

THE MALAYSIAN **PROPERTY** MARKET: A **VIEWPOINT**

by

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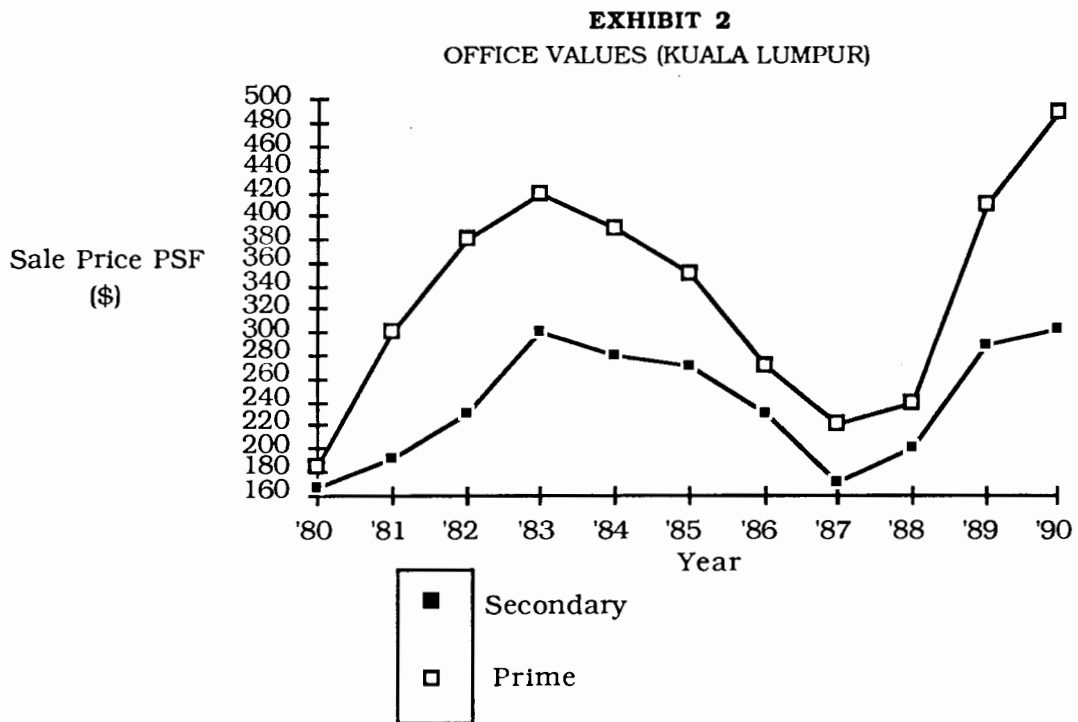
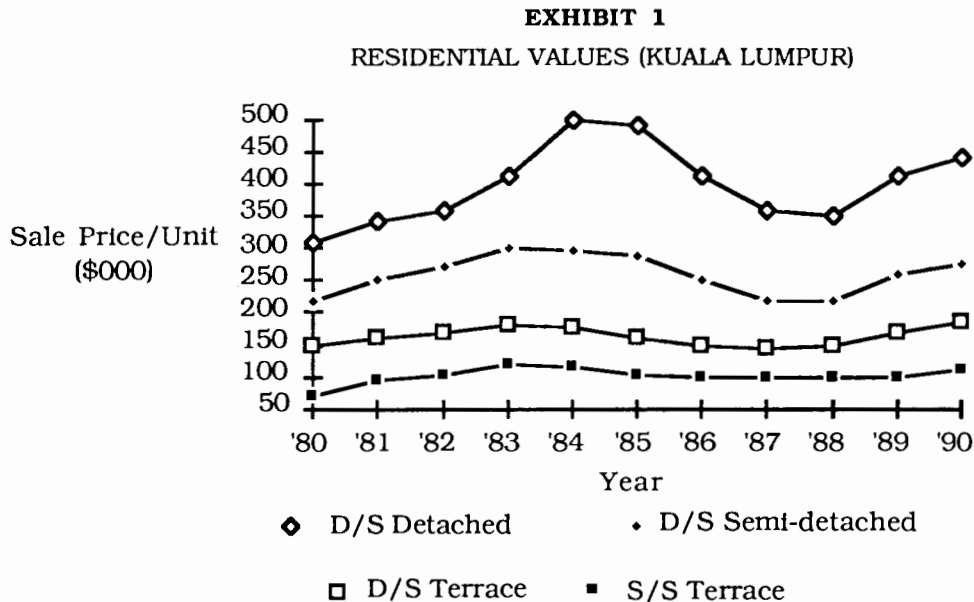
1.0 Introduction

The property market in Malaysia, as with other countries are cyclical in nature. They are positively correlated with the movements and the performance of the economy. Over the past thirty years, the Malaysian property market has endured three market cycles, and now we are on the upswing of the cycle. The first "boom" between 1963 and 1964 was mainly the result of a high output and value of primary commodities in the international market. Price stabilized in the ensuing years until 1969 when political chaos resulted in an uncertain economy until 1971.

The promulgation of the Second Malaysia Plan in 1971, triggers the recovery of the economy and we experience the second "boom". Rapid expansion of the public sector, finance and business sectors occurred, fuelled by strong commodity prices, mass rural-urban migration and the increasing purchasing power of an expanding middle class. It is also important to note that during this period (1971-1973) the government introduced the principle of 'property owning democracy'. This, coupled with the introduction of subsidized housing loans to civil servants, revived the confidence of property developers and owners throughout the country who then embarked on massive housing developments.

The continuous growth in the property market from 1973 onwards was checked by a short spell of recession in 1974 due to the global spiralling of oil prices. Thereafter property prices continued on an upward trend attributed by Increased cost of labour and building materials. This leads to the third boom in the period of 1980 and 1983.

The graphs in Exhibits 1 and 2 below illustrate the movement of residential and office prices for the period 1980 to 1990.



The boom of the early 80's namely 1981 and 1982 were the climax pushing property prices to its highest level that is almost impossible to maintain. The high property prices during this period are a result of several factors such as the overall shortage of supply, an active speculative market, favorable economic condition giving rise to effective borrowing and a general acceptance to property as a medium of investment. The "too" good or perhaps the "too" favourable condition have attracted excessive demand and help jack-up prices.

The excessive demand attracted many suppliers to come in and supply property into the market. At the end of the day the inevitable happens, i.e supply overshoots demand and with the reduction of financial incentives, the market heads towards a slump. Couple with the unfavourable economic condition the change downwards in values were drastically felt by investors. In certain circumstances the drop in property values is as high as 30%. The sluggish market had resulted in about M\$ 8 billion worth of unsold and unoccupied properties in the country.

2.0 Legal Aspects

Land in Malaysia is being looked upon as an institution, and the National Land Code 1965 provides a comprehensive guidance covering all land matters, with the State and the local authority as the governing body.

The State governments are responsible for alienation and foreclosure while the local authorities are responsible for the execution of policies through planning and control. In this process, State and local authorities may come up with several Enactments or Orders such as "Enakmen Wakaf" (Endow) and various bye-laws.

It is also important to note that there are several other Acts that contributes in the overall governing of land matters. Example of this includes Land Conservation Act and Forest Reserve Act.

3.0 Property Taxation

Property ownership are also subject to various land based taxes. Amongst others, Property Gains Tax are charged on gains made from the sale of property disposed within 5 years of acquisition. Stamp duty are imposed on the sale or transfer of property, and rating (a form of local yearly tax) are levied on all property within the administrative area of the local authorities payable by the property owners.

4.0 Players in The Malaysian Property Market

There are three categories of people that subscribe to property in the market. They are speculators, investors and owner-occupiers.

Speculators are those who comes into the market with a short term horizon, expecting to make a quick capital profit.

Investors acquire property with the hope of generating periodic income for a considerable period of time and owner-occupiers as the term implies are those who buy properties in view of a long period of holding.

As of late 1987, the National Land Code was amended resulting in many foreign investors coming into the country to participate in the vast and attractive property market. These foreign investors came in the form of individuals or institutions more of a speculator and investor as described above. Property acquisition by foreign investors however must first get the approval from the Foreign Investments Committee (FIC) who overlooks their overall activity.

5.0 Financial Requirement

As with any other property market, the financial requirement needed to participate in the property market in Malaysia is large. To date facilities provided by the commercial banks and financial institutions for residential investment suffice the requirement of the general public. Civil servants on the other hand are having a slightly better opportunity of getting financing for residential investments from the government with a very low cost of borrowing.

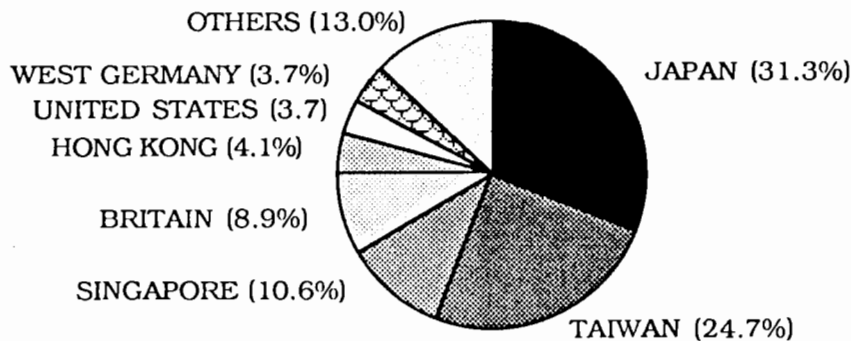
With regard to foreign investors in the residential market, they started coming in as early as January, 1988 with 70% borrowing provided by the local financial institutions. However this facility changes every now and then, going down to 50% in 1989 and 0% today. The actions of the FIC by reducing this borrowing facility could be deduced to reflect the condition of the market and the extent of an acceptable foreign participation in the local scene.

6.0 Development And Investment Opportunities

The Malaysian economy is now the envy of many countries and a serious rival to the other ASEAN countries as an investment center. Similarly, the property market is now the focus of attention. Apart from having good and workable infrastructure facilities, Malaysia offers a wide range of good quality labour at a relatively low cost.

GDP growth was some 7.6% in 1989 and for the year 1990 is around 7.2%. These figures alone do not tell much about the market, however approvals for investments in new industry last year were a staggering M\$12 billion, an increase of 33% from 1988. Foreign industrial investments accounts for M\$8.6 billion of this total. The chart in Exhibit 3 below, shows the source of these investments with Japan in the lead followed by Taiwan.

EXHIBIT 3
FOREIGN INVESTORS IN THE MALAYSIAN
PROPERTY MARKET



Given the economic scenario, it is not surprising that the property market offers abundant opportunities which is increasingly recognized by overseas investors and developers.

During the long dark recession years of 1985, 86 and 87, when the market was burdened by an over-supply of almost every type of property and the development industry was put to a halt, it seemed inconceivable that it could ever recover, let alone to the extent that it now has. Even the change in legislation in early 1987, allowing 100% foreign ownership, did not seem to be having much impact.

The market remained sluggish until 1988 when some enterprising Singaporeans first spotted the opportunities present in the low-priced but fundamentally strong ringgit, cheap property and a recovering economy. Next into the market were the Hong Kong investors and in the second half of 1989 saw most enquiries coming from Japan. The table in Exhibit 4 below, shows major transactions involving foreigners in the past 3 years.

EXHIBIT 4

TRANSACTIONS INVOLVING FOREIGNERS IN THE PAST 3 YEARS

TYPE	PROPERTY	SIZE (SF)	PRICE (M\$)	DATE REPORTED	NATIONALITY OF PURCHASER
Office	Wisma Supreme	88,000	15,000,000	Mar 1988	Indonesia
	The Amoda	185,000	48,000,000	Sep 1988	USA
	Resource House	107,000	22,750,000	Dec 1988	Indonesia
	Menara Kewangan	171,000	40,300,000	Feb 1988	Singapore
	Plaza Atrium	78,000	23,000,000	May 1989	Singapore
	Menara Bena	80,000	22,000,000	May 1989	Singapore
Shopping Complexes	Bandar Park	280,000	37,000,000	Dec 1988	Hong Kong
	Yow Chuan Plaza	250,000	70,000,000	Jan 1989	Hong Kong
Hotels	Prince	300 rooms	53,000,000	Jul 1988	Hong Kong
	Oriental	487 rooms	90,000,000	Aug 1988	Japan
	Regent	365 rooms	80,000,000	Dec 1988	Hong Kong
	Holiday Inn				
	On The Park	190 rooms	32,000,000	Jan 1989	Hong Kong
	Sea Hotel	208 rooms	16,500,000	Mar 1989	Singapore
	Merlin	688 rooms	11,500,000	May 1989	Singapore

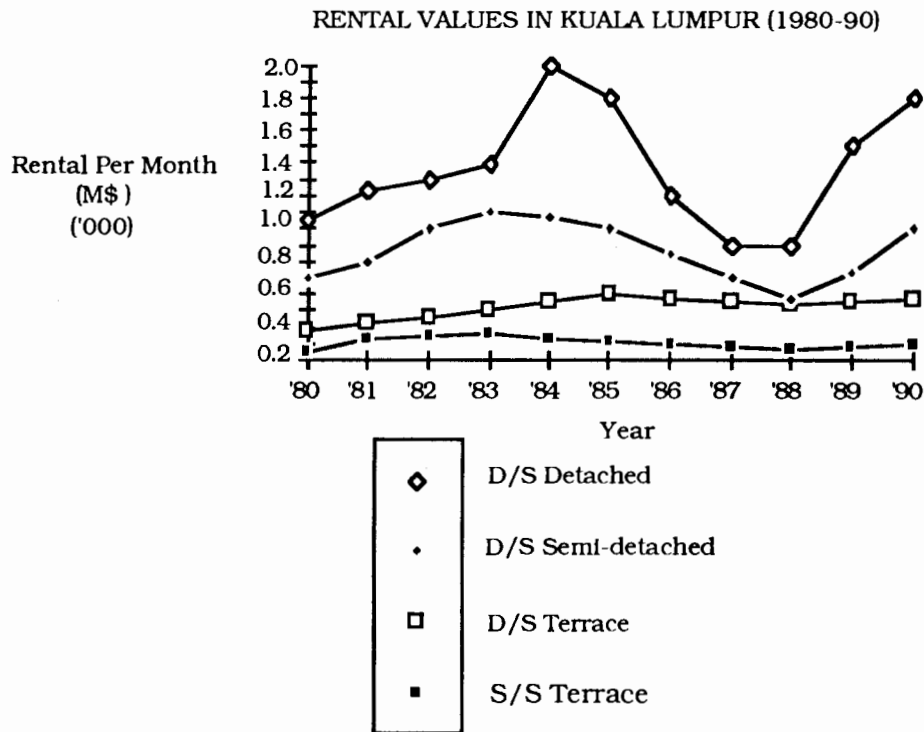
7.0 The Residential Market

Development of the normal single and double-storey and low-cost houses were marginally profitable and prices has gradually risen to improve profit. The development of this type of property is definitely not for the foreigner except in Johor where we would expect an influx of Singaporeans buying houses as weekend homes.

A more promising market in the residential sector is the sophisticated high-rise condominium. With the huge influx of foreign investment, there has followed a tremendous upsurge in the number of expatriates looking for accommodation. A large number of them usually rent, although the Japanese, Taiwanese and Singaporeans have also been known to buy. As a result, rents and capital values rose sharply last year.

The main feature of the residential property market in 1987 was that lower priced units recorded an increase in volume transacted. With the prevailing buyers market, housing projects with units priced at below M\$100,000 achieved considerable sales success.

Exhibit 5 below, illustrates the trend and movement of residential rental values in Kuala Lumpur.



8.0 The Industrial Property Market

The industrial property was first to recover and in the past two years almost all available land in the Klang Valley from Petaling Jaya to Port Klang has been taken up. The Selangor State Government is actively looking for more land to allocate for industry, under State development schemes. Values have risen in the Klang Valley as well as in, say Johore where there is tremendous influx of factories shifting across from Singapore.

The overall industrial market have still a lot of room for improvement. As of late, the local scene has yet to venture successfully into flatted factories deemed suitable for electronics industry and liked by foreign industrialist from Hong Kong and Singapore.

9.0 The Retail Industry

Retail development has undergone some interesting changes in the eighties. The trend is towards shopping in covered mall and these are located either in some accessible spot in the cities or throughout the suburbs. Despite the fact that rentals are likely to rise, Kuala Lumpur has never really been in short supply of shopping spaces. Therefore the style, image and location of new shopping space must be chosen carefully.

Within the local market scene, investors from Japan, Taiwan and Singapore seemed to be very interested in competing for prominence and market share in the industry.

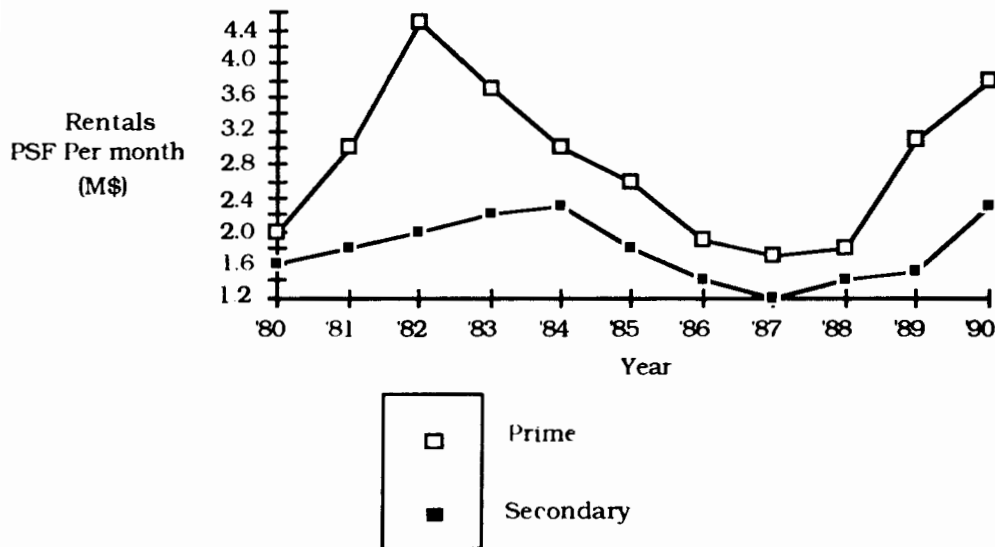
10.0 The Office Market

The office market which had borne the brunt of the past overbuilding and subsequent depressed market in 1985/86 has now dramatically recovered. Beside the stronger economic growth, the two prong approaches by the government, i.e. to allow foreign ownership and the encouragement for the setting up of property trust contributed to the recovery.

The market continues to attract major players including local developers and public listed companies as well as overseas investors primarily from Singapore and Hong Kong. In 1988 transactions for major commercial properties amounts to a turnover of more than M\$ 0.9 billion. This bullish sentiment prevails throughout 1989 with more than M\$ 1.5 billion worth of commercial properties transacted. Out of this volume about 43.8% involved foreigners for the year 1988 and 29.9% for the year 1989.

Rental value which peaked at \$ 4.50 psf per month in Kuala Lumpur in late 1982 has since experienced a series of decline to \$ 1.70 psf by 1987 due to excessive supply. Improvement in economic condition and the overall property market environment leads to the recovery. Occupancy increased from a low 70% in 1986 to reach 90% by end of 1989, and now it is not surprising to see certain buildings enjoying 100% occupancy. Exhibit 6 gives us an illustration of rental values for the period of 1980-1990.

EXHIBIT 6
OFFICE RENTAL VALUES IN KUALA LUMPUR



Similarly, prime offices were sold at around \$ 430 psf in 1983 down to about \$ 220 psf in 1987, and is now recovering to an average of \$ 470 psf. The graph in Exhibit 2 again illustrates the trend.

The outlook for the short term till 1992 looks good and capital values are expected to gradually escalate to reach \$ 550 psf by end of 1991. This is a result of the continued healthy economic growth and limited projected supply, particularly evident by the present 10 times over subscription of Plaza Pelangi in Johor Bahru.

In summary, it can be concluded that the recovery of the market in early 1989 was due to the following fundamental factors :

- a. overall recovery of the Malaysian economy with GDP rising steadily from 1986 to 1989.
- b. increased investments in the manufacturing sector causing an influx of labour and manpower to urban and industrialized areas
- c. reduction in the cost of financing
- d. amendments to the National Land Code and the Property Gains Tax Act, and
- e. the accelerated foreign investment especially in the Klang Valley, Johor Bahru and Penang.

However, it must be mentioned that the clout hanging over the Gulf crisis will have a major impact on the world economy and might affect the Malaysian property market to an extent.

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