

## COVER STORY



# Is the worst over for the housing market?

STORIES BY KAMARUL AZHAR

The early 1990s are known as Malaysia's golden years. This is when the economy expanded at a rapid pace, driven by a thriving manufacturing sector that served as a pillar of growth and the huge rural-urban migration that fuelled the need for housing in the cities.

As a result, property prices increased the most during the early part of the 1990s. According to the Valuation and Property Services Department, house prices rose 25.5% and 12.2% in 1991 and 1992 respectively.

In 1995, house prices increased 18.4% and in 1996, they were up 12.9%. And then, the Asian financial crisis struck, crippling the property market. House prices went up by a subdued 1.9% in 1997 before crashing by 9.5% in 1998.

The property market did not recover in 1999 as house prices declined by another 2.4%. It only recovered in 2000, when house prices rose 6%. Over the first half of the Noughties, prices increased at a low single-digit rate.

The property market crash in 1998 caused many projects to be abandoned as developers could not service their debts as interest rates soared. At the same time, house buyers were having a hard time as they still had to service their mortgages although their properties were abandoned.

One major example of the effect of the Asian financial crisis on property projects was the Plaza Rakyat development.

The project was only revived recently after Kuala Lumpur City Hall took legal possession of the site from the original developer in 2013 and awarded it to another developer two years later — almost 20 years after work stopped at the site.

Now, many fear the same situation could happen again.

The years after the 2008/09 global financial

crisis saw the rise of a new breed of investors in Malaysia. These so-called "property flippers" fuelled the rapid rise in property prices between 2011 and 2013, to the extent that Bank Negara Malaysia had to intervene.

The Malaysian House Price Index rose 9.9%, 11.8% and 11.6% in 2011, 2012 and 2013 respectively, almost as rapidly as in the 1990s, before Bank Negara's ban on the developer's interest bearing scheme (DIBS) and other tightening measures put the brakes on the soaring property prices.

The rapid increase in property prices was worrying as it was not supported by a fast growing economy. Malaysia's economy has grown at an average of only 4.75% since the new millennium, a far cry from the heady 8% to 9% in the early 1990s.

While the Malaysian economy is not in a full-blown crisis, the slowdown is definitely giving many developers a headache. Developers have taken a step back to reassess their position — to continue with the planned launches or hold them for another year or two?

But will the property market rebound in another year or two? Have both the economy and property market hit the bottom? Or is the current slowdown only a precursor to something more devastating?

"Owing to the current weak economy, poor property market sentiment and tightening guidelines for banks, residential property prices in the secondary market have dropped by 5%. This year, residential property prices in the Klang Valley could see a single-digit drop. We also expect office prices to decline," says James Wong, managing director of real estate consultancy VPC Alliance (M) Sdn Bhd.

Malaysia's economy grew 4.2% year on year in the first quarter of this year, the slowest since the global financial crisis. While crude oil prices



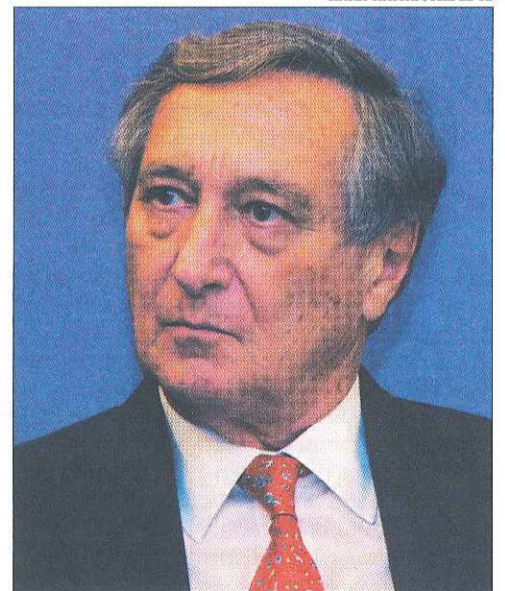
Wong: This year, residential property prices in the Klang Valley could see a single-digit drop

es have risen to about US\$50 per barrel, this is still far from the US\$100 per barrel seen in 2013.

At the same time, household debt continues to inch up. In its Financial Stability and Payment Systems Report 2015, Bank Negara states that the household debt-to-gross domestic product ratio in 2015 was 89.1%, compared with 76.1% in 2011.

According to Christopher Boyd, executive chairman of the real estate services provider Savills (M) Sdn Bhd, real estate will improve by the end of the year or early next year as there is still a lot of pent-up demand across the board.

"There is a slowdown in the property market, but some launches have been very successful. The launch of Nordica Residences @ Gravitas by Mitraland — serviced residences priced between



Boyd: There is a slowdown in the property market, but some launches have been very successful

RM400,000 and RM500,000 in Klang South — received great sales response," he says.

However, he notes that the sales of properties in the RM1 million to RM1.5 million price range have been very slow. Nevertheless, the housing market generally has reached its bottom as developers responded quickly when it started to slow down.

According to the National Property Information Centre (Napic), the volume of property transactions (residential and non-residential) declined 5.7% last year while total value dropped 8% y-o-y to RM149.9 billion.

This is still a manageable decline, unlike the plunge in 1998. In that year, the volume of

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