium project MK 28 in December last year. The average selling price of RM785 psf was also higher than expected. Tong says the company will continue to develop MK 20 and 22, both condominiums, in that area later on.

S. K. Brothers Realty (M) Sdn Bhd general manager Chan Ai Cheng says Mont'Kiara is very developed. The appeal here is the international schools. In light of the number of completed projects of late, she is aware of unit owners in certain projects there who are facing challenges in securing tenants and had to reduce rentals after the units remained untenanted for close to a year.

“Generally, it would seem like supply outweighing demand. However, not all units are facing the same challenge,” she says.

The U-Thant area will have its niche appeal and following while KLCC properties will tend to be more speculative as they attract not only locals but foreigners as well, although, for the time being, the foreign market has dried up.

On the other hand, the Petaling Jaya condominium market appeals more to locals and this will continue to be mainly a family-based, owner-occupier market.

“PJ properties are seen to be resilient because of strong local demand. Some projects are thriving and are in hot demand while places like Pavillion Residences keep raising prices. Selected established condominiums like Hampshire Residence remain well occupied,” she says.

The Selangor Dredging group, which recently launched the second phase of Five Stones, has an overall take-up rate of 66% for the 192 units in Block D and E. Over at Damansara Perdana, if there is no issue with leasehold, Chan says it is possible to get units at attractive prices and there are many options to choose from. As more projects enter the market, developers will have to keep improving. We are already seeing this in Ara Hills, by Sime UEP group, which have provided a high-voltage perimeter fencing as an added safety feature, she says.