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Cautious optimism on property sector

Stories by **DANNY YAP**

PROPERTY consultants are cautiously optimistic that the local property sector would remain healthy despite a possible recession in the United States.

DTZ Debenham Tie Lung (M) Sdn Bhd executive director Brian Koh said the property sector was more resilient than 10 years ago.

He noted that when the 1997 economic crisis occurred, the Malaysian economy, including the stock market, took a massive plunge.



Brian Koh

"All stocks, including property stocks, were severely affected and there was a glut in the property sector," he said.

However, Koh said, the current situation was very different.

“We don't have a glut in properties, the economy is strong and there's a lot more foreign interest in Malaysian properties which experts say are generally attractive or undervalued,” he said, adding that there was no property overhang and no oversupply of properties currently.

Koh said: “We believe the property sector and market should not be significantly affected if a recession occurs in the US.”

Regroup Associates Sdn Bhd managing director Allan Soo concurred that the property sector should be able to weather the storm should there be a fallout from the US economic slowdown.

According to him, demand for office and retail space in Malaysia is generally still strong, and demand for residential properties, especially high-end ones, is good.

“Since April last year we have seen keen foreign buying interest in Malaysian properties, particularly in the inner city such as Kuala Lumpur City Centre (KLCC),” said Soo, adding that high net worth individuals from around the world were also buying luxury condos.



Allan Soo

Soo said there were a few foreign investors that had purchased high-end condos in the inner city on an en bloc basis.

“We believe there will be more of such large-scale property purchases this year, especially by parties from the Middle East,” he said.

Moreover, he believes Malaysian property sector would remain healthy, supported by strong local and foreign demand for residential properties and the Government's pump-priming exercise via the Ninth Malaysian Plan.

Henry Butcher (M) Sdn Bhd chief operating officer Tang Chee Meng expects the property market to remain stable this year as long as the economy and the stock market do not take a turn for the worse.

“We believe the high-end condominium market could see a period of rationalisation and consolidation as a few more condominiums in the KLCC area have been completed,” he said.

He said the ease in renting out units and the rentals they fetched would have an impact on whether strong foreign interest would continue.

“This is because actual achieved yields will determine if investors are prepared to pay the higher prices being quoted by the developers and sellers,” said Tang.

However, he noted that low medium and medium-cost segments might see a slight softening as people's disposable incomes could be affected by the rising cost of living due to escalating crude oil prices.

“As for the office sector, if the economy is able to achieve the Government's projected growth of between 5% and 6%, we should continue to see improvements in the services sector which will help drive occupancy rates and rentals,” he said.

Tang also said that as capital values had moved up, some institutional investors seemed to be prepared to look at capital appreciation and long-term yields. “We think some building owners may be tempted to cash out so we might see more office buildings changing hands in 2008,” he said.

On the retail sector, Tang said it was likely to go through a period of consolidation as the market digested the new additional supply of retail space added to the market in 2007.

“Perhaps the availability of better quality shopping centres will help attract more tourists to the country,” he noted.

Tang said there were a few areas of concerns that might have a strong influence on investor sentiment.

He said the sub-prime woes in the US had not abated and the full impact of the problem appeared to be still unfolding. Coupled with a significant jump in crude oil prices over the past year and the troubled US economy, this has dampened market sentiment around the world, including Malaysia.

“If an acute recession occurs, it could have a major impact on the global economy, especially for economies like China and Malaysia which depend

heavily on exports to the US," he said.

However, most economists predict that although the Malaysian economy could slow down, it would still enjoy positive growth (possibly 4% to 5%).

Being a net oil exporter and buoyed by strong prices for commodities like oil palm, the country should be able to weather any slow down in the US without being too adversely affected, according to Tang.

"Our property market will be affected to a certain extent. It could slow down but is unlikely to spin into a downturn.

"We are still receiving interest from overseas investors wanting to purchase commercial and residential properties because in their view, our property prices are still cheap compared with other countries in the region. They expect that there could be room for further upward price adjustments in the future," he noted.

Would the Government's pump-priming activities under the Ninth Malaysian Plan (9MP) be sufficient to support the local property from an acute recession?

Tang said the Government had launched initiatives such as the Iskandar Development Region, Northern Corridor Economic Region, Eastern Corridor Economic Region and most recently, Sabah Development Corridor.

"If the Government's budget allocation under the 9MP is speeded up, it might help offset a severe fall to a certain extent. However, our domestic demand may not be big enough to mop up the excess properties and Malaysia would still need to turn to other countries in the more prosperous Asian region to help boost the economy," he said.

What other measures are needed to boost the property sector?

Tang said the Government could come up with more incentives to attract foreign investments in the Malaysian property market such as reducing withholding tax for real estate investment trusts (REITs) and introducing more incentives for the REIT industry so that it would be able to compete with countries like Singapore.

"Although foreign investors do not need to apply to the Foreign Investment Committee (FIC) for approval, they still need to apply to the relevant state authorities. The Government can help to streamline the

process and make it more convenient and faster to secure the state authority's approval," he said.

Tang said market sentiment towards the property sector as well as the market had improved substantially because of the measures taken.

"For instance, with real property gains tax and FIC exemptions, high-end residential properties in KLCC, Bangsar and Damansara Heights areas have experienced a significant jump in sales, especially from April to August 2007," he noted.

Tan said projects struggling with slow sales in 2006 saw a dramatic improvement in sales take-up as there was an influx of foreign investors attracted by the lower prices of residential properties in Malaysia compared with other major cities in the region.

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