

## **PRESS RELEASE**

### **Malaysia Property Market 2006**

The Malaysian economy recorded a steady growth with real Gross Domestic Product (GDP) expanding at 5.9%, up from 5.2% in 2005, underpinned by robust domestic demand and increased public expenditure. The growth was broad based with manufacturing, services and agricultural sectors as the key contributors to growth. The construction sector improved with a smaller contraction of 0.5% in 2006 as compared to negative 1.6% in 2005, attributed to the picking up of civil engineering activities under the Ninth Malaysia Plan (9MP) and the on-going infrastructure projects. The residential and non-residential sectors continued to support the construction industry, though softening amidst rising costs of building materials and transportation.

The property market activities moderated in 2006, registering 269,600 transactions worth RM58.58 billion. The market activities decreased slightly by 2.5% (2005: -5.7%) whilst total value improved by 4.9% (2005: RM56.78 billion). Meanwhile, the primary market was vigilant and property overhangs remained manageable. On the supply front, the construction activities were relatively slow with reductions recorded in completions, starts and new building plan approvals for residential and office sub-sectors. Conversely, industrial and shopping complex sub-sectors recorded increases in completions, starts and new planned supply. On the other hand, shop sub-sector registered increases in completion and starts whilst decrease in new planned supply.

The performance of states was mixed. Most states recorded decreases in the transaction volume except Sabah (18.2%), Selangor (11.2%), Kuala Lumpur (4.8%), Negeri Sembilan (1.0%) and Terengganu (0.6%). The increase in Sabah was due to increase demand for development land and residential property in the state, each at 65.0% and 27.6% respectively. Conversely, Kelantan recorded the highest decrease (26.1%) in the volume due to the softening in the agricultural and commercial activities. Other states, Kedah, Perlis and Pulau Pinang also

registered lower market activities as denoted by 26.0%, 14.2% and 12.4% reductions in the transaction volume respectively.

The residential property sub-sector continued to dominate the market as indicated by its 65.4% contribution to the transaction volume. Other sub-sectors followed with agricultural, commercial, development land and industrial property sub-sector represented 18.9%, 9.0%, 4.1% and 2.6% of the transaction volume respectively. Correspondingly, nearly half of the transaction value was attributed by the residential sub-sector, followed by commercial (18.8%), development land (13.5%), industrial (10.0%) and agricultural sub-sectors (9.4%).

### **Residential Property Sub-sector**

The year recorded 176,277 residential transactions worth RM28.70 billion against 181,762 transactions worth RM28.41 billion recorded last year, denoting slight reductions of 3.0% and 1.0% of the volume and value respectively. However, performance of states varied. Eight states recorded decreases in activity with Kedah leading with the highest decrease at 36.8%, followed by Perlis (-26.2%) and Kelantan (-21.3%). Conversely, Sabah led with the highest increase of 27.6% followed by Selangor 12.6% and Kuala Lumpur 8.1%. Selangor remained as the most active state, capturing 27.4% of the residential market share recording 48,384 transactions worth RM11.07 billion.

Prices of residential property were largely mixed with most states recorded increases in preferred or choice locations. The Malaysian Annual All House Price Index charted 117.8 points, up by 1.9% from 115.6 points in 2005, as against 2.4% change achieved in 2005. In line with this, the price of the “average” all house increased marginally by 2.1% from RM161,500 in Q4 2005 to RM164,861 per unit in Q4 2006. By states, Kuala Lumpur had the highest priced house in the nation at RM352,335, followed by Selangor (RM242,512) and Sabah (RM214,264).

Generally, affordable houses priced at RM150,000 and below were most popular comprising 65.9% (116,166 transactions) of the total volume. Selangor, Perak and Johor had substantial number in this category i.e. 22,540, 20,397 and 16,785 units respectively. Besides, most transactions in the three-east coast states of Terengganu, Kelantan and Pahang were under this category i.e. 93.0% (7,210 units), 91.0% (1,749 units) and 80.6% (5,184 units) respectively. It was noted that there was an increasing demand for high-end houses priced at RM500,000 and above, evident from the 26.1% increase in number from 5,491 in 2004 and 5,735 in 2005 to 7,234 in 2006.

The performance of primary market moderated in 2006 with slower take up rate. A total of 38,526 new units were offered for sale as opposed to 57,290 units in 2005, down by 32.8%. In spite of the smaller numbers offered for sale, sales performance achieved were 40.6%, lower than 46.2% recorded in 2005. It was observed that the average sales performance of new launches had been on a downward trend since 2002 (2002: 54.7%, 2003: 52.3%, 2004: 48.0%, 2005: 46.2%). The decline pointed towards the shift of the primary housing market from the sellers' market towards the buyers' market. Kuala Lumpur achieved the highest sales performance of 65.9%, followed by Kelantan (52.1%) and Pulau Pinang (51.6%). Conversely, Sabah recorded the lowest sales performance of 24.0%, followed by Johor at 30.3%. Other states that recorded sales performance below the national average included Kedah (36.9%), Perlis (35.4%), and Melaka (31.2%).

By type, terraced units were the most preferred house type capturing 41.4% (73,038 transactions) of the residential market share. Condominium/apartment ranked second comprising 9.8% (17,199 units) whilst low cost units formed 12.9% (21,772 units) of the transactions. On the other hand, high-rise units dominated the residential property market in Kuala Lumpur and Pulau Pinang. These units made up 54.8% (7,882 units) of the total transactions in Kuala Lumpur mainly consisted of condominium/apartment and flats. Pulau Pinang had 35.7% (5,506 units) of the total activity in the similar property type. Meanwhile in the east-coast states of Kelantan and Terengganu, vacant plots formed 34.0% (654) and 67.7% (5,247) respectively of the volume of transaction.

The residential overhang units stood at 25,645 units worth RM4.18 billion, up by 31.0% in volume and 58.9% in value. Johor had the most number of overhangs in the country (8,215 units), followed by Selangor (5,233 units) and Sabah (3,294 units). Condominium/apartment formed the biggest share, comprising 28.2% (7,229 units) of the overhang units followed by two to three storey terraced at 26.8% (6,867 units).

On the supply side, the construction activity of residential properties was slow-moving with reductions in completion, starts and new building plan approval. The number of completed units reduced by 5.3% to 170,962 units (2005: 180,075 units). Likewise, the number of housing starts reduced by 6.7% to 142,594 units (2005:152,852 units). Meanwhile new building approval decreased to 153,985 units, down by 4.7% (2005: 161,657 units). As at end 2006, the total existing stock in the country stood at 3,850,568 units inclusive of 170,962 units completed in the year. Incoming supply stood at 608,840 units, dropped slightly by 4.5% (2005: 637,208 units) while planned supply increased slightly by 1.8% to 648,174 units (2005: 636,783 units). The moderate performance in the residential market coupled with the substantial amount of future supply render the diligent attention of all industry players including developers and policy makers.

### **Shop Sub-sector**

The shop sub-sector was the prime mover of the commercial activity accounting for 60.6% and 51.2% of the volume and value of commercial transactions respectively. The sub-sector recorded 14,669 transactions worth RM5.72 billion (2005: 15,654 transactions worth RM5.97 billion), down by 6.3% and 4.1% in the volume and value respectively.

Almost all states experienced decreases in the transactions volume with the exception Kelantan (8.2%), Sabah (4.9%), Melaka (4.8%) and Perak (0.4%). Perlis led with the biggest decrease at 38.7% but the number was minimal, followed by Pulau Pinang (-18.9%) and Kedah (17.1%). Notwithstanding this, Selangor led with the most number of transaction (2,823) accounting for 19.2% of the market share followed by Johor formed 17.3% (2,540 transactions), Perak

16.7% (2,451), Kedah 8.7% (1,276) and Pulau Pinang 8.2% (1,202). Similarly, Selangor registered the highest value of RM1.66 billion, followed by Johor at RM812.39 million and Kuala Lumpur at RM753.81 million.

Two to two and a-half storey shops were the most favoured building type comprising 59.0% (8,659 transactions) of the market share, followed by three to three-and-a-half storey shops at 20.4% (3,000).

The shop overhang increased marginally by 0.7% to 4,819 units (2005: 4,785 units) whilst value grew by 11.1% to RM1.27 billion (2005: RM1.14 billion).

On the supply side, the number of newly completed units increased by 23.8% to 11,133 units (2005: 8,994 units), adding up the existing stock of shops to 314,835 units as at end 2006. Starts increased to 9,581 units (2005: 7,981 units), up by 20.0%. In spite of the increase, the incoming supply decreased by 3.6% to 41,212 units (2005: 42,764 units). On the other hand, new planned supply reduced from 14,359 units in 2006 (2005: 16,114 units). However, the planned supply increased 10.1% to 52,202 units (2005: 47,424 units).

### **Purpose-Built Office Sub-sector**

The purpose-built office sub-sector remained stable with average occupancy rate improved to 84.7% (2005: 84.4%, 2004: 82.2%). Most states achieved better occupancy rates compared to 2005 except Kuala Lumpur, Selangor, Negeri Sembilan, Pahang and Sarawak. Meanwhile, Putrajaya and Perlis enjoyed full occupancy rates. With an additional 80,113 s.m. of new office space (2005: 15,694 s.m.), the occupancy rate in Kuala Lumpur, the biggest office space provider in the country, recorded a slight decrease to 82.3% (2005: 81.8%).

With the addition of 227,214 s.m. of new office space (21 buildings) into the market, the existing stock increased to 14.47 million s.m. (2005: 14.24 million s.m.). The incoming supply decreased by 5.6% to 1.44 million s.m. (2005: 1.53 million s.m.). The construction starts reduced by 2.9% to 141,094 s.m. (2005: 145,366 s.m.). Kuala Lumpur had the most starts at 106,408 s.m.. Other states

that recorded starts included Terengganu (20,572 s.m.), Perlis (7,056 s.m.), Melaka (2,780 s.m.), Sarawak (2,573 s.m.) and Kelantan (1,705 s.m.). New planned supply also registered a decrease of 72.5%. The new building plan approvals were only obtained in Pulau Pinang (30,382 s.m.) and Terengganu (20,572 s.m.). As such, the planned supply reduced by 4.0% to 2.18 million s.m. (2005: 2.26 million s.m.).

### **Shopping Complex Sub-sector**

The performance of shopping complexes remained resilient in 2006. The national average occupancy rate decreased slightly to 79.9% (2005: 81.0%). Eight states enjoyed improved occupancy rates, two states remained unchanged and the remaining experienced decreases in occupancy level. The eight states included Kuala Lumpur, Selangor, W.P, Putajaya, Perak, Pahang, Kelantan, Perlis and Sarawak. Kuala Lumpur and Selangor enjoyed sustained demand with occupancy rates improved marginally to 83.5% (2005: 83.0%) and 89.0% (2005: 88.9%) respectively, albeit increases in new retail space. Johor recorded the lowest occupancy rate in the country at 63.7% (2005: 66.0%).

On the supply front, the development of shopping complexes was vibrant. Newly completed retail space doubled to 557,797 s.m. (2005: 276,497 s.m.) resulting in the increase of existing supply to 7.97 million s.m. The 19 newly completed complexes comprised three complexes in Selangor, Pulau Pinang and Kedah, two each in Negeri Sembilan, Perak and Pahang as well as one each in Kuala Lumpur, Johor, Melaka, and Sabah. New construction starts increased to 359,946 s.m. (2005: 147,437 s.m.), which were mainly found in Kuala Lumpur (127,277 s.m.), Johor (64,089 s.m.), Pulau Pinang (56,631 s.m.), Terengganu (28,265 s.m.), Sarawak (26,600 s.m.), Kelantan (25,203 s.m.), Kedah (16,037 s.m.), Melaka (15,404 s.m.) and Perlis (440 s.m.). However, retail space in the incoming supply decreased by 10.3% to 1.71 million s.m. (2005: 1.91 million s.m.). The year also saw an increase in new building plan approval to 138,962 s.m. (2005: 54,899 s.m.). The new planned supply was confined to Johor (62,961 s.m.), Pulau Pinang (65,509 s.m.), Terengganu (10,052 s.m.) and Perlis (440 s.m.). However, space in

the planned supply decreased to 1.67 million s.m. (2005: 1.89 million s.m.), down by 11.7%.

### **Industrial Property Sub-sector**

The industrial sub-sector moderated in 2006 recording a 2.4% decrease (2005: -8.6%) in volume of transactions whilst value increased by 19.3% (2005: -14.2%). The year also witnessed increases in completions (1.7%), starts (8.0%) and new building plan approval (52.7%). There were 6,973 transactions worth RM5.97 billion recorded in the year, contributing 2.6% to the total volume and 10.0% to the value of transactions. By type, terraced factory/warehouse was the most popular property type capturing 41.5% (2,895) of the market share.

Most states registered increases in the number of transactions except Kuala Lumpur (-24.0%), Johor (-22.9%), Terengganu (-15.4%), Perak (-15.2%), Negeri Sembilan (-2.9%) and Pulau Pinang (-2.3%). Perlis recorded the biggest increase but the number was minimal (15 transactions). Selangor had the most number of transactions (2,799 units), followed by Johor (955 units) and Perak (597 units).

The number of industrial overhang increased by 15.4% to 789 units but the number was minimal (2005: 684 units). Correspondingly, the value of overhang increased to RM386.94 million, up by 32.5% (2005: RM291.98 million). Selangor had the most industrial overhang (227 units), followed by Johor (149 units) and Negeri Sembilan (106 units).

The existing industrial stock in the nation stood at 87,832 units inclusive of 1,176 completed units. Sarawak had the most newly completed units (395) followed by Negeri Sembilan (168 units) and Sabah (114 units). Despite an 8.0% increase in starts (377 units), the incoming supply decreased by 11.8% to 5,993 units (2005: 6,792 units). The incoming supply were mainly in Selangor (2,541 units) and Negeri Sembilan (1,498 units). The new planned supply increased substantially by 57.2% to 1,130 units (2005: 719 units). Correspondingly, planned supply increased by 3.5% to 22,524 units (2005: 21,771 units).

## **Agricultural Property Sub-sector**

Agricultural sub-sector maintained its position as the second largest contributor to the overall market activity comprising 18.9% and 9.4% of the transaction volume and value respectively. The year recorded 50,723 transactions (2005: 51,868 transactions) worth RM5.58 billion (2005: RM4.95 billion), with volume reduced by 2.2% and value up by 12.8%. On the whole, prices of agricultural land remained relatively stable with isolated increases recorded.

However, the performances of states were mixed. Six states recorded decreases in market activity including Kelantan (-30.1%), Negeri Sembilan (-17.3%), Kedah (-13.6%), Perlis (-10.2%), Perak (9-3.1%) and Sabah (-1.3%). On the other hand, Melaka registered the highest increase by 17.3% with number of transactions increased to 2,868 units, followed by Pulau Pinang (14.7%) and Johor (8.9%).

Perak and Johor dominated the sub-sector contributing 22.0% (11,177) and 19.1% (9,685) to the market share respectively. In terms of value, Johor led with 20.0% contribution (RM1.12 billion), followed by Sabah 17.5% (RM976.44 million) and Selangor 12.6% (RM706.88 million). Vacant agricultural plot formed the bulk comprising 35.6% of the market share followed by oil palm land (18.8%) and rubber land (16.8%).

## **Leisure Property Sub-sector**

The sub-sector moderated in 2006 with decreases in occupancy rates as well as slowdown in construction activity in terms of completion and starts. Until November 2006, there were 16.0 million tourist arrivals (Nov 2005: 15.01 million), an increase of 6.6%. Singaporeans comprised 55.0% of the total tourist arrivals followed by Thais (10.8%) and Indonesians (7.0 %). In spite of this, the average occupancy rate of three to five star hotels decreased marginally to 59.9% (2005: 60.3%). On the other hand, the average occupancy rate of the one to five star hotels, increased to 59.8% (2005: 58.5%).

On the construction activity, the year witnessed decreases in completion, starts and new building plan approvals for hotel rooms. The total hotel rooms in the country stood at 148,052 rooms including 1,278 rooms completed in 2006 (2005: 3,133 rooms), up marginally by 0.9% from 146,727 rooms in 2005. The number of starts decreased by 37.6% to 910 rooms (2005: 1,459 rooms) resulting in a 2.3% decrease in the incoming supply to 15,863 rooms (2005: 16,231 rooms). Likewise, the substantial decrease in new building plan approval from 2,137 rooms in 2005 to 198 rooms (-90.7%) also resulted in a decrease in planned supply by 2.1% to 33,495 rooms (2005: 34,207 rooms).

The newly completed 1,278 hotel rooms were mainly found in Kuala Lumpur (438 rooms), Sarawak (302 rooms), Pahang (162 rooms), Melaka (104 rooms), Kedah (100 rooms), Terengganu (72 rooms), Negeri Sembilan (65 rooms), Perak (18 rooms) and Pulau Pinang (17 rooms). In Kuala Lumpur, the new rooms were provided by Hotel Petra (103 rooms) and Impiana KLCC Hotel SPA (335 rooms). In Sarawak, Kingwood Resort, Mukah and Everly Hotel, Sibu supplied 102 rooms and 200 rooms respectively. Seri Malaysia Hotel, Ayer Keroh in Melaka added 104 rooms to the existing stock. Kedah also saw the entrance of Star City Hotel in Alor Setar providing 100 rooms. Negeri Sembilan had two new hotels completed in the year namely Hotel Kiara Inn, Jempol (41 rooms) and Hotel Wangsa Mas, Tampin (24 rooms). Meanwhile, extension of existing hotels also resulted in the increase in existing stock of hotel rooms. These included the 62 rooms in Pahang from Rompin Beach Resort, 17 rooms from Jerejak Resort and SPA, Pulau Pinang; 18 rooms from Pangkor Island Beach Resort, Perak; as well as 72 rooms from Berjaya Beach Resort, Terengganu.

The performance of the states varied with eight states recording occupancy rates above the national average of 59.9%. Sabah observed the highest occupancy rate of 75.9%, followed by Pahang (69.2%), Kuala Lumpur (69.0%), Johor (69.0%), Pulau Pinang (62.7%), Perlis (62.7%), Selangor (62.6%) and Terengganu (61.0%). Meanwhile, WP Putrajaya recorded the lowest occupancy rate in the country at 47.0% followed by Negeri Sembilan 49.2% and Perak 51.7%.

## **Outlook For 2007**

The growth prospect for Malaysia is expected to remain steady in 2007. In order to soften the impact of slower global growth on the Malaysian economy, Government had in the 2007 Budget proposed several measures.

The Private Finance Initiatives (PFI) Facilitation Fund of RM5.0 billion has been established to support private sector initiated projects which have significant spin-off effects on the economic growth.

Recognising that growth in the construction sector has significant spill-over effects on the economy, RM27.5 billion is allocated for new infrastructure projects initiated under the upcoming 9MP (2006-2010). To further stimulate the growth of the construction sector, Government proposes two tax treatments for this sector. Firstly, expenses incurred by property developers within the defects liability or warranty period be allowed as deduction from the same project, and not only as deduction from other projects; and secondly, losses incurred in the last year of a project be allowed as deduction from profits received from the previous years of that project (carry back of losses).

For the residential sector, Government is continuing its policy to provide shelter for the low income group. Jabatan Perumahan Negara (JPN) will build 30,000 housing units under the Projek Perumahan Rakyat both for renting and ownership. Syarikat Perumahan Negara Berhad (SPNB) will build another 34,000 affordable housing units, 2,000 under Projek Pemulihan Rumah Terbengkalai and 2,500 under Program Rumah Mesra Rakyat. In addition, RM2.2 billion is allocated to build 46,000 units of government quarters for uniform services personnel and other civil servants. To further promote ownership of houses the Government will raise the housing loan entitlement for civil servants by 20.0% in view of the rising house prices. In view of this, the residential market is expected to moderate in 2007.

The shopping complex and purpose-built office sub-sectors are anticipated to consolidate through the further promotion of the Real Estate Investment Trust (REITs). Budget 2007 proposed that dividends received by local and foreign individual investments and local units trusts from listed REITs, would be taxed at 15.0%; while foreign institutional investors at 20.0% for a period of five years. In addition, the undistributed income from REITs would be exempted from tax provided REITs distribute at least 90% of their income.

To increase the participation and property ownership of *Bumiputera* in commercial properties in major urban business locations, *Yayasan Amanah Hartanah Bumiputera* was established in 2006. In tandem with this development, *Pelaburan Hartanah Bumiputera Berhad (PHBB)* has been established to provide investment opportunities for *Bumiputera* investors via issuance of REITs.

The occupancy of shopping complexes had eased in 2006. However, with the promising consumer and business confidence coupled with the expected increase in tourist arrivals in conjunction with the Visit Malaysia Year 2007, the performance of the shopping complexes is expected to remain favourable in the coming year.

The industrial sub-sector is expected to benefit from the Government's effort to spearhead and promote the global *halal* industry. The *Halal* Industry Development Corporation established under the Prime Minister's Department will coordinate and ensure the integrated and comprehensive development of the industry. In addition, the industrial cluster developments outlined in the 9MP will further stimulate the growth in the manufacturing sector.

The agricultural property sub-sector is likely to improve in accordance with government's intention to enhance this sector as the third engine of growth in the economy, after the manufacturing and services sectors. Government has allocated a substantial amount of fund to finance food production, to encourage farmers to venture in non-food agriculture, and to implement livestock projects and implementation of the Beef Valley project in Gemas, Negeri Sembilan.

Government plans to develop the aquaculture industry, including the Ornamental Fish Cluster Projects in Pulau Pinang, Kedah and Perlis as well as Freshwater Fishery Research Centre in Negeri Sembilan. All these measures are expected to stimulate demand for agricultural property.

To promote tourism, the Visit Malaysia Year 2007 with the theme “Celebrating 50 Years of Nationhood” was held. To remain competitive, government will continue to upgrade tourist facilities and develop new tourism products. To facilitate the arrival of foreign tourists, multiple entry visas (MEVs) will be given to all visitors from India, China and West Asia for a period of one year. In addition, visa on arrival will be granted to selected foreign tourists for a stay of one month effective from 1 September 2006. Besides, the Malaysian International *Halal* Showcase (MIHAS) and the World *Halal* Forum 2006, which received encouraging response, will be held annually. All these efforts are expected to see increased numbers of tourist arrivals. Leisure property specifically the hotels sub-sector is expected to benefit from this and enjoy higher occupancy rates.

Considering all the concerted efforts taken by the government to stimulate the national economy which would have direct or indirect impact on the property sector, the property market on the whole is expected to remain resilient in the coming year.