

How healthy is the property market? Are we leaning towards an unhealthy state with rising household debt, of which property makes up a chunk? How do we ensure the sustainable growth of the sector? Four property leaders share their thoughts.

## Ho Wen Yan

CEO OF HUA YANG BHD

**Where are we on the property cycle? We keep reading news of developers reporting record sales — what does that mean?**

We believe that the Malaysian property cycle is correlated to the lending rate and interest rate cycles. Good sales are driven by liquidity and favourable bank lending in the current low interest rate environment. In terms of supply and price cycle, we believe we are at the start of an uptrend. Developers have also upped the quality and design concepts of their products, resulting in better take-up among buyers.

**Good sales could also mean more people are in debt. Should we be concerned with rising household debt levels?**

Debt leads to household formation and debt for reasonable consumer spending drives the economy. Looking only at debt levels gives an unbalanced view. Savings levels and bank deposit levels are also healthy. Good sales are an indication of volume, however, the Property Price Indices have risen steadily. No over-heating or significant jump in overall prices have been detected, except for certain segments in the Klang Valley. Our concern is when volumes and prices jump significantly, which would indicate overall speculative activity. For most Malaysians, home loans are the only means to own a home. As long as the debt is within the repayment means of the borrower, it's acceptable.

**How do we ensure sustainable growth of the housing sector?**

This is a major strategic and structural issue in Ma-

laysia which has no short-term solutions. Firstly, there are no national strategies and targets in place. Secondly, public sector provision for housing is sorely lacking. Housing provision is dominated by the private sector. Thirdly, there is a mismatch between supply and demand in terms of geographic location and price.

The government needs a housing policy tied in with the Economic Transformation Programme (ETP) and to decide the level of government participation in housing provision. On its own, the private sector will be profit-driven and offer supply in locations and segments with volumes and margins. Singapore and The Netherlands have strong public sector provision models. While Hong Kong, the UK and US have models that are private sector-driven.

**What challenges do you foresee in the near future with regards to building homes in Malaysia?**

In the near future, we are watching inflationary pressures on building supplies. The tightening labour situation is also of concern. The ETP and 10th Malaysia Plan may create a bottleneck situation in the construction sector if they come onstream at the same time. On the supply side, rising land costs and construction costs will lead to inflationary pressures and rising costs passed on to buyers.

On the demand side, we remain confident in view of the young demographic and the interest rate environment. Many in their 20s and 30s will continue living with their parents or renting. Hua Yang will look to continue providing affordable homes catering for this segment and other first-time home buyers.



## Datuk Soam Heng Choon

MANAGING DIRECTOR OF IJM LAND BHD

**Where are we on the property cycle? We keep reading news of developers reporting record sales — what does that mean?**

I believe that the property cycle is currently at a stable level. Growth is still expected but the growth rate will not be as robust compared with a year ago. Most developers reporting record sales means that the demand for properties is still strong and home ownership and investment in real estate are high on the priority list of most people.

**Good sales could also mean more people are in debt. Should we be concerned with rising household debt levels?**

First, we need to clarify that a property loan is only one of the many components of household debt. Car loans, credit cards, consumer credits and personal loans are the other components. As for the concern about rising household debt levels, we must have confidence in our banking sys-

tem that the necessary credit evaluations have been properly carried out before loans are approved.

**How do we ensure sustainable growth of the housing sector?**

The housing industry, just like any other business, is market-driven where demand and supply will be the ultimate determinant factor. As for affordable housing, the government should take over this role to ensure the lower income group's housing needs are provided for.

**What challenges do you foresee in the near future with regards to building homes in Malaysia?**

The most important challenge today is to meet the ever-increasing expectations of the customers in terms of innovation, product quality and design. Green features are also increasingly important, but the additional cost involved will cause selling prices to rise, which may deter demand.



# HUAYANG



## Datuk Teo Chiang Kok

SEE HOY CHAN HOLDINGS GROUP DIRECTOR

**Where are we on the property cycle? We keep reading news of developers reporting record sales — what does that mean?**

We are a laggard compared with the property cycles of our neighbours and Hong Kong, and I believe we have a long way to go in our ascending phase of the cycle. The US financial crisis created a lot of uncertainties and coupled with record low interest rates, investing in properties which are real and tangible assets has become even more compelling.

**Good sales could also mean more people are in debt. Should we be concerned with rising household debt levels?**

There must be a distinction made between debts accumulated through consumption and loans taken to purchase real assets. Purchase of property leveraged by a mortgage is a good investment and hedge for inflation. Investing in property for a home and paying mortgage instalments saves on rent. Investing in property for rent where rent offsets holding costs allows investors to enjoy capital gains.

**How do we ensure sustainable growth of the housing sector?**

There is still an intrinsic need for housing

and demand depends on affordability. The sustainability of housing growth rests on affordability. An efficient and competitive market will ensure value pricing. Also an efficient approval process will ensure minimum cost of doing business. House prices in Malaysia have a growing and significant cost factor embedded due to the multitude of subsidies for low and medium-cost housing, bumiputera quotas and discounts, contributions to monopolistic and sole providers of essential services such as electricity, water, gas, sewerage, telecommunications and so on. These growing subsidies will impact negatively on the sustainability of the housing industry.

**What challenges do you foresee in the near future with regards to building homes in Malaysia?**

The bulk of the housing needs are for low and medium-cost houses. These can only be built with subsidies. The increasing burden placed on middle-income house buyers to carry these subsidies may breach the affordability to build and sell these homes. This is the key for a sustainable housing industry. The government must, through the national coffers, contribute to lighten these subsidies carried by middle-income purchasers.

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## Tan Sri Leong Hoy Kum

MAH SING GROUP MANAGING DIRECTOR

**Where are we on the property cycle? We keep reading news of developers reporting record sales — what does that mean?**

We believe we are still in the early to mid phase of the property cycle. According to the Housing Index, for the last 10 years prices of houses have moved up about 37%, while in countries like Singapore and Hong Kong, property prices rose 35% last year.

Projects by established developers are doing well, resulting in record sales, and the strong demand reflects the good location, unique concepts and exclusive features of the projects. Property is a very good hedge against inflation and buyers are locking in current prices for the right address in established neighbourhoods, a good overall concept, and well landscaped and maintained environment.

The robust property market is backed by strong fundamentals: low unemployment market, strong economic growth and improved housing affordability due to low mortgage rates. The financial system is strong, flush with liquidity, and the banks are accommodative in lending. Barring any external shocks, we are cautiously optimistic that the property market should continue to do well in the short and medium term.

**Good sales could also mean more people are in debt. Should we be concerned with rising household debt levels?**

We believe that as Malaysians become more financially savvy, they are able to distinguish between healthy and unhealthy debt. Properties remain the preferred asset for many Malaysians.

In fact, Malaysians in general had a high savings rate of over 30% of GNP in 2009, which is expected to rise to more than 35% in 2010 (Bank Negara Malaysia Annual Report 2009). Our banks' well-structured regulations and stringent lending criteria also ensure the quality of loans in the market.

**How do we ensure sustainable growth of the housing sector?**

We have to ensure that we are able to offer properties that meet the ever-growing sophistication of the buyers' needs.

To ensure a sustainable housing growth for the nation, the government's continuous support and incentives are crucial for house buyers, especially since we have a young and growing population. We laud the positive steps already taken to ensure sustainable housing growth, for example outlining Greater KL, as well as giving the mass rapid transit system (MRT) the go-ahead to commence next year. We look forward to more details of other initiatives like the high-speed train that will link Kuala Lumpur and Singapore.

More foreign investment in properties in Malaysia will also be a source to ensure sustainable housing growth for the long term.

**What challenges do you foresee in the near future with regards to building homes in Malaysia?**

Scarcity of choice land in prime locations, rising land cost, rising construction cost, access to labour and competition will be the main challenges.

