"Property market to slow down further this year"
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By Khairie Hisyam

The Malaysian property market is expected to slow down even further this year after an overall challenging 2013, said property consultancy firm CH Williams Talhar and Wong (WTW).
WTW managing director Foo Gee Jen said today that that apart from several major locations, he expects the property market in general to be somewhat flat this year amid several headwinds.

Among others Foo highlighted that inflation rate is likely to rise on the back of potential further subsidy rationalisation, which would mean higher costs of doing business.

In addition, tightening financing criteria is also expected to pose a challenge for the market this year.

"(These) would put a lot of pressure on prices," said Foo at the launch of WTW's Property Market 2014 report today.

The annual report, which tracked the property markets in major locations across Malaysia, reported that 2013 saw the Kuala Lumpur-Klang Valley market moderating last year and WTW expects that to continue this year.

Some growth areas in 2013 such as Seremban, Penang and Kota Kinabalu are expected to slow down, leaving only Seberang Perai, Johor Bahru, Tawau and Labuan as locations WTW expect to see further growth this year.

"Moving forward for 2014 we foresee that Seberang Perai will benefit a lot from the spillover from Penang (as) we have a second bridge, opening large landbank in Batu Kawan," said Foo.

Additionally the Penang tunnel project, aimed at adding another access point to the island from the mainland, will open up more land to the north of Seberang Perai and to the south of Kedah for development, added Foo. "Places like Kulim will benefit from there … (also) northern Perak."

As for Johor Bahru, Foo expects Iskandar Malaysia to continue driving the local property market there while Labuan is set to benefit further from continued growth of the oil and gas industry.

'Residential segment challenging for developers'

Going by segment, WTW managing director Foo expects 2014 to be a challenging year for developers as the collective effects of the recent cooling measures, increased awareness among prospective home buyers and rising costs hit home.

However this will be somewhat mitigated by strong demographic forces which will continue to support demand for residential properties, said Foo, who concludes that the residential market is expected to cool down and stabilise with more realistic prices.

"Government is pushing very hard to provide the rakyat with a choice in terms of affordable housing, providing competition to developers," commented Foo on government efforts to provide affordable housing. "So the growth of prices will be at a more sustainable level."

Higher office take-up in 2013 despite oversupply worries

Notably the take-up rate for office space in Klang Valley improved last year, evident from declining vacancy rates which dropped to 14% last year from 16% in 2012.

Total office stock in Klang Valley stood at 92.7 million sq ft in 2013, of which 43.15 million sq ft is located in central Kuala Lumpur. Last year saw 3.6 million sq ft in new office space enter the Klang Valley market, of which 3.3 million sq ft was taken up.

Rental-wise, prime gross rental grew by 4.6% in 2013 to RM6.80 per sq ft (psf) compared to RM6.50 psf in 2012.

However, yield rates dropped from 6.2% in 2012 to 6% in 2013, according to WTW data.

"(Yields are) likely to drop below that (this year)," said Foo, commenting that rising property acquisition costs in the office sector had not been accompanied by a similar rise in rental returns. "It is likely to be at 5-5.5% in the next three to five years."

Going forward Foo expects 2014 to be a challenging year for older office buildings, especially those in secondary locations as some 6.75 million sq ft in new supply is expected to enter the market against the average annual take-up rate of approximately 3 million sq ft.

Foo noted however that the expected new supply for office sector in 2015 is approximately 1.46 million sq ft, meaning the actual vacant space in 2015 is only about 2 million sq ft.

In WTW's report, the firm said new office space supply in 2014 was not nearly as high as foreboded in early 2013, referring to concern last year that the Klang Valley office segment was facing an oversupply problem.

"It continues to be a tenant's market," said Foo, saying that while he expects yields to drop further in 2014, he expects prime office rental to either grow or be stable this year. "I don't see any drop in rental rates."

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