Striding confidently into 2008
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by Teh Lip Kim

"... Malaysia will not be overly affected by the downturn in the US"

WHILE last year was generally good for properties in Malaysia, particularly at the top end of the market, news of the credit crunch in the US stemming from the subprime mortgage crisis had become troubling by year-end.

Still, we tend to remain optimistic about the prospects for Malaysian property. The government had put various measures in place for the property market and announced a series of liberalization, financial incentives, and system enhancements even before the news of the credit crunch reached our shores.

These included changed to Employee Provident Fund (EPF) withdrawals. Effective this Jan 1, EPF members will be allowed to make a withdrawal every month from their Account 2 of their accounts to finance their housing loans. Previously, EPF withdrawals for housing purposes were permitted only once every three years, and subsequently, once a year.

If all 5.4 million EPF members take advantage of this initiative, about RM9.6bil is expected to be released for home purchases, which will surely give the real estate market a nudge in the right direction.

Drawing on the experience of our neighbour down South, home ownership in Malaysia, currently at 67% is likely to increase with this new monthly withdrawal scheme. In 1980, when Singapore allowed its Central Provident Fund (CPF) members to use their CPF money for paying off monthly mortgages, home ownership was 59%. By 2000, according to the Singapore Census, home ownership had risen to 92%.

Early last year, we saw the removal of real property gains tax, or RPGT for short – a move meant to stimulate the real estate market in Malaysia and in the words of our Prime Minister “inject more excitement and dynamism into the property sector”. In truth, this was something that the industry had been expecting for some time prior to its enactment.

Before this piece of welcome news, the government had already relaxed foreign ownership rules so foreigners could buy residential properties worth more than RM250,000 without having to go through the time-consuming Foreign Investor Committee (FIC) approval process. In addition, foreign homebuyers could purchase as many properties as they wanted and they could buy them for investment purposes. These two incentives caused a marked increase in property purchases by foreigners.

Collectively, all these efforts have made Malaysian properties more attractive. Together with the prospect of a strengthening ringgit and low per square foot prices vis-à-vis our regional neighbours, Malaysia may well become the property hub that our government has envisioned.

We hope that all these incentives and measures that have been put in place, will be here to stay. Previously, we would see guidelines on foreign ownership implemented for only short periods of time. As a result, each time a new measure was implemented, there were doubts as to whether it would last.

In order to further stimulate property transactions, quota for the sale of properties to foreigners could be relaxed. In Singapore, for example, as long as one unit in a housing project is bought by a Singaporean, the rest of the development can be sold to foreign purchasers. This type of liberalization would certainly give the property market in Malaysia a big boost.

Still, despite efforts at pushing the growth of the industry, consumer sentiment based on economic trends can be unpredictable. While it showed an uptrend in the third quarter of last year, it is often not that easy to gauge which way it will swing if we are to be assailed by more unpleasant news from the US.

We have seen that Malaysia, too, is some what dependent on the good health of the US economy as the recent tumble of our share market has proved.

However, I am confident that Malaysia will not be overly affected by the downturn in the US. There are now “new” investors from emerging markets such as China, India, Korea, and the Middle East and we are no longer relying on the traditional group of investors from the US and Europe.

Investors are always looking for safe and stable havens. We are already seeing a “shift” of foreign funds to this region. This means that Malaysia, with its currently undervalued property market would be an ideal place to invest. Let’s ensure we are ready to tap onto this opportunity.

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