

Home & Living - Money & Legal



Share / Save 43 人已赞好，成为你朋友中的第一位吧! PREVIOUS PAGE

October 12, 2011

Malaysia property cycle and how to mitigate its risk?



Dr Peter Yee started out as an educator. Along the way, he attained a long list of degrees including a Doctorate in Business Administration (DBA) from Golden State University, USA, majoring in Investment Management, a Master in Business Administration (MBA) from the University of Dubuque, USA, a Diploma of Computer Education from Hyogo University, Japan and a Bachelor of Science (Hons) in Chemistry from the National University, Malaysia.

Over the years, he became a management training consultant, stock broker/remisier, restaurant owner, property investor and property investment coach. Today, he is financially free and has "retired" from full-time work. Yee is the author of property investment books titled, *You Can Become Rich in Property* and *The Certain Way to Life's Riches*.

He runs *How to Make Money from Residential, Commercial and Auction Property* workshops in Malaysia. For more information on upcoming workshops, SMS <Residential or Commercial or Auction> <Your Name> <Email> to **017-2491077** or visit www.balancelifesuccess.com

Malaysia's Property Market

For the past few years, property prices within the Klang Valley and Penang have appreciated dramatically between 20% to 80%. Property prices in smaller towns and the rural area have also appreciated. The price appreciation began with the upper-medium to high-end Condominiums and landed residential property such as Semi-Ds and Bungalows. Foreigners can now buy an unlimited number of property costing above RM500,000 in Malaysia. If a buyer sells their property within 5 years of owning it, they will only have to pay a Real Property Gains Tax (RPGT) of 5%. This relatively low RPGT and easy financing has encouraged speculation on properties above RM500,000 by foreigners as well as by locals. The price appreciation has also spilled over to affect medium cost residential, commercial property and land. The latest trend is interest in the primary market for small sized property such as the Small Office Home Offices (SoHos) and in the secondary market for Condominiums in Petaling Jaya and shop offices.

The Malaysian Demographic

Malaysia's population by the end of 2010 was at 28.3 Million. Currently, about 60% of the Malaysian population is below the age 30. Baby boomers born during 1979-1985 (age 26-32), are now in the work force. Besides this, Malaysians have relatively high savings about 35% and a relatively low unemployment rate of about 3%. These factors have fueled the demand for housing which in turn caused residential property prices to appreciate. Malaysia property prices are relatively cheaper compared to the property prices which have escalated in China, Hong Kong and Singapore. This has attracted foreigners to invest in high-end properties in Malaysia.

Global Economy

The Quantitative Easing QE1 of US\$ 1.3 Trillion and QE2 of US\$ 600 Billion has caused huge capital inflows into Asia and emerging countries. The sudden increase in the supply of US dollars in the international market has weakened the US Dollar relative to other currencies and has accelerated imported inflation in many countries around the world. Money is like water, it flows from countries with low return to countries with higher return. This surge of international funds has flowed searching for higher yields within the Asian countries. Some of the money has flooded the high growth high savings countries such as China, Singapore, Malaysia and other emerging countries. China's property price in major towns have doubled for the past 5 years. China, Singapore, Hong Kong and Malaysia have imposed cooling measures such as Loan to Value (LTV) ratio to 50%-70%. LTV is used to limit the maximum loan amount of a property. Hong Kong has limited foreign purchases especially from China. The Global economy is projected to contract to 3.2% next year due to slow down in China, Europe debt crisis, stagnation in Japan and US economic crisis.

Malaysia Household Debt

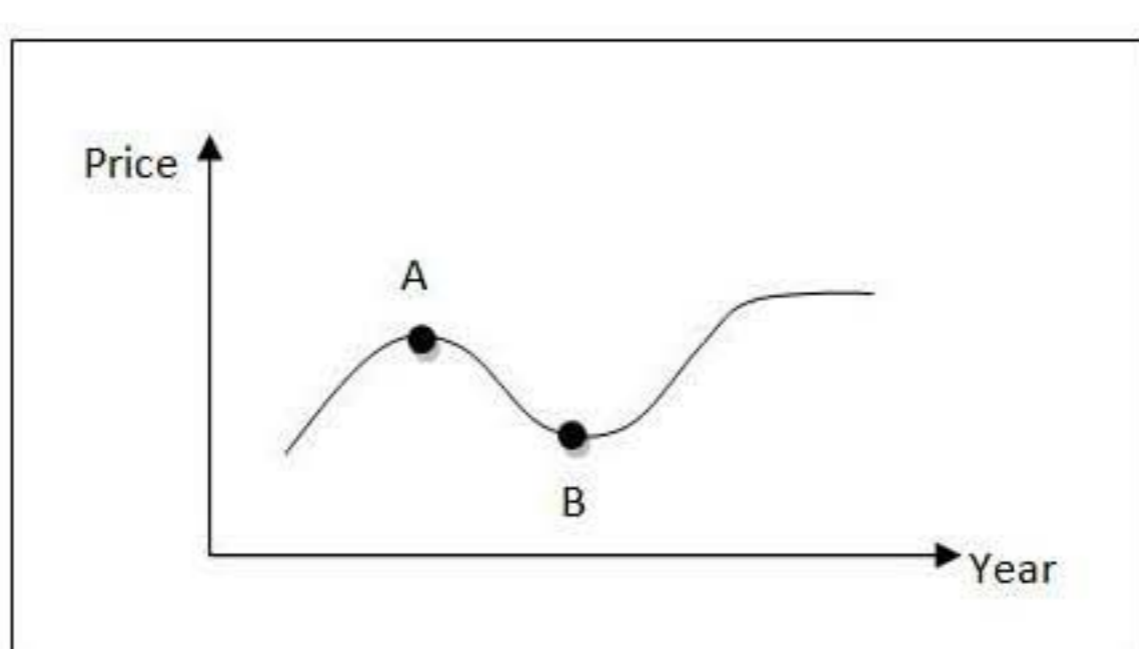
The current low interest rates and high liquidity in the financial system has encouraged people to borrow to purchase properties, cars and holidays. Since 2008, Malaysia's household debt service ratio, which measures the ratio of debt payments to disposable personal income has jumped to 47.8% or RM581.3 billion last year. A major portion of property investment is financing via bank loans. To date, the total percentage of loans in the household sector consist of 50% for housing, 24.4% for passenger cars and the remaining for the purchase of shares and personal use.

Property Market Cycle

From my observation and property investment experience since 1988, the property market is non-linear, it is cyclical. As day is followed by night and night is followed by day, every property boom is followed by a property bust and after every bust, it is followed by a boom. Only the quantum and the duration of each of the property boom and bust differ. The basis for the formation of boom bust cycle is human psychology. When people have gone through a period of hardship, they are willing to work hard and accumulate more savings. When people are living in an affluent environment, they tend to become complacent, spend and accumulate more debts.

The Malaysian property market is seasonal, after summer, it is followed by autumn then winter and spring. Each season may last for a few years. Summer is during property boom cycle and winter is during the bust or crisis cycle. Malaysia's property cycle appears to be at the ending of the property summer or boom cycle.

In my opinion, the Malaysia property market lag behind the US and European property market about 12 years. The Malaysian and Asia property market cycle can be described as being at point A while the United States of America (US) and European property market cycle at point B below.



Following the crisis, property in the US and European countries will boom in the future. Malaysia's property boom will bust in the future. Due to the weakening US dollar, Euro and Pound, relative to the currency in Asia, as well as the low property prices in US and European Countries compared to high property prices in Asia, funds are beginning to flow back to US and European Countries. The probability of price correction of inflated property price in Malaysia is very likely over the next few years because of oversupply, increased inflation and unemployment rate, Malaysia's strengthening currency and changing sentiments.

The critical property sector which may be impacted are the high-end residential properties. This is because it is out of the range and affordability of most Malaysians. Residential property catering to the middle income group for the 60% of the baby boomers below the age 30 will still sell well. Developers may build more residential property costing below RM500,000 which is within the affordable range of many young working Malaysians for many years to come. We cannot compare our residential property prices with our neighboring country such as Singapore as their per capita income much higher than Malaysia, thus increasing their purchasing power. The demand for property above RM500,000 may be from the older Malaysian population who have already made their money (old money) and foreigners from Singapore, China and Hong Kong.

How to Mitigate Your Property Investment Risks?

Malaysia's property market is at the property summer season, whereby the possible risk in property investment is that purchasers may be buying property at the highest price. According to the "Greater Fool Theory", during the property summer season, property prices escalate, everyone wants to buy and sell to make quick money. All the greater fools make money except last one left owning the property or the greatest fool. Similar to the game of musical chairs, when the music stops, the last person will be eliminated from the game. Greatest fools holding appreciated property may be unable to get tenants or sell their properties. For those who were unable to service their loans, their property will force sold via auction by the banks.



From my experience in 1998, the property market came to a complete stand still. Interest rates suddenly escalated. Tenants and purchasers disappeared, whilst buyers had to pay higher bank monthly repayment and additional monthly maintenance for high-rise property. History always repeats itself.

If you have bought from primary sources of property which will be completed within the next 2-3 years, the chances of entering into the property autumn season is higher. This means the potential capital gain may be limited and increase in competition to get tenants and purchasers due to an oversupply.

Property is very location specific and localized. Certain locations have higher potential capital gain and are resistant to recession. For some other locations, the property is very sensitive to the changes in the economy. Property in a town or near town area are usually more stable in price compared to property in the rural area. Once a development project starts, it cannot be stopped. For example, a 20 storey condominium. After building 2 floors, development has to go on despite the changes in the economy or changes in demand and supply. Developers should plan and phase out building construction very carefully. As an investor, to mitigate your risk, you may consider delaying your purchase or purchasing the property after it has been completed.

For home buyers, it is suggested that your monthly repayment is preferably less than 30% of your house-hold income. Do not over commit and get into financial trouble unnecessarily. Buy a home within your budget or alternatively you may choose to rent first and purchase later.

For flippers or speculators who plan to buy now and sell at higher price after completion of the development project. The risks are getting higher now. Always keep in mind, if the economy turns south, will you be able to serve the monthly bank repayment and maintenance fees. If not, within six months to a year, your property may be force sold via auction at a lower price by the bank.

For investors who plan to buy from the secondary market or completed property, calculate your yield before purchasing. If the yield is less than the borrowing cost, you may have bought a liability as the capital gain may be limited for the appreciated property.

The property market is changing constantly following what is happening in world markets. We cannot change the direction of the wind but we can adjust our financial sails to reach our financial goals. Due to many property developments over the past few years, the anticipation of property oversupply in certain location is getting higher, you may consider changing your property investment strategy from capital gain to a cash flow strategy. Also consider restructuring your portfolio by selling and taking profit of your appreciated non income generating property.

If your property investment reduces your quality of life, you might have invested wrongly or bought a liability instead of an asset. Review your portfolio to ensure that your property is an asset that provides positive cash flow and/or potential capital gain. Buy up or sell down to adjust your portfolio until you can sleep well, as the peace of mind is one of the ultimate riches in life.

More articles on property investment:

- [Dr Peter Yee, academician turned property millionaire](#)
- [Q&A: Is it best to wait until prices catch up in the next few years before selling?](#)
- [Should you invest in overseas properties?](#)
- [Azizi Ali, captain of his domain](#)
- [Leverage on the benefits of refinancing](#)

PREVIOUS PAGE

LATEST NEWS / ARTICLES

 17 Oct 2011 A cosy makeover	 17 Oct 2011 Sleek and chic	 14 Oct 2011 'SS' prefix in PJ	 13 Oct 2011 Garden for the Golden Years	 12 Oct 2011 Malaysia property cycle and how to mitigate its risk?
---	---	--	--	---

OTHER INTERESTING NEWS / ARTICLES

- » [Piccolo: The Eco-Friendly Hotel](#) 14 Aug 2009
- » [Home for a growing family](#) 05 Apr 2011
- » [Interview with Datuk Micheal Yam](#) 11 Oct 2010
- » [Double facelift for terrace house](#) 05 Sep 2011
- » [A Creative Home With A Unique Theme - Part B](#) 04 Sep 2009

MOST VIEWED NEWS / ARTICLES

- » [Awe-inspiring bamboo house in Sierramas](#) 19 Sep 2011
- » [A homecoming for Mei Sze](#) 03 Oct 2011
- » [Modern appeal](#) 26 Sep 2011
- » ['SS' prefix in PJ](#) 14 Oct 2011
- » [Joey Yap: Taking Measures in Feng Shui \(Part 1\)](#) 21 Sep 2011

Why INVEST In Property? 20% ROI With Deposit Protection - That's Why! Find Out More, Free. global.com/Property_Investment	How to buy property in UK Most pay too much. Learn how to invest smarter in the UK. www.vpc-group.sg/freeseml AdChoices
--	---