

Property: Mini corrections on the horizon

by Lim Siew May

PROPERTIES were in hot demand in major cities such as Kuala Lumpur and Penang last year. Asking prices escalated substantially in a matter of months, yet buyers flocked to new property launches — never mind that terraced houses were going for more than RM1 million each. Even at auctions, where one could acquire properties at a lower price, many properties were reportedly sold at above-market value. Rising household debts shows the bullish sentiment for real estate. Household debts to gross domestic product rose to 76% in 2009 from 64% in 2008, and it is estimated that 50% of household loans are made up of property loans.

But such heydays appear numbered for the property sector.

Experts *Personal Money* spoke to say higher-end properties could see lower capital appreciation and rental yields this year while Bank Negara may introduce more measures to cool the property market.

A CAP ON PRICES

Dr Yeah Kim Leng, chief economist at RAM Holdings, believes that the increasing supply of mid- to high-end properties will cap the price of such properties. "In 2011, we are not likely to see the double-digit price increments that we experienced recently. Prices will level off largely because of supply and declining affordability."

Although prices have been trending up over the years, it is unlikely that they will collapse, says Yeah, although some properties may experience a mini price correction of 5% to 10%. "Any correction will apply to those properties

that are very high-end, such as multi-million ringgit landed properties or condominiums," he says.

James Tan, property consultant at Raine & Horne International Zaki + Partners, agrees that property prices will not plunge. "About 60% to 70% of demand comes from owner-occupiers, while speculators make up the remaining 30% to 40% of the market. Because prices have moved up so quickly lately, buyers will not follow. They may hold back even if they want the property," he says.

Peter Yee, author and property coach, predicts that prices will hold or move sideways in 1Q2011 before slowing down in 2Q2011. "A lawyer I know says his work in drafting sale and purchase agreements has increased five-fold since the middle of last year. In my opinion, the property summer



Prices of mid-to high-end properties will level off because of supply and declining affordability

INVESTMENT STRATEGIES: Peter Yee

With over 20 years of experience in property investment, former secondary school teacher Dr Peter Yee regularly conducts workshops on property investment. Here are his investment strategies for 2011.

1 How are you investing in 2011, and why?

I plan to buy and keep properties that are 10% to 20% below their market prices. They need to have gross yields of at least 6% (for landed commercial property) and 8% (for high-rise residential property). A property portfolio should generate both cash flow and capital gain.

2 How do you identify bargain properties?

I only focus on locations that I am familiar with, mainly the area between home in Selayang and the KLCC area. Here, I search for secondary market properties on a regular basis by paying attention to the "For Sale" signboards on homes, trees and lamp posts. Then, I will call and ask about the offer price. If the price is 10% to 20% below market price, I may consider buying. If the signboard is still there after six months to a year, it may indicate that the seller is more motivated to sell. In this case,

I will call again and ask for the expected price, then negotiate with the seller for a better price. I also look out for auction signboards and check websites such as www.auctionnetwork.com.my for auction properties priced between 30% and 50% below its current market price. This way, I am more likely to acquire the property at 10% to 20% below its market value during the bidding process. By investing in an area that you're familiar with and managing your properties and tenants well, you can make money even if the homes are located in Rawang or Nilai.

3 What types of property are you considering?

I am focusing on landed commercial properties such as shop-offices, high-rise medium-cost apartments and condominiums. Landed commercial properties can give you relatively high capital gains due to the lack of consistent supply. In comparison, high-rise medium-cost residential properties offer consistent and higher yields. In Budget 2011, it was announced that a full loan (of 100%) would be provided for buyers with a family income of less than RM3,000 when they purchase residential properties worth less than RM220,000. This implies that demand for such residential properties will increase and this gives rise to the possibility of making further capital gains. Generally, medium-cost residential properties do not



experience significant capital appreciation but this move may make buoyant the prices of homes in the RM100,000 to RM150,000 range.

4 What is your preferred method of acquiring properties?

I will buy from the secondary and auction markets. Auction properties have the shortest transaction time, which is between 90 and 120 days. The secondary market takes about six to nine months. Buying a property from developers takes about two to three years. At my age, buying from a developer takes too much time. ■ *By Lim Siew May*

season (the hot' season) started in mid-2010. But a friend of mine, who works as a property agent, says the positive uptrend slowed after Bank Negara Malaysia announced implementation of the 70% loan-to-value (LTV) ratio." Late last year, the central bank said those buying their third residential property could only take a loan of up to 70% of its purchase price.

Now, the property market may slow down and enter an "early

autumn season" (a cooler period where demand is not as robust), he says. "Selected property types and areas have become overpriced. There is a possible oversupply from completed projects, such as high-end, high-rise residential property in KLCC and Mont'Kiara. Meanwhile, buyers have to start servicing monthly loan repayments once the property is handed over. At that time, they may decide to rent out or sell their properties."

RENTALS HOLD STEADY

Major changes are not expected in the rental market. "We will not see a sharp increase in rents. The yield should be between 3% and 5%. High-end condominiums, however, may face downward pressure in rental yields due to increasing supply. Vacancy rates are quite high for such condominiums. Unless we can attract enough people or expatriates with that kind of earning power and are willing pay a rental of about