

Saturday July 9, 2011

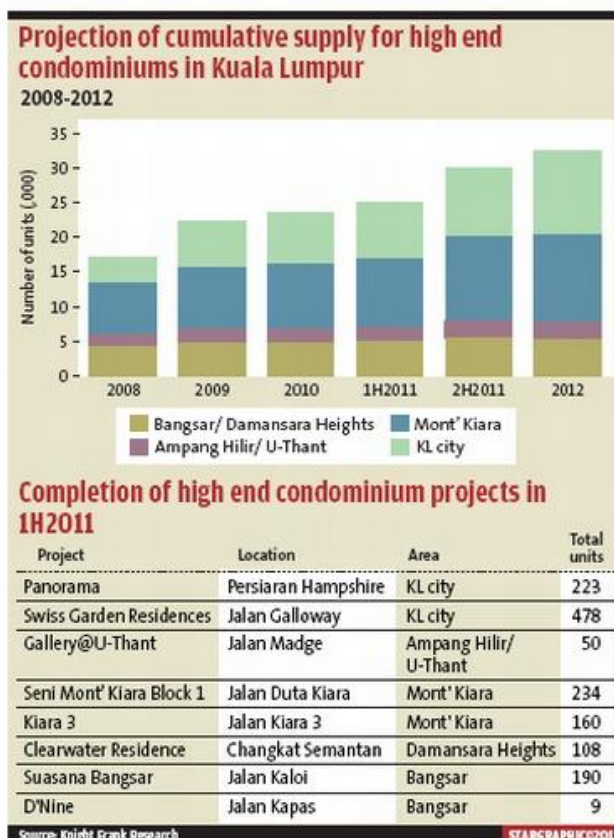
## Experts turn cautious

THE local property market is almost into its second year of an upward cycle and is being closely watched for signs of changes in its direction.

While the outlook is still reasonably positive in the immediate future with demand and pricing still expected to hold out well, some industry observers are already factoring in the possibility that demand may start to turn soft next year.

A number of research houses have downgraded the property sector and given it a “neutral” grade from the previous “overweight”.

“Sentiment will turn slightly negative and we expect demand to start to soften possibly next year. It is appropriate to be watchful of property stocks as we are now almost two years into the upward cycle,” an analyst with a local research house says in a recent report.



Property consultancy [DTZ Nawawi Tie Leung Sdn Bhd executive director Brian Koh](#) says the short-term expectation looks reasonably positive, especially if the Government's [Economic Transformation Programme \(ETP\)](#) to promote a high income economy results in higher investments and new job creation.

However, Koh does not discount that sentiment may turn soft if the highly expected “double dip” in the western countries materialises.

“It will affect the country's manufacturing and export sectors. Another factor that can dampen property sales is if there are further hikes in interest rates,” he adds.

According to Knight Frank Research, in its latest *Real Estate Highlights* report, the property sector is anticipated to remain promising as the economy continues to maintain growth, albeit at a slower pace compared to 2010.

“Proposed measures under the ETP are set to boost the residential markets of Greater Kuala Lumpur/Klang Valley alongside the government’s target to increase the population to 10 million by 2020,” it says.

Projects in good locations, delivered by reputable developers with a good track record will continue to attract buyers. With several launches planned in second half of this year (2H2011), property developers are now focusing on quality construction and on-site services to drive the market forward.

However, the high-end condominium sector looks set to retain a cautious outlook following a period of slower domestic economic growth, the imposition of a maximum loan-to-value ratio of 70% on third mortgages, and the recent announcement by [Bank Negara](#) on the overnight policy rate hike.

CH William, [Talhar & Wong Sdn Bhd \(WTW\) managing director Foo Gee Jen](#) says the local property market is expected to ease slightly in the 2H2011 due to concerns that the economy will slow down while costs rise.

Foo points out that concerns the economy will slow down in 2H2011 in light of rising crude oil prices might put pressure on inflation rates.

“Coupled with the strengthening ringgit, manufacturing costs could be moving higher which would render the country’s export less competitive in the global marketplace,” he explains.

On the construction front, he says inflation will lead to higher construction cost while the recent Bank Negara interest rate and SRR hikes are expected to constrict future housing credit expansion, and raise borrowing cost.

“Collectively, these factors may result in a significant rise in the cost of house purchases and lead to a fall in demand for newly launched housing starts,” he adds.

Foo says growing competition in the high-end residential market in the Klang Valley may result in a slight decline in sales take-up in secondary localities, although strong demand still persists for high-end landed residential properties in well sought after locations.

“Projects in well-established localities with good connectivity and shopping, recreational and entertainment facilities, will continue to be in high demand.

“However, those located in isolated enclaves such as Ulu Kelang are facing resistance in demand due to a lack of comprehensive facilities and concerns of deteriorating accessibility as traffic jams around Kuala Lumpur worsen,” he adds.

Foo says prices of luxury condominiums will face strong downward pressure due to the large incoming future supply, adding that developers will attempt to maintain prices by improving their quality, layout design and lifestyle marketing concepts.

By the end of 2011, the number of luxury condominiums in Kuala Lumpur will further increase by 1,314 units.

The total supply of condominiums in Kuala Lumpur as at the first half of this year stood at 86 developments offering 10,104 units.

According to a recent report by WTW’s research department, the average occupancy rate of luxury condominiums in Kuala Lumpur in selected locations ranges from 60% to 75% in the first half of 2011 (1H2011).

Luxury condominium prices in the city centre range from RM800 to RM1,300 per sq ft while in off-city centre locations such as Mont’ Kiara and Damansara Heights, they are from RM600 to RM1,000 per sq ft.

“Our random surveys continue to reveal that the purchasers of the developments are predominantly locals but the occupiers (in most cases as tenants) comprise a large population of expatriates,” the report adds.

It also says the Klang Valley’s office market remains a tenant’s market with a large amount of space available for leasing.

Landlords of newly completed buildings continue to offer two to three months rent-free periods as one of the sweeteners to attract new tenants. Newly constructed or refurbished office buildings are securing new lease at a much slower rate while there are also office buildings along Jalan Tun Razak which have remained largely untenanted for more than two years since their completion in 2008 and 2009.

As at 1H2011, purpose-built office space in Kuala Lumpur’s central area (KLCA) accounted for 40.10 million sq ft.

Approximately 5.975 million sq ft will be completed by end 2014, and of this about 4 million sq ft of space in nine buildings will be located in Kuala Lumpur’s golden triangle (GT).

Over 3 million sq ft of the new office space will come onstream by end-2011.

The average occupancy of office space in the GT was slightly below 90% in 1H2011, compared to 91%-93% in the last two years.

Average rental and net yield of prime office space in the KLCA were in the range of RM6.50 per sq ft and 6.5% respectively.

On the retail front, the WTW report points out that the retail sector continues to be resilient and vibrant with high occupancy levels in all the popular and established shopping malls. The latest retail centre to be opened was Viva Homes along Jalan Loke Yew.

“The take-up rate was reported to be good and attracting a good volume of visitors and shoppers. Occupancy levels and rentals are expected to be maintained in 2H2011 as retail spending is expected to grow about 6% this year,” the report adds.

As at 1H2011, there were 120 retail centre developments in the Klang Valley, totalling approximately 40.45 million sq ft, with no significant new future retail space supply in the KLCA.