

### **Country Report – Brunei Darussalam Property Market (2nd Quarter of 2002)**

The good times of the property market performance was disrupted by the economic upheaval Brunei experienced particularly after the 1997 Asian economic crisis. The internally-generated Brunei economic crisis and coupled with the ripple effects of the Asian economic downturns, have raised concern on Brunei's property market performance particularly amongst property owners and investors.

Property owners and investors are apprehensive of the current (1) oversupply of commercial and residential properties in the market which causes frantic dwindling of the property values, rental incomes, and the selling prices; and (2) increase in land disputes, abandoned development projects, and foreclosure cases involving properties.

All sectors of the property market suffered declines in both rentals and selling prices. The commercial and residential rentals recorded 20% - 40% decline in commercial rentals (year to year since 1997-2001).

Despite the deteriorating rentals and selling prices, about 300 units of newly constructed shophouses within 5 km radius of Bandar Seri Begawan are expected to enter the market during the third quarter of 2002. The newly constructed government owned Islamic Bank, the Malay Teachers' Association 15-Storey and the redevelopment of shoplots in the capital have completed in the second quarter of 2002 and is now available in the market with offered rentals ranging from BND\$27.00 - BND\$75.00 per sq. metre (BND\$2.50 per square ft to BND\$7.00 per square ft).

Retail space in Bandar Seri Begawan is expected to soften by at least 20% upon renewal. This is due to alternative retail space in new shophouses within the suburban areas which offers approximately 30% lower rent.

#### **Retail/ Office**

Existing retail and office space within the town center has seen rental reductions of between 20-40%. Retail space is still fully occupied, while office space has an occupancy rate of 85%. Retail space is renting at BND\$50.00 to BND\$70.00 per square metre per month (BND\$4.50 – BND\$6.50 per sq ft per month); while office space is at \$10.00 to B\$25.00 per square metre per month (BND\$1.00 – BND\$2.50 per sq ft per month).

#### **Residential**

Rentals and selling prices decreased by between 20 to 30% over the previous year. The residential vacancy rate is gradually increasing due to the decline in the expatriate population.

Rentals of houses dropped further by between 20% and 30% for those located within a 10 kilometre radius from Bandar Seri Begawan. Houses located further away from the town center have suffered up to a 50% drop in rent.

A double-storey terraced house is renting for BND\$800 to BND\$1,000 per month; a double-storey semi-detached house at BND\$900 to BND\$1,200 per month; a double storey detached house at BND\$1,000 to BND\$2,000 per month unfurnished.

The reduction in rents leads to a similar decline in selling prices of houses where 2-storey terraced cost between BND\$125,000 and BND\$180,000; a 2-storey semi-detached between BND\$200,000 and BND\$250,000 and a 2-storey detached between BND\$260,000 and BND\$320,000.

A fair number of tenants are relocating from older houses to the many newly completed houses resulting in the older houses experiencing a greater drop in rents.

However, there are isolated cases where abandoned housing projects have been revived.

### **Industrial**

Light industrial developments are mainly in the form of 3 storey shophouses within 10 km radius from Bandar Seri Begawan. However, only a few units are used for car service centers, and accessories shops. Most of these shophouses are utilized for commercial and office purposes. A typical 3-storey shophouse is renting at BND\$3,800 per month; and selling at B\$450,000 and to B\$500,000 per unit for a 60 year lease.

About 200 units new shophouses is expected to enter the market by the third quarter of this year and now are fully booked with rentals of between \$3,500 to \$4,500 per month and selling price of between \$400,000 to \$550,000 for a 60 years-lease. This translates an investment return of between 9.5% to 10.5%.

### **Lessons learned**

Properties that can maintain their values during the past economic turmoil are those of (1) better quality properties, and (2) location of the property development.

The oversupply of commercial buildings experienced in 1998-1999 has now recovered. Hardly any vacant space found either in the older or newly completed shophouses.

With the opening of Brunei's offshore financial center, it is expected that more office space with better ICT facilities will be demanded in the coming years.

### **Economic Indicators**

Average annual inflation rate: 2.7%

Unemployment rate: 4.9%

Brunei Association of Banks Prime Lending Rate: 5.5%

Mortgage Rate: Between 6.5% - 10.0%.

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