

Property and the credit crunch

THE economy moves forward in cycles. It is a truism that what goes up must sooner or later come down. But what comes down will also, eventually, go up again.

The subprime turmoil that started in the US last year has now erupted into a full-fledged credit crunch that is affecting markets all around the world. The face of financial services is now completely altered – among other things, the 150-year-old behemoth Lehman Brothers collapsed in September. Merrill Lynch was sold to Bank of America and insurer AIG had to be given a government bailout loan for US\$85bil.

In a bid to save the situation from getting worse, in October the US Congress approved a US\$700bil Wall Street rescue plan in a bill that had been intensely debated and overturned just four days before. Then just two weeks later, the Bush administration decided that it was a better idea to inject funds directly into the country's banks, which, in effect, partially nationalises the industry.

This flip-flopping is indicative of the vastness of the uncertainty that governments all over the world over are currently grappling with, in the wake of a global financial failure that economists say could turn out to be as big as the Great Depression in 1929. Asian markets, too, have been hit hard. Inflation is on the rise and oil prices, meanwhile, have been going down, contributing to the volatility and uncertainty in share markets worldwide.

How has this affected the property market?

Market watchers are resigned to the fact that the global housing boom is losing its momentum. In many of the advanced markets, house prices fell last year and early this year. As foreign property markets like the US and Britain continue to drop, investors look towards investing in these homes,

as property is widely seen as the investment of choice and is known to be the way many millionaires made their money.

In Malaysia, too, the property market has been affected. The increase in petrol prices earlier this year pushed up prices for nearly all construction and building materials. This was especially so with steel and cement. Property developers who needed these building materials at the stage of construction had to absorb higher costs or face contractors not completing their work. However, the prices of building materials have not reduced since the subsequent drop in petrol prices. Thus, developers will have to find the right balance in adjusting prices and ensuring costs are maintained, to sustain a decent profit margin.

Malaysia is frequently among the countries that are on the recommended buy list of global property advisors. Our economy is a resilient one, with a broad and varied sector base. In addition, our financial institutions are relatively conservative in approving loans and generally have good governance. We are, by and large, not overly dependent on foreign banks. Malaysians are also generally more prudent; most have savings and do not over-gear themselves

with loans, nor live too much on credit like what has happened in the US. With this background and with the help of government initiatives aimed at softening the impact of an economic downturn, any slowdown in Malaysia will hopefully not turn into a major contraction.

The Government announcement in mid-October that it will fully guarantee all ringgit and foreign currency deposits with commercial, Islamic and investment banks in the country, both local and foreign, until 2010, will further boost confidence levels. This was followed by the finance minister's assurance that Foreign Investment Committee (FIC) guidelines will be reviewed in order to attract more foreign investors, especially in the property and commercial sectors.

Following this, what we now need to do is encourage more direct foreign investments into the country and ensure that processes and guidelines are clear and transparent. This will ensure that Malaysia is seen as an attractive and competitive country to invest in within in this region.

In these somewhat uncertain times, governments throughout the world have introduced measures to spur the economy – ranging from measures to boost business activities in several sectors to reducing interest rates – in the hope that these stimulus packages will soften the blow.

Just recently, our deputy prime minister announced a stimulus package worth RM7bil, a large chunk of which will be allocated to the housing and construction sector. The Government has removed import duties for cement and long iron and steel

products, and abolished approved permits (APs) for long iron and steel products, making these building materials more competitively priced.

While these incentives are very much welcomed, we recognise that like any other economic downturns, markets may remain volatile for some time – more so because this present crisis is one of global proportions. So even with the stimulus package, it may take a while before the measures kick in and the market picks up again.

Locally, fellow property developers have announced that they will be postponing launches to a time when markets have improved. Results for property developers will also be affected for the next few years. Even suppliers and contractors are feeling the pinch, and they now frequently call up to procure business – something that they have not done for a long time. Like any other business, we will have to focus on operating costs, tightening our belts and at the same time, marketing our properties.

However, developers would do well to continue providing quality and good concepts for their developments. This is the time where the credibility of the company comes into play. While it may be tempting to cut corners in a weak economy, it is those developers that stick to excellence that will emerge from the up and down cycles of the economy in good shape.

● The writer is the managing director of SDB Properties Sdn Bhd, a lifestyle property company. Bouquets and brickbats are welcome, send in your email to md@sdb.com.my

