

16 June 2008: Property: Sales of properties take a dip

by Yeong Ee-Wah

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Brace for prices of new properties to go up — the rising cost of building materials will translate into more expensive real estate. Allan Soo, managing director of Regroup Associates, says: "Prices would definitely go up, since the cost of materials shot up so high. For example, if you buy land for more than RM1,000 psf around the Kuala Lumpur City Centre (KLCC) area, you would need to sell it for at least RM1,000 plus psf. Prices will definitely be reviewed upwards, but we don't know how the market will react," he says.

With the cost of living creeping upwards, some would see it as a good time to buy property as a hedge against inflation but Soo says that "anytime is a good time to buy."

"It is quite difficult to time it. If you buy now, it is definitely a good strategy, depending on the type of property of course," he adds.

According to Soo, 1Q2008 was a period of weakening, where the market was indecisive, with a lot of enquiries, but no commitments. In this quarter, Soo says the market can expect more large institutional transactions in selected prime sites and en bloc sales in the residential market in the Klang Valley.

"We expect large ticket sales with at least two en bloc sales for condominiums around Kuala Lumpur City Centre, one of which has probably been transacted but hasn't been announced while the other has been offered and is being negotiated," he says. He adds that institutions are now keen in long-term investments and returns, instead of looking at basic speculations.

Presenting The Edge/Regroup Klang Valley Housing Property Monitor for 1Q2008, Soo feels the general market sentiment is definitely weak. "It has virtually evaporated from the gung-ho days of 2007, but not as drastic as other regional markets. We still have a reasonably good tenancy market," he says, adding that the market is still cheap, yields are high and it is not oversupplied.

Following a softening in the Klang Valley housing market in 1Q2008, Soo expects prices in the secondary market to move southwards. "It is a buyer's market but there are not many buyers because they are holding back due to uncertainties. Although sentiment was generally still good, many agents saw a slowdown at the beginning of this year, in stark contrast to the euphoria of 2007, where many sold multiple condominium units to foreigners at above RM1,000 psf," says Soo.

"The market seemed to have all but evaporated in 1Q2008. Agents ascribed it mostly to a hesitation in making decisions, probably because of the festive season and probably in anticipation of some market consolidation. Certainly, foreigners were not pouring in to snap up units like they did last year," he says.

Late last year, new foreign buyers were seen entering the market, observes Soo.

"There were foreign buyers from Bangladesh, Pakistan and Russia. These people are not much affected by the oil price and credit crunch. It is possible they will continue to come here," he says, adding that these foreigners are starting to buy lower scale projects outside KLCC. One such location is Subang Jaya, which saw high-rise units being picked up by foreigners, mainly from South Korea and Bangladesh.

"Koreans have been known to buy properties all over the place, while Bangladeshis started out in the KLCC area. Similarly, Pakistanis used to buy in the KLCC area but not anymore," he says.

From the data sampled, secondary market prices have dropped in certain prime areas. For example, 1-storey terraced houses in Taman Tun Dr Ismail's (TTDI) Abang Hj Openg decreased by 1.30% from RM445,000 in 4Q2007 to RM439,000 in 1Q2008. There was also a drop in capital values in Athinahapan, another part of TTDI, where prices of 2-storey linked houses fell 2.20% from RM741,000 to RM725,000.

"TTDI is normally a hot place. In one or two cases, however, the values dropped due

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to the quality of the house. The decrease in capital values in this area is purely due to selective demand and buying, with buyers being more choosy," says Soo.

Other places that experienced a drop in values include 2-storey terraced houses in USJ 4, Subang and condominiums in Bandar Sri Damansara, KL and Taman Tun's Kiara Park. "This is not necessarily an indication of the trend of prices in these areas, as some others were still seeing an uptrend. But transactions have slowed down and sub-sales have been difficult in 1Q2008.

"For example, houses above RM350,000 in places like Subang were difficult to sell. Nevertheless, the secondary market in the Damansara Heights area pushed prices for units in One Menerung to RM1,000 psf, perhaps suggesting that locals still believe in the traditional favourite locations," adds Soo.

Rentals for 1-storey terraced houses remained stable, with increases seen only in Bandar Kinrara and Puchong Perdana, both climbing up 7.70% from RM650 in 4Q2007 to RM700 in 1Q2008. For 2-storey terraced houses, rental rates remained stable in most areas, with the highest increase shown in Bangsar at 8%, climbing from RM2,500 in 4Q2007 to RM2,700 in 1Q2008.

Where high-rise properties are concerned, rental took a dip for Menara Damansara in Damansara, Selangor, moving 6.30% from RM800 in 4Q2007 to RM750 in 1Q2008.

Kiara Park in TTDI, KL, saw a decrease of 4.20%, dropping from RM2,400 in 4Q2007 to RM2,300 in 1Q2008. In contrast, there was a 7.10% increase in rents at Cascadium, Bangsar, increasing from RM2,800 in 4Q2007 to RM3,000 in 1Q2008.

In conclusion, although the market mood is cautious, Soo says there are some areas where "you can still do good things", for example, in the retail and office sectors. "As for the residential sector, well, everyone's been there already," he adds.

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