<u>City&Country: Mixed signals in property market</u>

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Sunday, 28 February 2010 00:00

Delegates to the 3rd Malaysian Property Summit 2010 last Tuesday would have gone home with mixed signals about the market this year. The speakers were generally optimistic, but there was no show of great enthusiasm.

While the speakers acknowledged the property market has picked up from the second half of last year in tandem with the economy, they worry that global economies are not out of the woods.

Adding to the cautious mood must be the roller-coaster ride the Malaysian stock market is experiencing as City & Country goes to print. Plus the much bandied about interest rate hike expected soon.

Bank Negara Malaysia kept its overnight policy rate (OPR) unchanged at 2% at its first monetary policy committee meeting of the year on Jan 26, but hinted that a rate hike is on the horizon as economic recovery gathers momentum.

On Jan 27, the FBM KLCI fell 16 points in the first hour of trading. At the end of the day, it gave up 17.25 points to 1,265.77 points. It was the fourth consecutive trading day that the index entered negative territory, weighed down by issues such as monetary tightening measures in China, a weakening of Asian currencies and a fall on Wall Street.

Ching: We don't think there will be a significant hike in interest rates by Bank Negara

Bernard Ching, associate director of ECM Libra Research, was a delegate at the summit organised by the Association of Valuers, Property Managers, Estate Agents and Property Consultants in the Private Sector (PEPS). He says the market has been expecting interest rates to rise but he does not see them escalating.

“We don’t think Bank Negara will significantly hike interest rates. Any increase is meant to prevent imbalances in the system resulting from keeping rates at an all-time low for extended periods. We also do not expect property buyers’ interest to be curbed on news of impending interest rate hikes,” he tells City & Country.

He adds that interest rate hikes do not necessarily result in the slowing down of property sales. Based on past property cycles, sales had continued to increase even in a rising interest rate environment, he says.

“What’s more important, in our opinion, is that buyers’ sentiment is really buoyant at the moment, given the brighter economic outlook compared with 12 months ago,” he adds.

The central bank had slashed the OPR by a collective 150bps from November 2008. It has maintained the key interest rate at 2% since April 2009.

The way forward

Wong: Malaysia is caught in the middle-income trap

Managing director of VPC Alliance (Malaysia) Sdn Bhd, and president of PEPS, James Wong expects the property market to recover fully only by end-2011 or early 2012.

This year, he told the delegate that the sector’s performance will hinge on the pace of economic recovery globally and domestically. “Malaysia’s economy is expected to be sluggish and bumpy in 2010, although it will be assisted by rising commodity prices.”

Another boost to the sector is expected to come from the effective implementation of projects under the government’s RM67 billion economic stimulus package, he added.

Malaysia, Wong said, is caught in the middle-income trap. And to move forward, a new economic model based on high income, capital intensive and high technology is needed.
To achieve developed status by 2020, Malaysia must grow its GDP by 6% annually in the next decade and its per capita income has to reach at least RM50,000 by the same year.

Several measures need to be taken, including further liberalisation of the economy, further reduction of red tape and increased transparency, Wong added.

Napic

According to data from the National Property Information Centre (Napic), there were 337,990 transactions last year, 0.7% fewer than 2008’s 340,240. The value of transactions in 2009 dipped by 14.6% to RM75.9 billion. More than half, or RM40.1 billion worth of properties, changed hands in the second half of the year.

Zailan: Landed property in prime locations to be the most sought-after in 2010

Dr Zailan Mohd Isa, director of Napic, which comes under the ambit of the Valuation and Property Services Department in the Finance Ministry, expects construction activity to stay “moderate”, and landed property in prime locations to be the most sought-after.

Last year, residential property dominated the market, accounting for 62.9% of the total volume and 52.2% of the transaction value. Transactions worth RM37.44 billion were recorded between January and November — 2.6% lower than the same period in 2008.

While more condominium than landed property transactions took place in Kuala Lumpur, it was the reverse for Selangor, Penang and Johor.

A total of 31,782 new homes were put on the market between January and September 2009. Of these, 11,771 units (37%) were sold. Selangor and Penang showed a higher take-up rate than Kuala Lumpur and Johor.

High-end housing market

It will take a while for the high-end housing market in the Kuala Lumpur City Centre (KLCC) area to regain its former glory due to concern of supply, said Lim Eng Chong, president of Henry Butcher Malaysia Sdn Bhd.

There are now 19,554 completed high-end high-rise units in the KLCC area, Ampang/U-Thant area, Mont’Kiara, Damansara Heights and Bangsar/Bukit Pantai area. Another 9,331 units are under construction as at December 2009, he noted.

In 2Q2009, the high-rise housing market contributed 91% to the overhang units (unsold after more than 24 months on the market) in KL, up marginally from the 90% at end-2008.

It is noteworthy that certain launches in the second half of last year did well. The St Mary Residence serviced apartments in the KLCC area were 80% taken up within five days of launch. S P Setia has sold 65% of the second block of its Sky Residences (first block fully sold) and WingTai Asia’s 50 units of Verticas Residence in Bukit Ceylon was 60% sold during a soft launch.

Office market

Sarkunan: The projected growth of the services sector will be positive for the office market

The 2009 office market was competitive following the addition of 3.18 million sq ft of new office space and the prospect of further supply this year.

Competition also stemmed from new supply in decentralised locations like Bangsar, Petaling Jaya and Mont'Kiara. According to Sarkunan Subramaniam, executive director of Knight Frank Ooi & Zaharin Sdn Bhd, as the office market is driven by the services sector, the projected growth of the sector expected from its liberalisation is positive for the market.

Retail market

The current retail space stock of 40.5 million sq ft is expected to be boosted by more than three million sq ft of new supply this year. Add to this a freeze on most retailers' expansion plans and ongoing consolidating exercises, vacancy rates and rental growth are expected to be negatively impacted.

A current concern is increasing political risk that could dampen investor sentiment, and a slowing recovery momentum that could affect tourist arrivals and spending, said Brian Koh, executive director of DTZ Nawawi Tie Leung Property Consultants Sdn Bhd.

Koh said rents only rose by 1.39% in 2009 (4.52% in 2008) and they are projected to rise by only 0.6% this year. The retail space yield over the past five years has ranged between 6% and 7.5% annually, and Koh expects this to dip below 6% for the next two years.

However, it's not all gloom and doom. Koh said rents could improve after a period of consolidation in the market.

Industrial market

Industrial development projects, moving towards a more corporate image from their previous "workshop" image, can offer good investment potential, said Anthony Chua, executive director of KGV-Lambert Smith Hampton (M) Sdn Bhd.

Industrial land, he noted, has appreciated at an average of 60% to 100% since 2004, based on the values in Selangor's Kota Kemuning, Bukit Jelutong, Glenmarie and Balakong, from RM30 to RM40 psf in 2004 to RM50 to RM100 psf in 2009.

A proximity to bustling commercial areas and highways are the main contributors to value appreciation.

This article appeared in City & Country, the property pullout of The Edge Malaysia, Issue 791, Feb 1 – 7, 2010