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What's in store for 2011?

BY CHEAH CHOR SOOI

From pockets of bubble that led to the mortgage cap of 70% for third and subsequent property loans to Prime Minister Datuk Seri Mohd Najib Tun Razak's Economic Transformation Programme (ETP), what actually does 2011 have in store for the local property sector?

Malaysian Business seeks the views of various industry experts:

Datuk Michael Yam, President of the Real Estate and Housing Developers Association (REHDA)

The outlook for the property market in 2011 is positive. Our view is that the follow through momentum in 2010 will continue into 2011 and will be as good if not better than 2010. This is based on the premise that 2010 and 2011 would be 'catch up' time for buyers who had hesitated or deferred in their buying decision in years 2008 and 2009 due to the earlier fear factor caused by the global financial crisis and uncertainty of the Government's performance.

Obviously the market in 2011 can also be dampened by negative global economic factors. If the economic growth in developed countries deteriorate further, this will affect Malaysia, too.

Speculation activities, if any at all, are very much limited to certain prime areas in the Klang Valley – minimal capital appreciation, subdued yields and the 70% loan-to-value (LTV) ratio will continue to be the main factors driving away speculative activities.

The property bubble phenomenon only applies to selected locations where there is currently scarcity of land, and hence is not a nationwide trend affecting the entire property market.

The LTV serves to eliminate marginal or weak speculators from riding on the crest of the wave and is a good pre-emptive move. For investors and even speculators with deep pockets and a long-term view, it will still not deter them from buying. Thus, its impact to the property market may not be that significant especially when speculative activities in Malaysian properties have been very limited in the first place and even then in two or three hot spots in the country.

This policy on LTV ratio may need to be reviewed and fine-tuned since there may be multiple unit buyers who are genuinely investing for their extended family or future generations in outlying towns or rural areas where speculation is totally absent. This evaluation may be best left to the prudent appraisal of the lending banks.

Ngian Siew Siong, Managing Director (Property Development Division, International) of Sunway City Bhd

2010 was indeed a good year due to the return of market confidence and easy payment schemes by developers. Hence, we remain optimistic of the market outlook for 2011. Moreover, we do not think that Malaysia will experience a property bubble due to the limited supply of land in prime areas and availability of liquidity at the banks and institutions such as the Employees' Provident Fund (EPF).

While the 70% cap on loan-to-value (LTV) ratio will affect the property market, we do not foresee it to have an adverse impact. We believe buyers will continue to search for quality properties as they remain a safe and solid asset class.

In comparison to other regions, Malaysia has not experienced such a vast increase in pricing for landed residential properties before.

Despite Malaysia working towards being a high-income country and the general income of Malaysians increasing over the years, the price of developments have been increasing gradually and those with high appreciation is limited to landed properties in prime locations.

As to the issue of affordability, it firstly depends on the location of the property. There are still affordable properties out there, depending on the location of choice. Spots like Shah Alam, Cheras and Puchong/Kinrara will definitely fetch a more affordable price in comparison to Kuala Lumpur or Mont' Kiara.

Property prices are determined by two factors – land cost and development cost. The country has been witnessing an increment in the cost of land over the years as the availability of land has reduced while the material cost for development has seen a rise lately. Scarcity of land in city centres will also affect property prices.

Datuk Low Eng Hock, Chairman/Group Chief Executive Officer of Ivory Properties Group Bhd

The Rabbit will be resting in its burrow and the property market will be flattish with minor changes in prices of property.

Coupled with rises in interest rate and the few months of uncertainty pending Bank Negara's 70% loan-to-value (LTV) ratio, the buying mood had been somewhat subdued with most buyers adopting a 'wait and see' attitude.

Likewise, with skyrocketing prices of residential properties in choice areas such as Klang Valley and Penang island, potential buyers are very careful in committing to new purchases.

It might be an unexciting year for the properties market and only responsible developers who are able to deliver quality homes with reasonable prices within the range of affordability will still be able do well.

The property bubble phenomenon does not look so widespread but more of the realisation that development land in choice areas are becoming scarce. With cheap funding available between mid-2009 and mid-2010, and the hedging mentality of holding assets which in the long run will give better capital return than holding onto cash, there was a rush to switch to longer terms asset holdings.

The issue on hand is not a matter of 'speculative interest' as most of the buyers of these high-end houses are from the higher income group (rich Malaysians who work and live aboard or foreigners who find Malaysia properties cheap) who are able to afford to at least service their loan commitment.

So the question of 'speculation' will remain an enigma as we are unable to quantify the existence of such buyers and the depth of their pockets.

The other question is not whether the property bubble is 'widespread' or 'limited' (as with so much development land available) but how big is the property bubble or is there even a property bubble.

Ho Wen Yan, Chief Executive Officer of Hua Yang Bhd

The current low interest rates, favourable bank lending (ample liquidity) and plenty of product choices should drive good sales next year. Recent government efforts such as the 50% stamp duty exemption on instruments of transfer and full loans for those earning RM3,000 and below for properties below RM350,000 will help promote home ownership. We hope to benefit from this as most of our properties are within the RM180,000 to RM 400,000 range.

In terms of supply and price cycle, we believe 2011 will see an up-trend, especially in the RM500,000 market segment and below.

The current market overheating situation is only limited to selected products and in selected locations. This is due to the mismatch between supply of homes and demand of homes in terms of geographic location and price. However, in terms of speculative activity, we are still far behind other markets such as Hong Kong and Singapore.

The loan-to-value (LTV) ratio mortgage cap is just one of the many instruments available to Bank Negara to curb speculative activity. The LTV is likely to affect a small group with a vast majority of homebuyers in Malaysia being either genuine owner-occupiers or first time buyers.

The problem with affordable housing is only acute in some areas such as in the Klang Valley and Penang Island. Outside these areas, developers continue to supply housing in all segments.

However, this does not mean there are no affordable homes in urban areas. Hua Yang's developments such as Symphony Heights in Selayang and Taman Pulai Indah in Johor Bahru are priced from RM 180,000 onwards – very much within the affordable range.

Foo Gee Jen, Managing Director of CH Williams Talhar & Wong

Generally, we anticipate the market will be moving up in 2011 for landed properties although the rate of increase will be slower than 2010. Shop offices with good frontage will also be moving up but prices of shops in secondary locations may dip. We also expect prices of non-landed properties to remain flat in 2011.

Overall, 2011 will still be a seller's market with more buyers chasing prime properties than there are available opportunities.

Some over-heating of property market has been observed especially in the gated and guarded developments segment where some prices have shot up 10% to 15% within a short space of six months.

However, this does not appear to be widespread and so long as price increases are partly keeping pace with inflation and is supported by overall economic growth, we need not be overly concerned.

While Bank Negara has imposed the maximum loan-to-value (LTV) ratio of 70%, our opinion is that an over-heated residential market is a problem that should be tackled on a co-ordinated basis on several fronts and by relevant government departments (for example, the Ministry of Housing and the Inland Revenue Board).

The IRB could impose stamp duty on houses bought and sold within three years (payable by the vendor) while the central bank can also introduce additional measures to curb 'excessive investment and speculative activity' such as:

- Requiring buyers to prove they actually live in the cities in which they are buying.
- Increased provisioning requirements for housing loans featuring 'teaser loan rates' (home loans with an extremely low interest rate for a fixed number of years after which the rates tend to shoot up). Such loans are more prone to the risks of default in the long run when interest rates get more expensive.

Tan Sri Leong Hoy Kum, Group Managing Director of Mah Sing Group Bhd

The property market has done well in 2010 and we think it is sustainable for 2011 as the current buying pattern is backed by fundamentals of the economy and purchasers.

The Government's Economic

Eric Chan, Executive Director of Eastern & Oriental Bhd

The outlook is positive for the short- to medium-term with impetus provided by the Government's Economic Transformation Programme (ETP). With the efficient and effective implementation of the ETP, we should see enhanced infrastructure and connectivity which will elevate the overall attractiveness and livability of Malaysia, hence driving the demand and supply for Malaysian properties.

There are various factors contributing to the rise in property prices with the escalating cost of raw materials being one of the primary reasons. With Malaysia being increasingly marketed to the world, foreign demand for our local supply is growing steadily.

Transformation Programme, and high impact projects like the Mass Rapid Transit (MRT) and Greater Kuala Lumpur will also drive property demand moving forward. Barring any external shocks, we are cautiously optimistic that the property market should continue to do well in the short and medium term.

We do not see a strong risk of a property bubble happening yet and there is no sign of overheating. The price increase in properties has not been broad based, but demand driven and rather selectively in prime locations.

New launches are concept and lifestyle driven, and has been designed to fit current market needs. For example, residential properties with large built ups are popular to house three generations under one roof. Security has become a top priority and that is why gated and guarded projects are doing very well now.

In terms of affordability, we see two buying patterns; the first group is willing to pay a premium for properties in well-planned townships in prime locations with good amenities and easy accessibility.

Then there is the second group who does not mind a slightly longer travelling time and is willing to stay in the suburbs. In this case, developers should ensure that their (township) developments are still well-connected via trunk roads and expressways.

Notwithstanding the higher prices today, Malaysian properties remain the most affordable in the region.

'Affordability' does not necessarily mean cheap. The issue of 'affordability' relates to two key elements: price levels and income levels. Price levels have indeed been pushed up by inflation, rising raw material cost and the increasing requirements of more discerning buyers.

For the record, developers' margins have not increased significantly in the past decade contrary to popular belief. The other variable component of 'affordability' – income – needs to be shored up and in this regard, the realisation of the Government's plan to transform Malaysia into a high-income nation is certainly a positive step to reduce the property price-income gap in the future.

Christopher Boyd, Executive Chairman of CB Richard Ellis (Malaysia) Sdn Bhd (formerly Regroup Associates Sdn Bhd)

Generally, my prediction for 2011 is that the rabbit will enjoy all those green shoots that sprouted after the global financial crisis and which have now grown into thick vegetation!

I believe the surge in landed property prices in the Klang Valley will begin to level off, although there will still be further gains in 2011. The surge was partly the result of developers 'turning off the tap' in 2008/early 2009 when the future was unclear.

The resultant supply squeeze drove prices up and at a time of uncertainty created renewed confidence and a price spiral which we believe will ease off as more supply comes onto the market and a new equilibrium is found. Supply is certainly increasing again, and this will be a moderating influence on the ability of the housing market to regulate itself effectively in the medium term.

While all this was going on, the market for luxury high-rises continued to be muted by heavy supply in certain areas such as KLCC and Mont' Kiara, and we believe this will continue to be the case next year.

I think the public has missed the point of the 70% loan-to-value (LTV) ruling. It was surely not intended to cool the market but was targeted at the hot-headed individuals who may be over-extending themselves and getting into debt way over their heads.

Affordability is an issue and we are now seeing a trend where buyers' equity is increasingly borrowed from among family members. We need more products aimed at young first-time urban buyers. It would be a pity to see a situation similar to the UK where the average age of the first-time buyer is now 39 years old!

As in Hong Kong and Bangkok, we are probably going to see more and more small city apartments being built. Hopefully, these will be close to existing and proposed light rail stations where planners can give some dispensation on car parking provisions.

Chang Kim Loong, Honorary Secretary-General of the National House Buyers Association (HBA)

We believe there will be more unsold units because of the frenzied rate of development during the past one to two years. The intense escalation of prices has enticed more players to launch new projects. House prices may not drop tremendously but sales will slow down.

The bursting of the property bubble is unlikely but certainly a slow down will be more pronounced in the present hot areas that had seen highly speculative gains. Such 'unholy alliance and ill-conceived collaboration' between errant/conniving developers with groups with vested interest (appointed valuers and the participating banks) must cease.

People buy on the premise that the economy is growing or alleged to be increasing and glowing. In an event of a downturn, it would trigger a snowball effect.

We believe that the present condition whereby only third loans are subjected to the 70% maximum is inadequate and ineffective to curb the frenzy upward trend of property prices. Speculative syndicates are not deterred by the 30% loan margin limitation. They have sufficient roll-over funds from previous sales to make further purchases.

With the present progressive payment system, it would take a while before the disbursement reaches above 30%. If the property can be flogged off before that stage, then in effect, bank loans need not kick in at all. We believe the real property gains tax (RPGT) is a more effective tool to curb speculators.

We strongly believe that the cost of such a life essential item like a roof over one's head should not be left to market forces. It should be price controlled much like the price of essential goods such as flour, sugar, cooking oil, rice, fuel, etc. The repercussions whereby a large section of the community is being deprived of affordable housing is serious and far-reaching.

The affordability of house ownership is becoming more and more an elusive dream to the present generation. Controlling the upward spiral of property costs is not in the interest

A bird's eye view of the robust development within Bandar Utama in Petaling Jaya

SINGAPORE, HONG KONG, CHINA AND INDIA HAVE IMPLEMENTED VARIOUS MEASURES TO COOL DOWN THEIR OVERHEATED RESIDENTIAL SECTOR

SINGAPORE	HONG KONG	CHINA	INDIA
◆ 70% margin cap on second home purchase ◆ Stamp duty imposed on homes bought and sold within 3 years	Raised stamp duty on luxury home transactions	◆ Raised minimum down payment requirements ◆ No loan for third home purchase	80% margin cap on all housing loans
22,000 new public homes to be built in 2010	Clamp down on developers' sales tactics	Buyers to prove they actually live in the cities in which they are buying	Five times increase in loan provisioning (0.4% to 2%) for home loans featuring 'teaser loan rates'

of housing developers. In fact, they certainly favour it. It would be totally unrealistic to expect any developer to be interested in bringing down property prices.

Truly serious about halting the crazy escalation of property prices, Singapore has promptly put in place an elaborate and practical system to curb such phenomenon. And they have the administrative resources and more so the political will to see their effective implementation.

On the contrary, our authorities seem to have a mindset whereby we tend to dilly-dally and eventually come up with a one-size-fits-all policy. Enforcement is another issue.

Lai Voon Hon, Chief Executive Officer of Ireka Development Management Sdn Bhd

In the first half of 2010, the real estate market remained quite volatile but picked up momentum towards the second half of the year, especially in the residential sector. This was supported by low interest rate and liquidity in the mortgage market as well as rising confidence in the economy.

With Budget 2011 and the Economic Transformation Programme recently announced by the Government, the construction and property development sectors have received a much anticipated boost and we can expect to see higher growth in 2011.

Recently, the market observed an increasing number of merger and acquisition (M&A) activities between government-linked companies (GLCs) and private companies. This signals a greater win-win partnership that will create enlarged entities with stronger balance sheets. With the larger landbanks of merged entities, it is hoped that more affordable and quality homes can be built.

I do not foresee the loan-to-value (LTV) ratio cap to have a negative impact on the property market. Even before the introduction of this LVR cap, financial institutions have applied their own criteria and risk management when approving mortgages, which we believe are sufficient to regulate the market.

Barring any negative economic impact from the US and Euro zone, I am confident that the property market will perform better in 2011 as we see most sectors of the market having reached their bottom prices in 2010.

Come 2011, I also expect the Malaysian residential market to attract many buyers from overseas both for investment purposes and for 'Malaysia My Second Home' (MM2H) as property prices in certain countries in this region becomes more expensive.

However, the office and commercial sectors may remain largely subdued for most part of 2011 until the current new supply is taken up or until local and foreign business activities pick up after the global economic recovery. One exception could be the retail and resort hotels sectors, which continue to receive strong local consumer spending and strong growth in tourist arrivals respectively.

ENCOURAGING HOME OWNERSHIP AMONG MALAYSIANS

Aware of the challenges faced by young adults, the Government will introduce Skim Rumah Pertamaku through Cagamas Bhd effective January 1 this year.

The scheme provides a guarantee on 10% down payment for houses below RM220,000. Intended for first-time house buyers with a household income of less than RM3,000 a month, the buyer can obtain a 100% loan without having to pay the usual 10% down payment.

Additionally, first-time buyers will also be given stamp duty exemption of 50% on instruments of transfer on a house price not exceeding RM350,000.

Rohan Padmanathan (Executive Director and Head of Investment) and David Jarnell (Senior Vice President and Head of Research) of Jones Lang Wootton

Underpinned by Malaysia's rebounding economy (5.3% GDP growth in 3Q10) and positive GDP growth forecast (6% to 7% in 2010), the property sector outlook for 2011 is generally positive.

There is some concern that the high-end residential market could overheat purely due to many developers concentrating on high-end, expensive residences in the RM1.5 million to RM2 million bracket. The recent high growth rate of pricing is unlikely to be sustained in 2011.

In the second hand condominium market, some areas such as the KLCC locality, Mont' Kiara and even Penang Island could be prone to price re-adjustments next year.

Speculation in the high-priced residential market (where purchasers are buying directly from developers) will inevitably continue to fuel short-term capital appreciation across all price categories. The mass middle- and low-income earners could eventually be priced out of the market.

In addition to the implementation of a maximum loan-to-value (LTV) ratio of 70%, the government could up the current real property gains tax (RPGT) of 5% for property sold within five years of purchase to its pre April 1, 2007 rates which varied between 5% and 30%.

However, the introduction of such a "flip-flop" manoeuvre is likely to repel investors, particularly foreigners. The Government could, as in Singapore, place higher taxes (RPGT) and increased stamp duties on speculators who 'flip' residential properties within a year or two of buying them".

In Singapore, a stamp duty was also introduced for vendors thus curbing speculative sellers intending a quick profit over a short term. The Government may not just focus on demand suppression but also focus on increasing supply which will help mitigate price increases. This could include releasing Government land and entering into joint ventures with reputable local housing developers.

Lai Yeng Fock, Chief Executive Officer of New Age Portfolio Sdn Bhd (a boutique developer)

I personally find Year of the Rabbit exhibits positive and strong year for the property sector. This is because the banking industry has sufficient liquidity while the Economic Transformation Programme is capable of elevating per capita income.

It is a right move by the Malaysian central bank to curb speculation and to cool down the overheating property market. Government intervention should be encouraged instead of leaving it to market forces.

To control the spiralling property ownership cost, the government might want to consider granting some incentives to private property developers. Government incentives such as reducing stamp duty on transfer, tax rebates to property development companies and subsidy of interests on bridging loans are some examples to spur private property developers into building affordable houses.

Rajan Paramesran, Vice-President (Ratings) of Malaysian Rating Corporation Bhd

Among several factors, the outlook for the Malaysian property sector for 2011 will be closely linked to the pace of economy growth in the coming year. With the GDP expected to grow between 5% and 5.5% in 2011 – lower than in 2010 – the outlook is likely to moderate.

Another factor that would weigh on the property sector is potential regulatory action. Should the central bank's recent implementation to cap the loan-to-value (LTV) ratio at 70% on the third and subsequent mortgage financing does not quell what it perceives to be potentially speculative behaviour in the property sector, additional measures could be introduced.

These factors are, however, counter-balanced by a prevailing low interest rate environment and a favourable access to competitive mortgage financing, though financial institutions may have tightened their lending standards for property purchases in selected locations.

Accommodative interest rate – a major driver for property transactions – is expected to continue given the need to support economic growth. And with the quantitative easing policy of the US in force, the central bank may be disinclined towards raising interest rate sharply lest it may attract further liquidity inflow.

Thus, with the abundant liquidity in the system, the challenge for policy makers is to ensure property price increases are in line with supply demand dynamics.

Demand for high-end residential segment, particularly in the KLCC and Mont' Kiara areas in the Klang Valley, had remained subdued due in part to a large overhang and concerns on incoming supply. But relatively lower priced residential units, particularly landed properties, in the suburban areas in the Klang Valley, Penang and Johor had witnessed price increase of between 10% and 30% in the first half 2010, implying that affordability remains a key factor.

Dr Teoh Poh Huat, Director of Henry Butcher Malaysia (Penang) Sdn Bhd

The residential sector will continue to dominate the market. The higher end segment will continue to attract buyers' interests especially from foreigners and overseas Malaysians. Well-located, conceptualised and designed residential properties will continue to endear themselves to the market.

Branded projects with reputable names are expected to continue reporting impressive sales. Wealth from Singapore, Hong Kong, Indonesia and China is expected to roll into the Malaysian property market soon.

Research has revealed that the Malaysian property market as a whole has been relatively stable, resilient and attractive compared to many parts of the world. Penang in particular will attract investors interest from China given its proximity and greater connectivity between the Island state and Singapore as Chinese investors in Singapore have become a significant market segment. It is expected that such investors will soon put Penang in their radar.

Among others, affordability is always a function of income. It is inevitable that property prices over the years will show nominal increases in value arising from many factors including inflation, population growth and higher income while cyclical ups and downs are usually interpolated in between long-term growth trend. Affordability can be multi-dimensional.

From the supply dimension, planning authorities should encourage a multitude of sizes within a similar scheme to provide for different budgets. Plot ratios and densities should be increased to allow greater developments especially in brown field sites so that urban sprawling can be controlled and at the same time provide affordable homes in places that people want to live, for example, nearer to their places of work thus saving on transportation costs and travel time.

Chan Ai Cheng, General Manager of S. K. Brothers Realty (M) Sdn Bhd

The momentum built up from 2010 will carry into first half of 2011. On the whole, the market is still optimistic of the property sector. Shop office developments are in hot demand, properties in established areas like Petaling Jaya are still much sought after while bite-size units in prime areas are still the choice of many.

To a certain extent, I question the sustainability of property prices at several hot areas that are being associated with the overheating phenomenon. But they are limited to selected locations. At the end of the day, it boils down to the law of supply and demand.

As to the mortgage cap issue, I personally feel that it is best left to market forces to determine property acquisition. Certainly, people who have three or more property loans are buyers with experience. They are aware of their buying decisions and the consequences of their actions.

Property prices are definitely going up and it will be more and more difficult for young couples to own a home in established areas with their starting out pay package.

To a certain extent, property developers are assisting this group of buyers by providing easy entry packages, for example low entry, Developer Interest Bearing Scheme (DIBS), making the upfront cost manageable and instalment payments to the bank only when they take possession of the unit.

Some developer packages even include cash back upon completion, which helps out in the renovation of the unit. With these in place plus a steady job, the couple should be able to afford a new though small unit within an established locality.

However, it will be increasingly difficult for young couples to buy in the secondary market without some help (father-and-mother-fund) as the upfront cost would be a lot higher and not forgetting older homes do require more renovation works.

Tan Sri Dato' Yap Suan Chee, Managing Director of Melati Ehsan Holdings Bhd

We are confident and optimistic on the property sector in Year of the Rabbit. Real estate will remain the first choice of investment for investors and property development will still continue to contribute significantly to the economic growth.

This is proven by recent rising demand of property, in which residential properties have again become the preferred investment for investors who believe that investing in tangible assets is a sound choice.

We are of the opinion that the strong demand leading to price hikes is due to the prevailing low interest rates and easy availability of end-financing

scheme and ample liquidity in the banking system.

The concern over the real estate bubble or overheating, however, is exaggerated as the rising prices due to speculative activities are restricted to certain areas located in mature neighbourhoods, which offer futuristic living lifestyle/concept with readily available amenities and facilities within the Klang Valley, Johor and Penang.

Bank lending for property acquisition is based on the earning capacity and repayment capability of the borrowers in addition to various other assessment measures. If excessive tightening measures are introduced, they will have negative broad-based impacts on investors' confidence and market sentiments.

Moreover, the non-performing loans (NPLs) for property acquisition are low and the borrowing trend is being monitored closely by Bank Negara.

Senator Datuk Abdul Rahim Rahman, Executive Chairman of Rahim & Co

The global economy is expected to perform better in the second half of 2011. Thus, we expect the property market to move in tandem with the improving economy.

The trend of spiralling property prices is not worrisome because steep increases in prices have been observed only in certain locations for specific projects and certain types of residential properties. It is not a widespread phenomenon.

One valid observation is that steep price increases only occur in specific projects that are being sought after because of their strong branding and quality in Kuala Lumpur, Penang and Johor. This does not represent a bubble because such price hike is not experienced in the overall property market but rather triggered by isolated speculative activities.

With Bank Negara monitoring the situation, our banks have kept fine-tuning the loan-to-equity ratio depending on the earning capacity of the borrower to avoid non-performing loans.

The implementation of the loan-to-value (LTV) ratio of 70% is expected to moderate the excessive speculative activity in the residential property market, which has resulted in higher-than-average price increases in certain urban locations. While this measure will not stop prices from going up, it will at least cool the prices, thus enabling genuine house buyers to buy affordable houses at their preferred locations.