

Review of the Malaysian Property Market 1998

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After a year of austerity measures to alleviate the impact of the regional financial crisis on the country, the Malaysian government implemented a counter-cyclical monetary and fiscal policy complemented by a flurry of new rules regulating the currency and stock markets. In the corridors of power, the new buzz words are expansionist monetary and fiscal policies, currency stability, lower interest rates, strong trade figures and increasing liquidity. This apparent *volte-face* in policy, going against the mantra of free markets, was brought about by the difficulties the government faced in restructuring the banking sector whilst maintaining tight monetary policies to keep the Ringgit stable.

The last twelve months have shown that controls on short-term capital inflows and outflows were necessary due to their destabilising effects. To insulate Malaysia from a hostile external environment, new foreign exchange controls were introduced which ended the tradability of the Ringgit outside of the country and fixed its exchange rate at RM3.80 to the US dollar. The expected inflow of the Ringgit from foreign shores is tantamount to a fresh injection of capital into the country's banking system, thereby boosting liquidity in the economy. The ruling means that there would be a longer time horizon for foreign funds invested in Malaysia, unless approval is granted by the Central Bank (BNM). It is designed to discourage short-term speculators in the stock market and encourage long-term investors in the real economy by ensuring a

more predictable foreign exchange regime. It also trades the risks of a foreign investment slump in favour of currency stability, which is badly needed by businesses. However, the risk is short-term, as the pegging of the US dollar at RM3.80 would make foreign direct investment more attractive, given the low costs of doing business in the country. Interest rates can now be lowered without fear of a fall in the value of the Ringgit, which in turn will reduce inflationary pressures. It is expected that the new measures announced by the government are short-term in nature, designed to give the government the space and time to bring the economy back on its feet.

Foreigners selling their real properties in this country would now have to keep their money within Malaysia for one year, after which it can be converted in to foreign currencies for transfer overseas. It is too early to gauge the impact of the new measures on the property market, especially on Singapore's neighbour, Johor Bahru, but the role of foreign speculators would be curtailed. This may be offset by the higher ceiling on property loans to both developers and buyers, encouraging more properties priced up to RM250,000 per unit to be built. Nationally, this new loan ceiling is expected to have a significant impact on the property market, since it is also higher than the National Economic Action Council recommendation of RM200,000 per unit as the affordable threshold for the Klang Valley.

The general level of prices of new residential units is expected to move gradually to this higher price level as confidence returns to the property sector, from the previous affordable limit of RM150,000 per unit. However, developers are expected to carefully monitor the demand for houses at the higher price levels before committing themselves, as prospective purchasers may be reluctant to take on such liabilities before full economic normalcy returns. In the short-term, if investors are not sure of the demand for higher priced units, they will not put funds into property development, even if funds are more easily available. Instead, investors may choose to put the newly found liquidity into equity instead of into property. The good performance of the Kuala Lumpur Stock Exchange in November and December may encourage this trend.

BNM also relaxed the lending guidelines for the construction and purchase of residential properties by exempting houses costing RM250,000 per unit and below from the 20 per cent lending cap on loans to the broad property sector. The increased liquidity and lower interest rates is expected to revitalise the property sector and increase the supply and transaction of residential units as the costs of funds would be much lower. The lower holding costs may also see fewer developers launching houses at cost price to stay afloat. They may opt to wait out the recession until their cash flow problems are over before launching their new schemes at higher prices later. Thus, we may only see a general increase in house price levels in the medium term.

As developers heave a collective sigh of relief at the easier availability of credit due to the expansionary economic policies, a sense of *déjà vu* prevails. The revitalisation of the property sector should utilise strategies which

would not see a return of the problems which BNM has worked hard to resolve over the last year. Prices should not be allowed to escalate beyond affordable levels and speculative controls should remain in place to ensure some measure of price stability. Exposure of the banking system to the property sector, a perennial bugbear of central bankers, should be closely monitored. Finally, issues of asset quality must be foremost in the minds of the nation's bankers, lest the banking sector becomes hostage to the vicissitudes of the real property sector.

For the commercial and retail sectors, the spectre of space oversupply, especially in the Klang Valley, is well and truly here. Despite the best efforts of the various authorities over the last few years advising the property developers to take heed of the impending huge space over-supply, not all were able to reschedule their completion dates and many were caught *in flagrante delicto* by the abruptness of the economic recession. It would take years for the extra space to be absorbed into the market or redirected to other uses. Rentals and occupancy rates are already declining. Given the huge current over-supply and new space still expected to come on-stream, in the celebrated words of Mrs. Thatcher, it will get worse before it starts to get better. The unkindest cut of all is the knowledge that despite their best efforts, it may not mean much if the current national economic recovery falters.

Over the next six months, the outlook for the real property sector is still not totally clear. Certainly, on a macro-economic level, the country is still not out of the woods. Offshore, the regions' currency and share markets are recovering from the severe speculative attacks. The situation in Russia is worrying. Japan seems unwilling to look beyond its

internal problems and regenerate its economy. The situation in Indonesia remains fluid. A continuing slowdown in global demand and the regional economic and financial crisis will continue to influence developments in the medium term. The increased liquidity in the economy may not have an immediate impact on the real property sector until confidence eventually returns to the national economy. It is also important for the policy makers to appreciate that the property market is heterogenous; there is thus no single panacea for the ills of the entire real property sector. Problems faced by the different sector would require different time frames before improvements can be seen.

Notes to Contributors

1. Submission

Contributors can submit their papers before the 31st July of each year to:

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Computer disk copies (IBM compatible 3.5") are encouraged. In preparing the disk, please use the Microsoft Word or Rich Text format.

A prospective contributor may submit a summary of a proposed paper to the editor for preliminary consideration as to its suitability for publication in the journal. The receipt of each paper submitted will be acknowledged. The Editor reserves the right to accept, modify or decline any article.

2. Reviewing Process

All contributions will be reviewed by one or more referees. Contributors will be informed about the acceptance (or otherwise) of their papers after the comments of referees have been received. The entire reviewing process will be conducted in complete confidentiality. For this purpose, the name, address and affiliation of the contributor should not be on the first page of the paper, but only on the accompanying letter.

3. Style

Papers should be the original, unpublished work of the contributors. They should not be under consideration for publication elsewhere. Submissions can be in either Malay or English language. Papers should be written in a clear and simple style, and should have a carefully considered structure. Contributors are encouraged to adopt the most effective way of communicating their information to the reader. Illustrations may be used to elucidate the issues raised.

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Papers should preferably be in the range of 4000 to 6000 words, including illustrations. A brief (max 60 words) profile of the contributor should accompany each article.

All manuscripts for publishing are to be typed in double-spacing on one side of A4 sized paper with 1.5 inch margin on the left-hand side. The pages should be numbered consecutively.