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THE PERFORMANCE OF MALAYSIAN PROPERTY MARKET AMID THE GLOBAL ECONOMIC CRISIS

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Abstract

In Malaysia, the economy regains after the 1997 Asian Financial crisis to sustain upward real estate cycle. The GDP grew at 5.5 per cent in 2003 and recorded a respectable performance of 4.6 per cent in the light of the global financial crisis in 2008 after recording 6.3 per cent in 2007. For 2009, the official projection is between -1.0 per cent and 1.0 per cent, however, this could be changed in the later months. To contain the effects of the global economic downturn, Malaysia focuses towards stimulating domestic economic activity and sustaining supportive financial policy. To act as a catalyst in stimulating domestic economic activity, the Government announced a RM7 billion (US$1.95 billion) stimulus package in November 2008. The second stimulus package of RM60 (US$16.7 billion) billion was announced last month. In the banking system, the Central Bank has reduced the Overnight Policy Rate (OPR) by 150 basis points between November 2008 and February 2009 to support economic activity. The Statutory Reserve Requirement (SRR) was also lowered to reduce the cost of intermediation and thus encouraged the banks to pass on the lower interest rates to borrowers.

In tandem with the economic development, the questions are, "how does the property market perform amidst the rapid deterioration in the global economic environment?" "Is there any relationship between the market's indicators and the GDP growth as well as the Government measures"? This paper explores the property market performance amidst the global economic crisis. The aim is to study the supply and demand indicators in the property market together with GDP growth and the various measures to stimulate the market and economy.

Key words
Malaysia, Property Market, GDP, Government Measures, Monetary Policy,

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1 Introduction

The International Monetary Fund (IMF) forecast that the world economy is set to shrink between 0.5 per cent and 1.0 per cent in 2009, the first global recession in 60 years. The US economy is forecasted to decline by 2.6 per cent and the Europe-zone by 3.2 per cent this year. IMF anticipated that if there is further delay in implementing comprehensive policies to stabilize financial condition, the recession would be deeper and more prolonged. The contraction in liquidity in the US and Europe is expected to threaten development in the emerging world, when emerging governments and businesses need to raise significant amounts of capital for new plant and equipment, infrastructure and other projects that will support their long-term growth trajectories (World Economic Forum, 2009). However, the Asian Development Bank does not anticipate "a full-blown financial crisis in Asia". Japan's economy is expected to decline by 5.8 per cent and China will slow to around 8.4 per cent while India is estimated between 6.0 per cent and 7.0 per cent in 2009. Hence, the Asia's economies are expected to remain "healthy" and its financial sector remains resilient.

In Malaysia, the economy regains after the 1997 Asian Financial crisis. The GDP grew at 5.5 per cent in 2003 and recorded a respectable performance of 4.6 per cent in the light of the global financial crisis in 2008. The decline was due to the sharply weaker exports of goods and services as reflected in Q4 2008, which saw GDP grow by 0.1 per cent. For 2009, the economy is projected to expand between -1.0 per cent and 1.0 per cent (Bank Negara, 2009). To contain the effects of the global economic downturn, Malaysia focuses on stimulating domestic economic activity and sustaining accommodative and supportive financial sector. Firstly, to act as a catalyst in stimulating domestic economic activity, the Malaysian Government announced a RM7 billion (US$1.95 billion) stimulus package in November 2008 and another RM60 billion (US$16.7 billion) package last month. Secondly, in the financial sector, the Central Bank has reduced the Overnight Policy Rate (OPR) by 150 basis points between November 2008 and February 2009 to support economic activity. The bank further lowered the Statutory Reserve Requirement (SRR) to reduce the cost of intermediation and thus, encouraged the banks to pass on the lower interest rates to borrowers.

In tandem with the economic development, the question is, "how does the Malaysian property market perform amidst the international financial turmoil and rapid deterioration in the global economic environment?" It is interesting to study the relationship between property market indicators and GDP growth as well as Government measures. This paper explores the Malaysian property market performance amid the global economic crisis. The aim is to study the supply and demand indicators in the property market together with GDP growth and the various measures to stimulate the market and economy.

2 The Background - Economic Development and the Property Market

In the past, Malaysia economic growth was largely supported by increasing international trade, large foreign direct investment (FDI) inflows and a robust capital market. The fact that Malaysia practises an open economy exposes the country to the world economic cycles. After the 1997 Asian Financial crisis, the Malaysian property market had been experiencing the up-and-down cycles following the country's GDP growth trends. The turmoil instigated a slowdown in the property market after nearly eight years of continuous growth and phenomenal price increases.

Table 1 (Appendix A) shows that the GDP had been on an upward trend, which expanded by almost 50.0 per cent to RM538.8 billion (US$149.67 billion) in 2008 from RM356.40 billion (US$99.0 billion) in 2000. In the past four years, the property transaction value had been climbing to RM88.34 billion (US$24.54 billion) in 2008 from RM56.78 billion (US$15.74 billion) in 2005. This accounts for more than 55.0 per cent increase within four years. On the whole, the property transaction value represented more than 10.0 per cent of the country's GDP, which recorded 16.7 per cent last year.

In the current global turmoil, the country's economy is likely to be affected through the following factors (Malaysian Business, 16 March 2009):

- Exports are likely to decline in line with deteriorating world demand. For instance, in January 2009, exports declined 27.8 per cent;
- Commodity exports, in particular, crude oil and gas as well as palm oil have experienced sharp decline in prices;
- Decline in FDI in line with the global recession. The FDI inflows are expected to be half of that in 2008, declining to RM26 billion compared with RM51 billion; and

- The global meltdown in equity markets has led to a significant decline on Bursa Malaysia. The poor performance of the stock market has also adversely impacted investor and consumer sentiment as well as the services sector, which normally is a high-growth sector.

These factors together with the sharp deterioration in the global economy are anticipated to challenge the country's economic environment as well as the property market in 2009 and 2010.

3 Financial Support in the Property Sector

Commercial banks and finance companies play a crucial role in the property market activities as the economy expanded over the years. Initially, the financial institutions were involved in housing finance in response to the rising demand for housing and following the Central Bank's directive to extend such loans in support of the government policy to promote home-ownership. Then, as the property development progress over the years, banks are motivated by the profitability factor and they are encouraged to give credit to the property sector, as returns are good. Therefore, the monetary stance in the banking system remains accommodative to the property market, with easy availability of credits in a low interest rates environment and ample liquidity.

Table 2: Property Finance, Volume and Value Transactions in Malaysia 2000 – 2008

Year	Total Volume of Property Transactions	% Change p.a	Total Value of Property Transactions RM(billion)	% Change p.a	Credit of Broad Property Sector RM (billion)	% Change p.a
2000	239,981	6.2	39.20	14.0	129.00	8.3
2001	242,634	1.1	38.63	-1.4	141.41	9.6
2002	231,394	-4.6	38.64	0.0	144.35	2.1
2003	243,376	5.2	43.43	12.4	188.74	30.8
2004	293,318	20.5	60.01	38.2	203.11	7.6
2005	276,508	-5.7	56.78	-5.4	229.00	12.7
2006	283,897	2.7	61.60	8.5	256.36	11.9
2007	309,455	9.0	77.14	25.2	281.78	9.9
2008	340,240	9.9	88.34	14.5	318.82	13.1

(Source: Central Bank, Malaysia and NAPIC, 2001- 2009)

Table 2 shows that loan disbursement to the property sector had increased by more than two-fold i.e. from RM129.00 billion (US$35.84 billion) in 2000 to RM318.82 billion (US$88.57 billion) last year. During the period, the year-on-year change of loan disbursement was between 8.3 per cent and 12.1 per cent except for marginal increase of 2.1 per cent in 2002 and a jump of 30.8 per cent growth in

2003. The lower performance in 2002 was due to the September 11 aftermath when the global economy was facing another downturn as the financial sector being cautious in releasing loans into the economy. However, the government took pro-active initiatives to mitigate the impact of the SARS epidemic and the break out of Iraqi war in 2003. The government introduced a stimulus package as a preventative measure to cushion off the impact on the economy. In the banking system, the Central Bank reduced the 3-month intervention rate leading to reduction in interest rates. There was positive response to the reduction of the interest rates as reflected by more robust demand for liquidity and financing. Amongst these measures drove the property sector, which included the Stamp Duty waiver on transfer of affordable property from developers and transactions from secondary property market were exempted from Real Property Gains Tax. To attract and facilitate acquisitions by foreigners in the property market, the ceiling prices for foreigners to purchase properties were reduced to RM150,000 from RM250,000 previously. These measures resulted in the uptrend in market activity by 20.5 per cent and transaction value by 38.2 per cent in 2004.

In the case of loan disbursement, property sector represented more than 39.0 per cent of the total loan in the banking system. Within the total property loan, purchase of residential and non-residential property made up more than 60.0 per cent and 14.9 percent of the amount in the past years respectively. The loan value for residential property purchase amounted to RM191.14 billion (US$53.09 billion) in 2008, which was more than total loan disbursed to the property sector in RM188.74 billion (US$52.43 billion) in 2003. Whilst for non-residential property, the loan value was between RM28.80 billion (US$8.0 billion) and RM66.54 billion (US$18.49 billion). For the construction sector, the amount of loan disbursed increased from RM29.5 billion (US$8.19 billion) to RM34.59 billion (US$9.61 billion) between 2003 and 2008. However, the percentage share of the total loan to the property sector was reducing from 15.6 percent to 10.9 per cent during the period (refer to Table 3 in Appendix B).

4 Government Policies and Measures in the Property Market

Among the important lessons from the 1997 Asian Financial Crisis conferred the significance of property sector to the overall economy and a resilient financial system. The Government formulated the National Economic Recovery Plan (NERP) to endure the economic turmoil. The Plan reclassified property sector as a priority sector in the economy. The property industry has strong linkages to the other economies whereby generated more than 140 other industries in the economy.

Following this, the government continues to utilise property sector to facilitate economic growth by supporting property market activity through pre-attempt measures during economic downturn and favourable measures in the annual budgets within the backdrop of accommodative monetary policy. During the economic downturn, the government introduced counter-cyclical policy to adjust for the economic situation. Together with this, the government implemented fiscal and monetary measures to strengthen the banking system and enable commercial banks to withstand challenges.

It is also imported to note that the country's development is planned via the 5-yearly Development Plan. The development is managed and backed via the annual budget. Up to now, the Ninth Malaysia Plan is in progress till 2010 and the current year is managed under Budget 2009. Generally, the government introduce favourable measures under the annual budget to support the economic growth.

Therefore, in discussing the current property market situation, the government initiatives via the RM67 billion (US$18.65 billion) stimulus packages have to be viewed in concert with measures in Budget 2009 as well as the initiatives in the Ninth Malaysian Plan.

4.1 The RM67 Billion Stimulus Packages

To date, the government initiates two stimulus packages totalling RM67.0 billion as an effort to cushion-off further impact of the global economic turmoil. The amount accounts for 9.5 per cent of the country's GDP. The strategies and measures outlined in both packages focus on stimulating the economy in the short-term and building the long-term capacity of the economy. On the whole, Malaysia utilises the slow-down to push for value-added investment to restructure and revitalise its low productivity labour intensive industries.

The First Stimulus Package of RM7 billion was launched in November 2008. Its main strategy was to act as a catalyst in stimulating domestic economic activity in the face of the current global financial crisis. The package introduced property initiatives including the provision of 25,000 new houses in the low- and medium cost segments; reviving abandoned housing projects by SPNB; maintaining and improving public transportation and infrastructure with a combined allocation of RM2.6 billion. To improve the business and investment environment, the package initiated the removal of FIC approval for foreign purchase of commercial property priced above RM500,000. Such measures would likely to stimulate demand in property industry. This would attract serious businesses into the country thereby bringing along employment opportunities and FDIs. Further, the proposal to release government lands in strategic locations for joint venture developments between private sector and Government Link Companies (GLCs) is anticipated to stimulate construction activities and improve employment prospects. In addition, there were various measures aimed at increasing disposable income to stimulate domestic spending and regenerating the economy from within.

The Second Stimulus Package of RM60 billion is to be implemented over the two years of 2009 and 2010. The strategies and measures outlined in this package are comprehensive to prevent the country's economy from slipping into deep recession. Of this amount, RM15 billion is fiscal injection, RM25 billion Guarantee Funds, RM10 billion equity investments, RM7 billion private finance initiative (PFI) and off-budget projects, and RM3 billion in tax incentives. The RM15 billion fiscal injections comprise RM10 billion allocations in 2009 and remaining RM5 billion is allocated for 2010. The RM10 billion for 2009 consists of RM5 billion for operating expenditure and RM5 billion for development expenditure. In the property sector, the package provides tax relief on interest paid on loans for new house transactions. To promote home-ownership among the lower income groups, the government allocated an additional RM200 million to build new houses by SPNB. The package promotes further the tourism industry to leverage on the country's competitive advantage, including eco-tourism, health and education tourism. The Government also strengthens the Malaysia My Second Home (MM2H) Programme and proposes to issue work permits to skilled spouses of the programme participants. The improvement in tourism industry is anticipated to enhance retail and service sectors, which in turn support hotel industry and retail space supply as well as demand. The provision for off-budget projects as well as the Private Finance Initiatives (PFI) and Public-Private Partnerships (PPP) projects with RM2 billion funds is expected to boost the private investment activities and construction sector. To make Malaysia a more competitive market, FIC is to adopt a more liberal approach, which would bring positive changes and nurture a more investor-friendly environment to attract more investments particularly FDIs.

At the outset, the first package is viewed as insufficient to increase domestic demand or employment opportunities against rising retrenchment. If domestic demand continued to decline, there would be lower investments in business expansion and new areas (Malaysian Business, 2009a). Thus, the second package is considered as comprehensive for long-term economic capacity building of the country.

4.2 Monetary Stimulus in the Banking System

In facing the global economic crisis, the Central Bank has reduced the Overnight Policy Rate (OPR) by 25 basis points in November 2008 and by another 75 basis points in January 2009. The Statutory Reserve Requirement (SRR) also reduced by 50 basis points and 150 basis points respectively to reduce the cost of intermediation. In February 2009, the OPR and SRR were further reduced by 50 basis points and 100 basis points respectively due to the step deterioration of the global economy and the risk of contraction of the domestic economy. The Central Bank downward adjustments are to induce the monetary stimulus to support domestic demand in an environment of downside risk to economy growth (Bank Negara Malaysia, 2009).

As a result, banks are encouraged to pass on the lower interest rates to borrowers. As at year-end 2008, the base lending rate (BLR) had dropped to 6.48 per cent and average lending rate (ALR) had declined to 5.86 per cent. These measures are expected to increase money supply and reduce the cost of loan-able funds given that demand for funds is falling due to decreasing aggregate demand because of declining export and rising unemployment. Therefore, making investment in property sector attractive from both end-user and investor perspectives.

Since the last decade, the Malaysian financial system had been fundamentally restructured; the non-performing loans disposed and financial institutions re-capitalised or merged. The banks and capital markets have since emerged leaner but stronger as such to date; the global financial crisis seems to give little impact on the integrity of the country's financial system and infrastructure (Starbizweek, 2009).

4.3 Measures in Budget 2009

Budget 2009 allocated RM206 billion (US$57.23 billion) to support economic activities in 2009. The property sector, particularly residential sub-sector is expected to gain from several measures under the Budget 2009 from both the demand and supply side in the primary market. The low-cost house buyers are given full stamp duty exemption whilst medium range property purchasers are to benefit from the 50.0 per cent stamp duty exemption for houses priced up to RM250,000 (US$69.400). An additional RM100 million (US$27.8 million) has been injected into the Housing Credit Guarantee Scheme (SJKP) to assist house purchase for those without fixed income. On the supply side, the government allocated RM50.0 million (US$13.9 million) to build 1,400 new houses for priority groups. SPNB is to build 33,000 low-cost houses with RM330 million (US$91.7 million) allocation. In view of this, there should be improved demand and construction activities for the low-cost housing are expected to increase in the year.

Apart from this, the MM2H Programme has positive tangible impacts across most property sub-sectors and encourages the inflow of FDI. In January 2009, the programme allows the participants to work in critical sectors and to do business and invest.

Tax treatment to further promote REITs is likely to drive the commercial property sub-sector. Institutional and individual investors would receive 10.0 per cent tax rate reduction on dividends derived from REITs. This should make investing in properties in Malaysia more attractive and spur the demand for high class commercial properties.

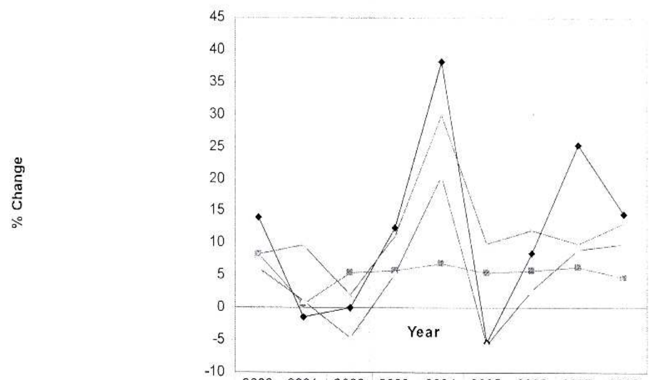
On the development side, the government plans to release prime government lands in strategic areas in the Klang Valley for joint venture developments with the private sector and Government Link Companies. For the country's economic corridors such as Iskandar Malaysia, the northern corridor (NCER), the eastern corridor (ECER) and Sarawak Corridor for Renewable Energy (SCORE) and Sabah Development Corridor, the government allocated a total of RM6.0 billion (US$1.67 billion) to finance the development. Another RM300 million (US$83.34 million) provision is set to finance the implementation of Private-Public Partnership projects. These projects is expected to boost up the state's economy, creating positive spill-over effects on the overall property market and further revitalising housing and commercial property construction activities.

5 The Performance of the Property Market

It is obvious from the above discussion that property market performance is inter-related to the GDP growth and credit trends to the property sector in the banking system. Notably in the past years, property market is continuously backed by various government measures and initiatives due to its contribution to the various sectors in the economy. Property market performance is translated in the percentage change of transaction volume and value on an annual basis. The inter-relationship between the property market performance, GDP growth and credit trends to the property sector in the banking system is depicted in Figure 1.

As a summary, Figure 1 shows that when the economy cooled off in 2001 due to the global crisis of the New York September 11 and Iraqi war after-math, the property market softened and banking system recorded lower credit disbursements to property sector. In 2003, when the government introduced stimulus package and accommodative monetary policy to support economic activities, the market responded positively as indicated by higher upward trends of both transaction activity and value during the year. Likewise, the banking sector released more credits to property sector for the same year. A better performed property market and higher credit released to property sector went on throughout 2004.

Figure 1: % Change p.a. of GDP, Transactions Value and Volume and Credit of Broad Property Sector 2000-2008



	2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP (%) Growth	8.3	0.5	5.4	5.8	6.8	5.3	5.8	6.3	4.6
% change pa of Transaction Value	14.0	-1.4	0.0	12.4	38.2	-5.4	8.5	25.2	14.5
% change pa of Transaction Volume	6.2	1.1	-4.6	5.2	20.5	-5.7	2.7	9.0	9.9
% Change p.a of Creditof Property Sector	8.3	9.6	2.1	11.1	30.0	9.8	12.0	9.9	13.1

(Source: Dept of Statistics, Bank Negara Malaysia and NAPIC, 2001-2009)

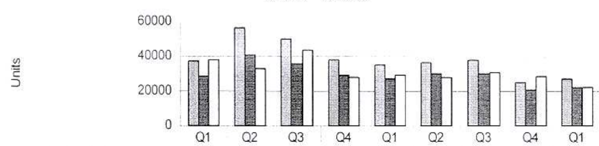
However, when there were signs of housing bubbles in the US market, the Malaysian market showed sliding trends for both transaction volume and value in 2005. At the same time, credit to property sector moved at a lower rate than the year before. In 2006, the property market rebounded and higher credit to property sector was recorded in the banking system as the Ninth Malaysia Plan roll-out during the year. More monies were pump into the economy via development projects and under various initiatives. In early 2007, the government temporarily shelved the Real Property Gains Tax on sales of property to further boost the market. Subsequently, the market reacted by registering higher upward trend for transaction value than transaction volume or credit disburse to property sector but on the whole these market indicators were on upswings.

As the global crisis emerged in 2008, based on transaction activity, the Malaysian property market grew in the first three quarters but declined in the last quarter of 2008 and onto the first quarter of 2009. Property supply responded swiftly, witnessed in dwindling construction activities; starts, completions and new building plan approvals. On the demand side, the market recorded lower number in sales of newly launched housing units, and increased number and value of overhangs.

5.1 The Supply Situation

The supply of houses in the market remained high albeit less than 135,000 housing units were completed in 2008, which was the lowest number since 2001. As showed by **Figure 2** more than 342,000 housing units were completed and entered the market in the past nine quarters. This accounted for an average of 38,000 units per quarter during the period. Similar trend was observed for housing units that started construction during the period. The started units in the same year declined to 108,000 units, whilst during the past nine quarters, the market recorded slightly more than 264,000 housing starts. On an average for the period, 29,335 units were recorded as start units. As for housing units that obtained building plan approvals, there were a total of 279,267 units. The figure accounted for 31,030 units per quarter during the stipulated periods. In the first quarter of this year, the market recorded lower completions, housing starts and building plan approvals to 27,080 units, 22,053 units and 22,391 units respectively (NAPIC, 2002-2009). This suggested that developers were cautious on embarking new projects but construction on the existing projects continued. As at the end of the first quarter of 2009, there were 4.23 million housing units in the existing supply throughout the country. At the same time, there were 545,000 units at various stages of construction in the incoming supply and another 669,000 units under the planned supply category (NAPIC, 2009).

Figure 2:: Residential Property - Completion, Starts & Building Plan Approvals
Q1 2007 - Q1 2009



	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Completions	37,275	56,327	49,668	38,080	34,663	36,378	38,210	25,083	27,080
Starts	28,275	40,632	35,832	29,209	27,339	29,738	30,208	20,727	22,053
Building Plan Approvals	37,534	33,075	43,680	28,048	29,150	27,794	30,452	28,478	22,391

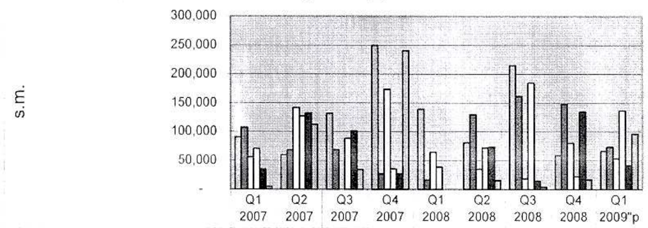
Period

For the shopping centre and purpose-built office sub-sectors, a total of 1.09 million s.m. retail space and 0.77 million s.m. office space were completed and entered the market in the nine quarters. These space added to 9.49 million s.m. and 15.60 million s.m. of space respectively in the existing supply as at the end of the first quarter 2009 (NAPIC, 2007-2009). During the period of nine quarters, an average of 121,255 s.m. retail space and 86,190 s.m. office space were completed per quarter. In the first quarter of 2009, about 66,600 s.m. of retail space and 136,200 s.m. of office space entered the market.

At the same time, the market recorded a total of 800,599 s.m. retail space and 560,914 s.m. office space had started construction in the nine quarters. The amount added to the under construction category to account for 1.63 million s.m and 2.05 million s.m in the incoming supply respectively. During the period of nine quarters, an average of 88,955 s.m. retail space and 62,324 s.m. office space were completed per quarter. In the first quarter of 2009, about 73,657 s.m. of retail space and 41,943 s.m. of office space started construction.

The market also had another 2.01 million s.m. retail space and 2.38 million s.m. office space in the planned supply category as at the end of the first quarter 2009. The amount included 53,110 s.m. and 95,761 s.m. of retail and office space that obtained building plan approvals during the period respectively. In the past nine quarters, a total 623,116 s.m. of retail space and 524,673 s.m. of office space obtained building plan approvals. The amount accounted for an average of 88,955 s.m. of retail space and 58,297 s.m. (Refer to Figure 3 below.)

Figure 3: Shopping Complex & Purpose-Built Office:
Completions, Starts & Building Plan Approvals Q1 2007 - Q1 2009



	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009"p
SC: Completions (sm)	90,373	59,908	131,52	249,91	138,90	80,752	214,67	58,566	66,684
SC: Starts (sm)	107,33	67,837	68,915	27,426	15,607	129,52	161,80	148,49	73,657
SC: Building Plan Approvals (sm)	56,006	141,86	-	173,59	64,447	35,218	18,499	80,375	53,110
PBO: Completions (sm)	70,793	126871	88605	35,846	38,285	71,528	184,94	22,463	136,28
PBO: Starts (sm)	35,368	132617	101460	27,082	-	73,114	14,517	134,81	41,943
PBO: Building Plan Approvals (sm)	4,652	112550	35118	240,53 2	-	15,178	4,145	16,737	95,761

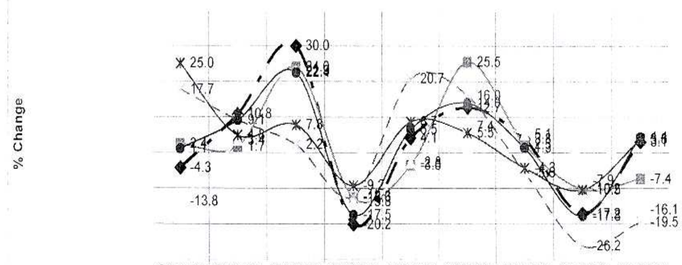
Period

To sum up, there are construction activities in the market but moderating in the light of the current economic development. The activities cover the main sub-sector of the property industry i.e. residential, purpose-built office as well as shopping centre. This can be viewed as the developers are aware of the economic environment and they are behaving accordingly in capitalising the government initiatives in the property sector.

5.2 The Demand Situation

In the past decade, demand in the property market as indicated by transaction volume remained sturdy. Since the first quarter of 2007, the market captured an average of 57,000 to 85,000 transactions per quarter (NAPIC, 2004-2009). In the first three months of this year, more than 79,000 transactions were recorded in the market through the country. This figure accounted for 4.4 per cent increased from the previous quarter.

Figure 4: Q-to-Q % Change of Transaction Volume Q1 2007 - Q1 2009

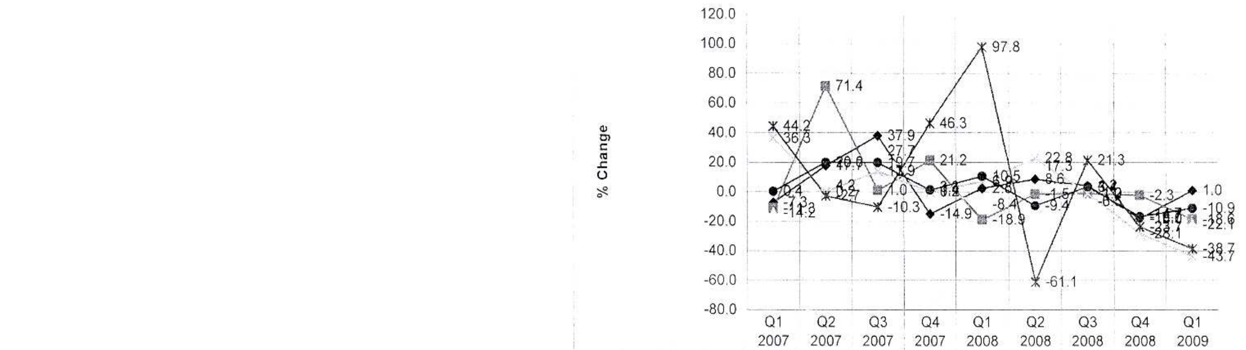


	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
residential	-4.3	10.8	30.0	-20.2	4.1	12.7	3.8	-17.2	3.1
Commercial	2.4	1.7	24.0	-12.6	-3.6	25.5	2.3	-10.2	-7.4
Industrial	-13.8	3.4	22.9	-13.8	-2.8	7.4	5.1	-7.9	-16.1
Agricultural	17.7	9.1	2.2	-12.3	20.7	16.0	-5.6	-26.2	-19.5
Development	25.0	4.8	7.8	-9.2	8.7	5.5	-4.3	-10.5	3.8
Total	1.1	9.1	22.4	-17.5	6.5	14.0	1.3	-17.8	4.4

By property sub-sector, the housing experienced moderate growth in transaction activity together with the development land. These sub-sectors recorded increases by 3.1 per cent to 50,741 transactions and 3.8 per cent to 3,477 transactions respectively. Commercial, industrial and agricultural property sub-sectors observed downward trends. Activities in the commercial property sub-sector had reduced by 7.4 per cent while activities in the industrial and agricultural property sub-sectors had shrunk by 16.1 per cent and 19.5 per cent from the last quarter, respectively. (Refer to Table 4 - Appendix C and Figure 4)

In term of transaction value, the overall value reduced by 10.9 per cent to RM16.86 billion for the same period. By sub-sector, only housing sub-sector had registered marginal growth by 1.0 per cent to RM9.34 billion. The other sub-sectors noted substantial declines between 10.9 per cent (development land) and 43.7 per cent (agricultural property). (Refer to Table 4 - Appendix C and Figure 5).

Figure 5: Q-t-Q % Change of Transaction Value Q1 2007 - Q1 2009



	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
Residential	-7.3	17.7	37.9	-14.9	2.5	8.6	4.2	-18.0	1.0
Commercial	-11.3	71.4	1.0	21.2	-18.9	-1.5	-1.2	-2.3	-18.6
Industrial	-14.2	4.2	27.7	3.3	-8.4	17.3	-6.5	-14.7	-22.1
Agricultural	36.3	0.2	13.9	0.2	6.9	22.8	-1.0	-28.1	-43.7
Development	44.2	-2.7	-10.3	46.3	97.8	-61.1	21.3	-23.7	-38.7
Total	0.4	20.0	19.7	1.4	10.5	-9.4	3.4	-16.7	-10.9

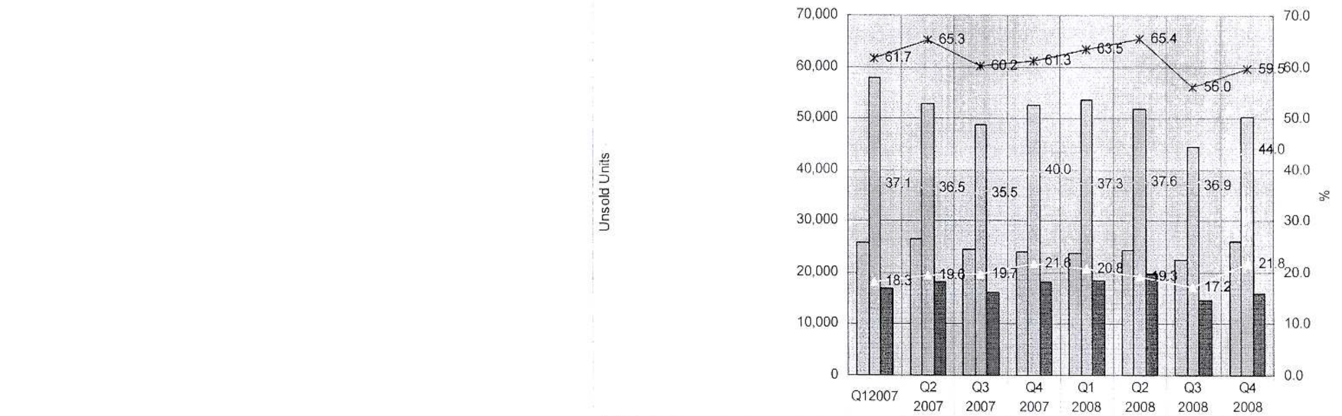
In the primary market, there were lesser housing units that were launched into the market in the past years. The sale performances of these units were less than 50.0 per cent. Table 5 shows the launched units in 2008 were lowest since 2003 except for 2006. These units were taken up within nine months after launching for sales.

Table 5: Number and Sales Performance of Housing New Launches from 2003 - 2008

	2003	2004	2005	2006	2007	2008
Units Launched	83,214	95,339	57,290	38,526	52,664	48,830
Units Sold	43,485	45,739	26,478	15,630	23,749	21,725
Sales Performance	52.3	48.0	46.2	40.6	45.1	44.5
Unsold Rate (%)	47.7	52.0	53.8	59.4	54.9	55.5

In the unsold housing category, the numbers had increased as at the end of 2008, after improving slightly a quarter before. These units had been in the market for more than nine months after launching for sales. Figure 7 shows that there unsold rates of 21.8 per cent for completed housing in the market. There were another 44.0 per cent of under construction and 59.5 per cent of not constructed housing units at similar period.

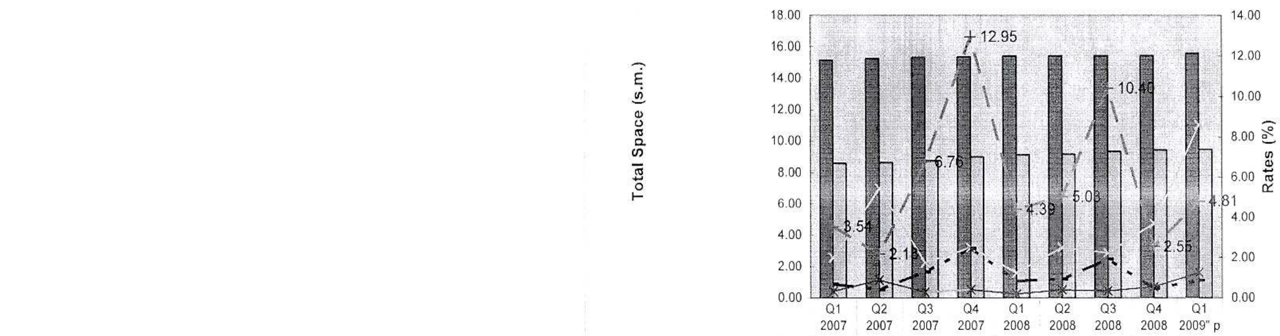
Figure 7: Unsold Housing Units & Unsold Rates by Category Q1 2007 -Q4 2008



	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
Completed Unsold Units	25,779	26,432	24,488	23,997	23,752	24,151	22,540	26,029
Under Construction Unsold Units	57,850	52,856	48,794	52,600	53,636	51,781	44,463	50,350
Not Constructed Unsold Units	16,825	18,286	16,221	18,072	18,402	19,619	14,768	15,978
Completed Unsold rate (%)	18.3	19.6	19.7	21.6	20.8	19.3	17.2	21.8
Under Construction Unsold Rate (%)	37.1	36.5	35.5	40.0	37.3	37.6	36.9	44.0
Not Constructed Unsold Rate (%)	61.7	65.3	60.2	61.3	63.5	65.4	56.0	59.5

In the purpose-built office and shopping complex sub-sectors, Figure 8 shows the quarterly performances of these sub-sectors since the first quarter of 2007. In the first quarter of this year, the absorption and take up rates of office space from purpose-built office buildings were higher than the previous quarters in 2008. This indicated that more spaces were taken up during this quarter than the previous ones. For the retail space from shopping centres, both the absorption and take up rates were moderating. Nonetheless, the occupancy rates for purpose-built office and shopping complex were higher than before to achieve 85.4 per cent and 81.9 per cent respectively (NAPIC, 2009). Thus, indicated that there was slower demand for retail space in the market as more space came on-stream during the period.

Figure 8: Absorption & Take Up Rates for Purpose-Built Office & Shopping Center Q1 2007 - Q1 2009



	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009" p
PBO : Total Space ('000,000 sm)	15.17	15.27	15.35	15.37	15.42	15.42	15.44	15.46	15.60
SC : Total Space ('000,000 s.m)	8.60	8.65	8.78	9.01	9.13	9.18	9.37	9.45	9.49
Absorption rate (%) PBO	1.99	5.44	1.76	2.51	1.24	2.51	2.24	3.7	8.6
Take-up rate (%) PBO	0.33	0.89	0.29	0.41	0.2	0.4	0.35	0.56	1.26
Absorption rate (%) SC	3.54	2.18	6.76	12.95	4.39	5.03	10.40	2.55	4.81
Take-up rate (%) SC	0.68	0.42	1.30	2.45	0.84	0.94	1.91	0.47	0.87

5.3 Property Price and Rental Performance

In the housing market, based on the Malaysia House Price Index, prices of residential houses had sustained in the final quarter of 2008. Malaysian All Houses Price Index (IHRM) had increased to 129.0 point during the period. Likewise for terrace houses to record 126.8 point but the high-rise units showed dropped of 2.9 percent to 117.5 point on an annual basis.

Table 6: The Malaysian House Price Index by House Type

Year	Quarter	All House		Terrace		High-Rise	
		Index	1-Yr % Change	Index	1-Yr % Change	Index	1-Yr % Change
2007	Q1	123.4	4.8	122.4	5.2	116.2	0.2
	Q2	123.7	4.4	120.5	3.4	118.6	3.7
	Q3	125.2	5.4	121.6	4.1	119.2	2.6
	Q4	125.9	2.9	122.6	2.0	121.0	3.7
2008	Q1	128.7	4.3	126.3	3.2	120.9	4.1
	Q2	128.9	4.2	125.5	4.1	121.1	2.2
	Q3	131.4	5.0	128.9	6.0	125.0	4.9
	Q4^P	129.0	2.5	126.8	3.4	117.5	-2.9

(Source: NAPIC, 2009a)

The overall rental market remained stable with increases recorded in selected buildings despite the current financial turmoil. Office space in quality buildings located in sought-after addresses of Kuala Lumpur, Petaling Jaya, Johor Bahru and Pulau Pinang still managed to secure upward rental revision upon renewal. Similarly for retail space in prime shopping centres, the rental rates showed some marginal upward trends with others moved slightly downward. This was on account that the rentals were determined earlier in the year when business sentiment was still high.

In the housing sector, the residential rental market generally sustained at last year's level with marginal increases in most areas across the country. In the prime locations in Petaling Jaya and Damansara localities, rental of double storey terrace increased 3.0% to 7.4%. In Pulau Pinang, apartment units in Gurney Park on the main island were up by 5.1% and in Johor, rental levels in most districts remained largely stable. However, downward rental pressures were evident in Johor Bahru, particularly for terrace units.

6 Conclusion: Moving Forward

Without doubt the Malaysian property market performance would be affected by the global crisis from demand, supply and pricing perspectives. However, as in the past, the government provided various measures and initiatives to encourage a healthy property market. Moving forward, these measures are expected to create various opportunities and challenges against the backdrop of economic uncertainties.

For the residential property, supply of new housing into the market would continue as housing is still considered as shelter for the population majority in Malaysia. In view of this, the government facilitates housing supply via various measures including availability of public funding and credit for construction sector in the banking sector. In addition, the government increased the loan availability among the public sector employees and made available credits to those without stable income. The government also ensures lower cost of borrowing in the banking system both for project as well as buyer financing.

From the demand aspect, the deferred of Real Property Gains Tax make investment in property sector appealing to some investors especially in the declining environment of stock market. The Stamp Duty waiver on transfer of affordable property from developers is expected to give some push for young people to buy housing units especially when the cost of borrowing is relatively low. The MM2H programme is likely to increase demand for high-end property at strategic locations through-out the country.

Thus, there is likely that house prices and rental levels would sustain as the Malaysian financial system is fundamental stable to meet the economic challenges. The government has to secure employment among the public at large, contained inflation rates in the economy and facilitate domestic demand.

In the Commercial property sector, the supply of retail and office spaces is likely to remain active if the government's plans to release prime government lands in strategic areas in Klang Valley materialise in the coming year. The government proposed in the Second Stimulus Package to have joint venture developments with the private sector and Government Link Companies to develop these lands. These lands are seen to have the development potential to international standards and design that could entice foreign funds to invest. Similarly, the implementation of several projects in the economic corridors such as the Iskandar Malaysia would push up development in Johor Bahru.

The performance of shopping complexes and purpose-built office would remain resilient in the coming year, as long as the government managed to secure employment among the public at large and business confidence in the economy. The Tax treatment to further promote REITs is anticipated to gauge higher demand for office space in the major cities of Kuala Lumpur, Petaling Jaya, Pulau Pinang and Johor Bahru in the coming year.

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APPENDIX A

Table 1: Gross Domestic Product (GDP), Property Transaction Value and Volume in Malaysia in 2000 - 2008

Year	Gross Domestic Product (GDP) (RM Billion)	*GDP (%) Growth*	Property Transaction Value (RM Billion)	% change pa of Transaction Value	% of Property Transaction Value to the GDP	Property Transaction Volume	% change pa of Transaction Volume
2000	356.40	8.3	39.20	14.0	11.0	239,981	6.2
2001	358.25	0.5	38.63	-1.4	10.8	242,634	1.1
2002	377.56	5.4	38.64	0.0	10.2	231,394	-4.6
2003	399.41	5.8	43.43	12.4	10.9	243,376	5.2
2004	426.51	6.8	60.01	38.2	14.1	293,318	20.5
2005	449.25	5.3	56.78	-5.4	12.6	276,508	-5.7
2006	475.19	5.8	61.60	8.5	13.0	283,897	2.7
2007	505.35	6.3	77.14	25.2	15.3	309,455	9.0
2008	528.80	4.6	88.34	14.5	16.7	340,240	9.9

(Source: Dept of Statistics Malaysia and NAPIC, 2001-2009)

APPENDIX B

Table 3: **Loans by Commercial Banks and Merchant Banks to Broad Property Sector (BPS) 2003-2008**

Year	Construction		Purchase of residential property		Housing Loans sold to Cagamas		Purchase of non-residential property		Real Estate		Total Loans of BPS	Total Loans to all sectors
	RM Billion	% Share	RM Billion	% Share	RM Billion	% Share	RM Billion	% Share	RM Billion	% Share	RM Billion	RM Billion
2003	29.50	15.6	116.33	61.6	0.23	0.1	28.80	15.3	13.89	7.4	188.74	473.98
2004	29.95	14.7	128.34	63.2	0.93	0.5	30.33	14.9	13.60	6.7	203.15	448.35
2005	29.99	13.1	148.65	64.9	0.54	0.2	35.12	15.3	14.68	6.4	228.99	526.78
2006	31.09	12.1	161.88	63.1	0.50	0.2	45.98	17.9	16.91	6.6	256.36	593.01
2007	32.14	11.4	173.19	61.5	1.17	0.4	54.96	19.5	20.32	7.2	281.78	644.24
2008	34.59	10.9	191.14	60.0	1.04	0.3	66.54	20.9	25.50	8.0	318.82	726.55

(Source: Central Bank Malaysia, 2004-2009)

APPENDIX C

Table 4: Volume and Value of Property Transactions Q1 2007 - Q1 2009

Period	Residential		Commercial		Industrial		Agricultural		Development		Total	
	Volume	Value ('000,000)	Volume	Value ('000,000)	Volume	Value ('000,000)	Volume	Value ('000,000)	Volume	Value ('000,000)	Volume	Value ('000,000)
Q1 2007	42,460	7,046.16	6,371	2,498.48	1,800	1,491.82	14,381	1,611.22	3,324	2,498.72	68,337	15,146.40
Q2 2007	47,038	8,290.06	6,478	4,282.94	1,861	1,554.13	15,688	1,615.16	3,484	2,431.94	74,549	18,174.23
Q3 2007	61,165	11,430.91	8,032	4,326.36	2,287	1,984.35	16,028	1,840.24	3,755	2,180.62	91,268	21,762.57
Q4 2007	48,819	9,723.48	7,019	5,242.96	1,971	2,049.87	14,058	1,843.57	3,408	3,190.81	75,301	22,059.94
2007	**199,482**	**36,490.61**	**27,900**	**16,350.75**	**7,919**	**7,080.17**	**60,155**	**6,910.19**	**13,971**	**10,302.09**	309,455	77,143.14
Q1 2008	50,806	9,962.93	6,768	4,251.35	1,915	1,877.95	16,970	1,970.86	3,703	6,309.95	80,163	24,373.50
Q2 2008	57,234	10,819.72	8,491	4,188.21	2,057	2,201.96	19,689	2,420.49	3,908	2,453.24	91,379	22,083.63
Q3 2008	59,428	11,276.26	8,689	4,136.42	2,162	2,059.67	18,585	2,397.21	3,741	2,975.70	92,607	22,845.46
Q4 2008	49,234	9,245.06	7,801	4,039.94	1,992	1,757.85	13,710	1,723.55	3,350	2,270.56	76,091	19,039.26
2008	**216,702**	**41,303.97**	**31,749**	**16,615.92**	**8,126**	**7,897.42**	**68,954**	**8,512.11**	**14,702**	**14,009.46**	340,240	88,341.84
Q1 2009*p	50,741	9,340.87	7,223	3,289.37	1,672	1,369.54	11,039	971.18	3,477	1,392.91	79,450	**16,958.66**

(Source: NAPIC, 2007 - 2009)
*p = preleminary data

Notes:

Absorption rate: $\frac{\text{(Occupied space in Current Q - Occupied space in the previous Q)}}{\text{(Existing stock in current Q - Occupied space in Current Q)}} * 100$

Take-up rate: $\frac{\text{(Occupied space in Current Q - Occupied space in the previous Q)}}{\text{Existing stock in Current Q}} * 100$

Occupancy rate: $\frac{\text{Occupied space in Current Q}}{\text{Existing stock in Current Q}} * 100$