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Property sector to correct

The steep increases seen in the last two years expected to sputter to a halt on weak global sentiment

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Lau: 'Demand for prime office buildings held up well last year.'

Koh: 'Properties will have to be sensibly priced.'

Leong: 'The high-end sector will be more challenging.'

THE overall weak global sentiment is expected to cast a pall over the property sector, which is expected to undergo some downward correction next year, agents, property consultants and developers say, with the steep increases seen in the last two years sputtering to a halt. Virtually all segments of the property market will be affected.

International Real Estate Federation (Fiabci) Malaysia president Yeow Thit Sang says the slowdown, though gradual, will be seen in the pricing and take-up rate of all housing segments, particularly more so in the high-end category.

"Whether it is Penang or the Klang Valley, we don't have that many multinational companies coming in to occupy some of our high-end properties. Rentals with yields of between 6% and 8% are no longer achievable," he says.

This slower rate of growth is expected to be more apparent after the new ruling by Bank Negara kicks in. Effective Jan 1, new lending guidelines require banks to use net income to calculate the debt service ratio for loan approvals.

The new guidelines cover all consumer loan products including housing loans, personal loans, car loans, credit-card receivables and loans for the purchase of securities.

While this latest round has the objective of reducing overall household debt, it will affect the property sector, a branch manager of a local bank says.

Previous lending guidelines capped monthly mortgage repayment at 1/3 of net pay instead of gross pay. This new ruling, and the requirement to have a 30% downpayment on the third and subsequent property, introduced in 2010, will result in the banking sector being more stringent when it comes to mortgage loan approvals. The reimposition of the real estate property tax, at 5% flat within five years of purchase, was another measure to curb speculation.

These measures, together with the global concerns over the United States and the eurozone, will affect sentiment. However, there will be opportunities in the affordable housing segment, which is part of the Government's Economic Transformation Programme.

Says Ireka Corp Bhd executive director Lai Voon Hon: "We see strong growth potential in these 'under-served' sectors such as mid-market residential and commercial as well as 'green' developments located close to infrastructure nodes. Market movement in recent months had observed major developers acquiring parcels of land outside the Klang Valley such as in Kajang, Semenyih and Nilai which are destined to be the next "hot spots".

"With 65% of the Malaysian population falling under 35 years old, we trust that the demand will pick up as consumer confidence recovers. Close to 10 million people are expected to work, live, learn and play in the Greater KL metropolis by 2020.

"Burgeoning young and middle-class population also means the demand for mid-market properties will remain steadfast," Lai said, adding that the mid-market will receive strong support in terms of demand, and this will be Ireka's primary focus in 2012.

Office space demand

Year	*Average New Supply (sq ft)	Assumed Take-Up Space (sq ft)	Occupancy Rate
2012	7,100,000	2,000,000	74%
2013	7,100,000	2,250,000	71%
2014	7,100,000	2,500,000	69%

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Other developers to move into affordable housing include the Sime Darby group and Mah Sing group. Sime Darby recently launched affordable housing in Bandar Ainsdale in Seremban. Mah Sing Group Bhd, too, is moving away from high-end housing to go into the affordable housing segment.

Mah Sing group managing director and group CEO Tan Sri Leong Hoy Kum says: "The high-end sector, both landed and high-rise, will be more challenging with the RM4mil and above units taking longer to sell."

Ireka's Lai says the company will be developing a 28-acre freehold land in Bandar Nilai Utama, Negri Sembilan into a trendy mid-market neighbourhood, consisting of landed houses and apartments. Another five acres of prime land in Kajang will be developed into a mixed development. consisting of two mid-market apartment blocks and a retail precinct.

Ireka will also embark on a modern industrial park development on its 21-acre freehold land in the established Sungai Chua industrial area near Kajang.

Aside from these three mid-market developments, in the pipeline is the launch of its boutique hotel and serviced residences project in Jalan Kia Peng, within the Kuala Lumpur City Centre (KLCC). This 30:70 joint development project between Ireka and Aseana Properties Ltd is slated for launch in the second half of next year.

On the overall market, Lai says launches and sales take-up rate will be generally slower. However, Malaysia's property sector (will be) resilient, he says.

Property consultant DTZ Debenham Tie Leung's executive director Brian Koh says "properties will have to be sensibly priced" with smaller units (if they are condominiums), selling better than larger ones. DTZ will be launching Naza TTDI Sdn Bhd's Platinum Park around the KLCC area next year.

Over in the office segment, the current glut is expected to persist into next year which will put pressure on rentals.

The overall view of property professionals is that the office market in Kuala Lumpur will remain soft next year unless the global economy recovers sufficiently to spur business expansion to take up the current supply in the city. With the eurozone the way it is, that seems unlikely.

Y. Y. Lau of YY Property Solutions expects Grade A office buildings in KL (existing and new) to face intense competition to secure tenants next year.

"Demand for prime Grade A office buildings held up well last year. But we are expecting an estimated five million sq ft of office space to come onstream in the Kuala Lumpur Commercial Business District and city fringes by end-2012, with KLCC and the Golden Triangle area providing over 90% of the new supply in the first half of next year. "In the second half, the bulk of the supply will be coming from the fringes of Kuala Lumpur.

"We opine that KL Sentral, Bangsar South and Mid Valley City will play a catch-up game in attracting eminent companies seeking MSC status and green building features, as well as conveniences in terms of availability of public transportation, ample eateries and amenities, and upgrading of corporate image. Good building quality and property management services provided are expected to attract companies to set up its businesses here," Lau says.

There will be opportunities in the affordable housing segment.