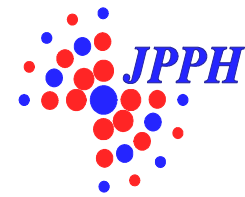




Valuation & Property Services Department
Ministry of Finance Malaysia



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Press Release

Malaysian Property Market 2008

The Malaysian economy in 2008 recorded a respectable performance in the light of the global financial crisis, with growth in real domestic product (GDP) expanding at 4.6% (2007: 6.3%). Growth was supported by domestic demand, driven mainly by private consumption and public spending. The services sector remained the highest contributor to GDP and recorded a moderate expansion, backed by growth in wholesale and retail trade as well as accommodation and restaurant sub-sectors. Manufacturing sector grew at a lower rate, particularly due to the contraction in export-oriented industries. Construction sector also moderated further on account of weaker civil engineering segments despite lower prices of building materials and steel. Meanwhile, the mining sector contracted following lower oil and gas output. Nonetheless, growth in the agriculture sector was better than 2007, amidst a moderation in the production of palm oil and decline in rubber output, supported by the early year gains from high exports of commodity.

The Malaysian property market grew in the first three quarters, in line with the sustained GDP growths but declined in the last quarter of 2008. Nevertheless, on the whole, the country's property market remained on a favourable track supported by the confidence in the stability of the Malaysian's economy. The property market recorded lower number in sales of newly launched housing units, and increased number and value of overhangs. Property supply responded swiftly, witnessed in dwindling construction activities; starts, completions and new building plan approvals.

The market recorded 340,240 transactions valued at RM88.34 billion during the year. The transaction volume recorded a 9.9% increase (2007: 309,455 transactions) whilst value grew by 14.5% (2007: RM77.14 billion) against 2007. Residential property sub-sector remained as the most dominant sub-sector comprising 63.7% of the total volume and 46.8% of total value of transactions. Agricultural property came second forming 20.3% of the total transactions, followed by commercial property at 9.3%, development land at 4.3% and industrial property at 2.4%.

All states recorded growths in the market volume with the exception of Putrajaya (-34.3%), Kelantan (-8.1%) and Melaka (-6.2%). Sarawak recorded the highest increase of 47.0%, followed by Labuan at 25.3% and Kuala Lumpur at 25.0%. In Sarawak, the substantial increase in all sub-sectors except commercial accounts for the state's substantial growth. Meanwhile, the increase in Kuala Lumpur's market volume was due mainly to the residential and commercial market activity, which saw increases of 25.0% and 35.1% respectively. Major states such as Pulau Pinang, Selangor and Johor recorded increases of 8.8%, 5.8% and 1.8% respectively.

Residential Property

The residential property sub-sector continued to spearhead market transactions by contributing 63.7% and 46.8% of the transaction volume and value, respectively. In total, 216,702 transactions worth RM41.30 billion were recorded in 2008 against 199,482 transactions worth RM36.5 billion in 2007. The performance of the states was mixed. Ten states recorded positive growths in market activity with Sarawak leading the highest increase of 45.3%, followed by Labuan 43.8% and Pahang 32.2%. Selangor formed the lion share capturing 29.6% (64,175 transactions) of the residential market followed by Perak 12.1% (26,153 transactions) and Johor 10.9% (23,589 transactions).

Generally, the average price of all property sub-sectors was on the upward. According to The Malaysian All House Price Index, the All House Price Index for the country was 129.8 points for 2008. Compared to 2007, the index point increased by 4.7% (2007: 124.0 points). Correspondingly, the price of the "average" all houses increased but at a slightly lower rate of 2.4% from RM174,410 in Q4 2007 to RM178,632 per unit in Q4 2008. Kuala Lumpur had the highest price level in the country at RM378,772. Sabah and Selangor followed at RM266,737 and RM263,754 respectively.

By price range, houses priced below RM200,000 continued to be the most sought after, comprising 75.1% (162,689 transactions) of the total market volume. Continued popularity was also observed for houses priced beyond the RM500,000 mark recording transactions totalling 5,735 in 2005, 7,274 in 2006, 9,661 in 2007 and 11,267 this year. Selangor accounted for almost 45% (5,047 transactions) of this price category, followed by Kuala Lumpur at 33.3% (3,753 transactions).

By type, housing units formed 84.1% (181,831 transactions) of the total residential property transactions whilst vacant plots formed 16.1% (34,842 transactions). The most favoured housing transactions comprised terraced units, contributing 40.8% (88,176 transactions) to the total volume. Condominium/apartment and low cost houses followed with 12.0% (25,934 units) and 6.7% (14,544 units) respectively. Landed housing units dominated the residential market activity in all states except Kuala Lumpur and Pulau Pinang. In Kuala Lumpur, high-rise units comprising condominium/apartment, flat and low-cost flat captured 65.0% (12,243 transactions) of the market share whilst in Pulau Pinang, these properties collectively made up 52.8% (8,603 transactions) of the total residential property volume. Meanwhile, in Kelantan and Terengganu, vacant plots were the most prevalent forming 75.8% (2,007 transactions) and 67.6% (6,741 transactions) of the respective state's market share.

The primary market did not perform as well as the previous year. There were 48,830 new housing units offered for sale of which 21,725 units were taken up. This showed an average sales performance of 44.5% which was slightly below last year's performance of 45.1%. Since 2003, the sales performance had been on a declining trend from 52.3% in 2003 to 48.0% in 2004, 46.2% in 2005, 40.6% in 2006 and 45.1% in 2007: The declining market absorption indicated a declining confidence in the housing market possibly due to the economic turbulence currently faced worldwide. Johor has overtaken the lead from Selangor as the state having the most new units launched (9,507 units). Selangor and Kuala Lumpur trailed with 8,037 units and 6,794 units respectively. Combined, the three states accounted for 49.8% of the country's new units launched. Perlis again recorded the highest sales performance at 79.4%, but the numbers were much lower compared to 591 units launched in 2007 (2008: 160 units). Terengganu and Selangor followed, each at 68.8% and 67.9% respectively. The three states with the lowest sales performance were Sabah (20.7%), Kedah (28.5%) and Johor (31.1%). By type, terraced units

comprising 13,623 single storey terrace and 15,111 units of two to three storey terrace formed 58.8% (28,734 units) of the new launches. Terraced units priced at RM150,000 and below formed about 28.5% (13,911 units) of the nation's total in new residential launches.

In tandem with the dismal performance of the primary market, the number of residential overhang increased by 9.1% to 26,029 units against 23,866 units recorded in 2007. Correspondingly, the overhang value increased by 17.3% to RM4.48 billion compared to RM3.82 billion in 2007. The three states in the lead were Johor with 7,001 units, Selangor with 4,585 units and Sabah (2,626 units). By type, two to three storey terrace and condominium/apartment formed the biggest share in the overhang numbers. Each contributed 24.9% (6,480 units) and 27.4% (7,132 units) of the residential overhang respectively. On a positive note, the unsold units under construction and not constructed category were decreasing. The unsold under construction decreased to 50,350 units from 52,232 units recorded in 2007. This indicated a small reduction of 3.6% from last year. The unsold not constructed units decreased by 10.6% to 15,978 units compared to 17,871 units registered in 2007.

On the supply side, the development of residential property was very cautious with dwindling numbers in starts, completions and new building plan approvals. The number of completed units decreased by 28.1% from 181,123 units in 2007 to 130,309 units. Housing starts declined by 19.5% to 107,856 units against 133,948 units recorded in 2007. Likewise, new building plan approvals fell by 18.7% from 140,995 units in the same period to 114,661 units. As at year-end 2008, the total existing housing stock in the country stood at 4,193,150 units, incoming supply at 551,263 units and planned supply at 673,871 units.

Shops

Shops sub-sector was the main contributor to the commercial property sub-sector activity accounting for 63.3% (20,096 transactions) of the volume and 51.4% (RM8.55 billion) of the value of transactions. Compared to 2007, the volume of shop transactions increased by 8.0% (2007: 18,607 transactions) likewise value grew by 13.1% (2007: RM7.56 billion). Selangor, Johor and Perak were the three most active states comprising slightly under half (47.4%) of total shops transactions and 49.5% (RM4.24 billion) of total value of shops transactions. Selangor continued to lead in transaction volume by capturing 18.1% (3,634 transactions) of the market share, followed by Johor 15.1% (3,035 transactions) and Perak 14.2% (2,864 transactions). Correspondingly, Selangor registered the highest value of RM2.43 billion in shops transaction, followed by Kuala Lumpur at RM1.40 billion. By type, two to two-and-a-half storey shops were the most favoured comprising 53.6% (10,776 transactions) of the market share. Three to three-and-a-half storey shops followed with 24.8% (4,980 transactions) and retail shop lots with 12.8% (4,052 transactions).

Despite the dismal market performance, the overhang situation improved slightly. A total of 4,776 unsold units were recorded compared to 4,951 units last year, showing a reduction of 3.5%. The overhang value though increased 5.2% to RM1.43 billion from RM1.36 billion recorded in 2007.

Construction activities in the shop sub-sector faced a similar fate as the residential sub-sector. Completions, starts and new building plan approvals decreased. Completions declined by 6.0% (9,987 units) during the year against 10,619 in 2007. Likewise, starts fell below last year's figures by 1.4%, from 11,058 units to 10,907 units, whilst new building plan approvals drop by 8.9% to record 12,105 units (2007: 13,281 units). At year end 2008, there were 343,020 units (2007: 333,033 units) of existing completed shops in the country with 46,030 units (2007: 45,110 units) in the incoming supply and 56,626 units (2007: 55,428 units) in planned supply.

Shopping Complex

The performance of shopping complexes remained resilient in 2008. The sub-sector witnessed further annual take-up at 412,578 s.m. though lower than 573,812 s.m. recorded last year. Nonetheless, the national average occupancy rate improved slightly from 80.8% to 81.1%. The performance of states was healthier with 11 states noting occupancy rates above the national level. The five states that fell below were Johor (64.8%), Pulau Pinang (69.7%), Melaka (75.5%), Sarawak (78.4%) and Kedah (79.0%).

Total retail space in Kuala Lumpur remained unchanged from last year at 2.13 million s.m, accounting for 23.2% of the nation's total. Retail space in Selangor meanwhile stood at 1.997 million s.m. (21.8%). Both states enjoyed a sustainable demand on account of nil addition to total space thus achieving occupancy rates hovering at last year's level; Kuala Lumpur at 84.0% (2007: 84.9%) and Selangor at 90.5% (2007: 90.1%). Pulau Pinang and Johor, ranked the third and fourth highest retail space providers in the country, were amongst the states that recorded the lowest occupancy rates.

The year saw a 5.4% increase in total retail space in shopping complexes. The increase came from 29 newly completed buildings offering 472,347 s.m. of space. With this addition, the country's stock of retail space stood at 9.16 million s.m. Almost all states had additions of newly completed space except Kuala Lumpur, Selangor, Putrajaya, Labuan, Negeri Sembilan and Perlis. The major contributors of the newly completed space were Sabah with 130,831 s.m., followed by Sarawak 79,895 s.m., Pulau Pinang 65,202 s.m., Johor 53,297 s.m. and Perak 47,905 s.m. Combined, the five states accounted for almost 80.0% of the country's newly completed retail space.

Meanwhile, 20 shopping complexes started construction this year which will offer 439,874 s.m. of retail space upon completion (2007: 302,566 s.m.). The bulk of the starts were located in Johor totalling 163,817 s.m. of space, followed by Pulau Pinang (94,360 s.m.), Melaka (66,074 s.m.) and Kuala Lumpur (31,792 s.m.).

Purpose-Built Office

The average occupancy rate sustained that of last year's at 85.1%, despite the decline in the annual take-up difference of 274,193 s.m., lower by 40.8% compared to 2007 (463,372 s.m.). Across the country, the sub-sector's performance was mixed. Nine states observed a higher occupancy rate than last year. Perlis remained the leader, scoring 100% occupancy and maintaining its performance since 2005. 12 states recorded occupancy rates above the national average, an increase from nine last year. The five states in the lead were Perlis (100%), Terengganu (98.8%), Kelantan (96.0%), Melaka (95.4%), and Pahang (94.1%) whilst the four that recorded below the national average were Kuala Lumpur (82.4%), Johor (79.4%), Pulau Pinang (75.5%) and Labuan (54.8%).

On the supply front, the year saw 24 buildings completed offering 314,982 s.m. of new office space, up by 4.1% over last year. The new completions increased the total supply of existing space in the nation to 15.29 million s.m. (2007: 14.97 million s.m.). Contrarily, construction starts declined from 330,477 s.m. in 2007 to 117,129 s.m., which led the incoming supply to decrease by almost 10.0% (2008: 1.87 million s.m.; 2007: 2.07 million s.m.). Kuala Lumpur contributed the bulk of the construction starts at 46,451 s.m., followed by Selangor (29,284 s.m.), Putrajaya (11,700 s.m.), Johor (10,695 s.m.), Labuan (8,800 s.m.), Perak (2,942 s.m.), Kelantan (1,972

s.m.) and Kedah (880 s.m.). Similarly, new building plan approvals dropped from 407,534 s.m. in 2007 to 31,649 s.m.

Industrial Property

The industrial property sub-sector remained as the least significant sector in the property market accounting for 2.4% and 9.6% of the country's total volume and value of transactions respectively. A total of 8,126 transactions worth RM7.9 billion were recorded, which was an increase in volume by 2.6% compared to 2007 (7,919 transactions) and in value by 11.5% (RM7.08 billion). Terraced factory/warehouse was the most favoured property type capturing 38.7% (3,144 transactions) of the market share, followed by vacant industrial plots at 29.2% (2,370 transactions). By price, industrial property in the range of RM250,000 and RM500,000 continued to be the most sought after, comprising 29.7% (2,415) of the total transactions.

Eight states registered decreases in the number of transactions, recording a reduction of 1.6% (Pulau Pinang) to 28.6% (Kedah) over last year's figures. Leading the states in industrial transactions was Selangor with 2,812 transactions followed by Johor (905 transactions) and Perak (828 transactions), each capturing 34.6%, 11.1% and 10.2% of the market share respectively.

In line with the dismal outlook in industrial activities, the number of industrial overhangs, unsold under construction and unsold not constructed units grew by 30.7%, recording 2,037 units this year against 1,559 last year. Of the year's total of unsold units, industrial overhang units made up 32.9% comprising 670 units worth RM342.41 million. Although the value increased, the difference was marginal by 1.0% from RM339.05 million in 2007. Selangor again led with the most overhang (224 units), followed by Johor (152 units), Perak (57 units) and Pahang (40 units).

The construction of industrial properties was less active in 2008. Across the board, completions and starts shrank but new building plan approvals increased marginally. Completions fell by 7.9% from 847 units last year to 780 units. Likewise construction starts showed a substantial decrease by 31.1% from 655 units in 2007 to 451 units. Conversely, new planned supply recorded an increase of 1.9% to 1,326 units (2007: 1,301 units). With 780 new industrial units completed in the year, the existing industrial stock in the country totalled 90,347 units. Selangor had the most new units completed in 2008 (214 units) followed by Sarawak (164 units) and Perak (120 units). Selangor had the most industrial starts with 88 units followed by Sarawak with 85 and Johor with 82 units. For new building plan approvals, Sarawak led by having the most building plan approvals (373 units) followed by Kedah (175 units) and Selangor (160 units). The planned supply in the country stood at 23,488 units (2007: 22,613 units) at end-2008. Semi-detached units formed the bulk of the completions at 45.0% and new building plan approvals (45.3%) whilst terraced units dominated starts (38.1%).

Agricultural Property

Agricultural property sub-sector retained its spot as the second largest sector of the property market contributing 20.2% of the volume of transactions. In terms of value however, it ranked second last accounting for 9.6% of total transactions value. A total of 68,954 transactions worth RM8.51 billion were recorded in 2008. Compared to 2007, the volume increased by 14.6% whilst value grew by 23.2% (2007: 60,155 transactions worth RM6.91 billion).

All states recorded increase in market activity except Labuan (-31.0%), Kelantan (-11.2%) and Sabah (-5.1%). Negeri Sembilan witnessed the highest increase at 58.5%, with number of transactions increasing from 2,410 units in 2007 to 3,821 units. Following behind were Sarawak at 47.2% (2007: 6,089; 2008: 8,966 transactions) and Melaka at 25.6% (2007: 2,249; 2008: 2,825 transactions).

Perak and Johor again dominated the agricultural property sub-sector accounting for 19.2% (13,223) and 17.3% (11,917) of the market share respectively. Sarawak trailed at 13.0% (8,966). In terms of value, Johor led with RM1.61 billion followed by Perak with RM1.14 billion, each contributing 18.9% and 13.4% respectively to the total value of transactions.

By type, vacant agricultural plots formed 41.8% (28,852 transactions) of the market share. This was followed by oil palm land at 18.5% (12,766 transactions) and rubber land at 14.3% (9,836 transactions).

Leisure Property

The favourable performance enjoyed by the hotel property sub-sector in the Visit Malaysia Year 2007 did not sustain in 2008. Occupancy rates recorded a drop from 62.5% in 2007 to 62.1%. The tourist arrivals in this country nevertheless continued to grow albeit at a lower rate. A total of 22.05 million tourist arrivals were recorded compared to 20.97 million in 2007 showing an increase of 5.2% (2007: 19.5%; 2006: 6.8%; 2005: 4.6%). Despite the increase in tourist arrivals, the average occupancy rate of three to five star hotels fell from 62.5% in 2007 to 62.1% (2005: 60.3%; 2006: 59.9%). Similarly, the average occupancy rate of one to five star hotels declined from 63.2% in 2007 to 60.5% (2005: 58.5%; 2006: 59.8%).

On the whole, the performance of the states generally moderated. Ten states registered a decrease in occupancy rates of three to five star hotels compared to only five last year. Eight states achieved lower than the national average occupancy rate of 62.1%. Kelantan, Putrajaya, Sarawak dan Selangor, were amongst the states that faced the biggest fall from last year, recording an occupancy rate of 51.1% (2007: 59.1%), 60.6% (67.5%), 54.9% (2007: 61.2%) and 59.1% (2007: 66.1%) respectively. Meanwhile, Pahang headed the occupancy rate list with 77.8% followed by Labuan (77.5%).

The year witnessed fewer numbers of hotel rooms completed and new building plan approvals, but higher construction starts. Four hotels with 837 hotel rooms were completed in 2008 against 1,384 rooms in 2007, a hefty decrease of 39.5%. Meanwhile, 10 hotels started construction during the year. Upon completion, 2,097 rooms will be added to the market (2007: 1,310 rooms). Another 13 hotels with 1,136 rooms obtained building plans approval in the year (2007: 2,145 rooms). As at end of 2008, the existing supply of hotel rooms in the country stood at 156,347 rooms (2007: 155,601 rooms). Future supply of hotel rooms comprised 18,756 rooms in the incoming supply (2007: 17,496 rooms) and 34,471 rooms in the planned supply (2007: 35,432 rooms).

The newly completed 837 hotel rooms were located in Kuala Lumpur (448 rooms), Sarawak (200 rooms), Terengganu (108 rooms) and Pahang (80 rooms). The new entrant for Kuala Lumpur was a 5-star hotel, The Gardens Hotel and Residences in Midvalley. In Terengganu and Pahang, Felda Residence and Hotel Titiwangsa made their debut. Meanwhile in Sarawak, the new hotel was Kingwood Hotel in Mukah.

Outlook For 2009

The Malaysian economy is expected to progressively feel the shock from the slowing global economy through trade and investment linkages. Even though the Malaysian economy is backed strong fundamentals, most economists believe that the economy is not going to be insulated from the global downturn.

The government continues to support the economy. The RM7 billion stimulus package, which was unveiled in November 2008, is to avoid a possible recession in 2009. The basic thrust is to stimulate domestic demand and retain the maximum workforce in gainful employment.

The residential sector is expected to gain from several measures under the Budget 2009. The low-cost house buyers are given full stamp duty exemption whilst medium range property purchasers are to benefit from the 50.0% stamp duty exemption for houses priced up to RM250,000. To further lessen the burden of home ownership, the Government further proposed that the 50.0% exemption be extended to loan agreements. For the civil servants, tenure for housing loan facility has been extended to 30 years from 25 years. For those without fixed income, an additional RM100 million has been injected into the Housing Credit Guarantee Scheme (SJKP) to assist house purchase.

For the low income group, the Government has allocated RM50.0 million to build 1,400 new houses and repair 1,000 houses with priority given to needy citizens. Jabatan Perumahan Negara (JPN) is also allocated RM330 million to complete a total of 6,500 units under these programmes: Perumahan Rakyat (PPR) Disewa (4,400 units), PPR Bersepadu (1,500 units) and PPR Dimiliki (600 units). Syarikat Perumahan Negara Berhad (SPNB) will build 33,000 low-cost houses. In view of this, construction activities for the low-cost housing are expected to increase in the coming year.

Tax treatment to further promote REITs under Budget 2009 should invigorate the commercial property sub-sector. The reduction of tax rate on dividends received by foreign institutional investors from REITs to 10.0% should make investing in properties in Malaysia more attractive and spur the demand for high class commercial properties in the country for their REITs portfolio. Likewise the proposed tax cut to 10.0% for individual investors should bolster the demand for REITs.

The performance of leisure property sub-sector is expected to be encouraging. To boost the number of tourist arrivals, the Tourism Ministry will focus on niche markets especially the medium- and long-haul tourists. The global recognition brought about by the listing of Melaka and Georgetown, Pulau Pinang as World Heritage Sites by UNESCO in July 2008 is expected to attract more tourists thus further energizing the country's hotel sub-sector.

The MM2H Programme has positive tangible impacts across most property sub-sectors and encourages the inflow of FDI. In January 2009, the programme will be repackaged to allow participants to work in critical sectors i.e. health, biotechnology, science, engineering and oil and gas industry for 20 hours per week. Apart from that, they are allowed to do business and invest. To make MM2H more appealing, foreign citizens may apply to participate in MM2H programme directly.

To boost the agricultural sub-sector, the Government has allocated RM5.6 billion to reduce the country's dependency on imported food. Equally important is the additional RM1 billion to increase paddy production and RM300 million for the fishermen and boat owners.

On the development side, the government plans to release prime government lands in strategic areas in Klang Valley for joint venture developments with the private sector and Government Link Companies. To date, property market players are still waiting for further information to surface from the authorities. There is no doubt that these lands have the potential to be developed to international standards and design that could entice foreign funds to invest.

Concerted efforts must be made to constantly spruce up business processes and environment, to ensure Malaysia remain competitive and relevant in the business world. The setting up and mobilisation of PEMUDAH was a timely move in this direction. Malaysia's elevation in business competitive ranking to 20th in Asia (World Bank Report: 2008) has put paid to efforts taken in streamlining business processes here. As this is an important marker used by foreign interests in search of ideal business venues and partners, Malaysia's improved standing will make it the choice destination for many more businesses especially multi-national companies.

On the whole, the property market look set on the path of moderation in 2009 with prices and rentals correcting, and construction activities easing slightly. However, it is unlikely that prices and rentals will plunge in the coming year.

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Valuation & Property Services Department
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