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REAL ESTATE MATTERS

20 April 2020 (Monday)

Datuk Lee Tian Hock
MATRIX CONCEPTS HOLDINGS BHD FOUNDER AND GROUP EXECUTIVE DEPUTY CHAIRMAN

The next six months will be painful for our local property business, as I anticipate demand will drop 30%, if not more. It will take many economic parties and countries to come together to assist one another and not take advantage of the others' weaknesses.

The economic and social issues may be depressing, but a ray of hope still prevails in Malaysia: the government is doing its best for the people.

I started working in 1983 to 1985, and that was during the economic recession. All of us who came out to work worked with the purpose of retaining our jobs; it was a hand-to mouth situation. There is a Malay saying: "*Kais pagi, makan pagi; kais petang, makan petang*." We dared not spend any money then.

From 1997 to 1999, it was the Asian financial crisis and, at the time, I had just ventured into the property industry. Matrix Concepts was started in August 1997 and, a month before, the Thai baht collapsed.

But there is a Chinese saying: "Dangerous situations bring opportunities." So, we decided to push a product that would appeal to the masses. Our single-storey terraced houses were sold from RM50,000 to RM53,000 and all were taken up. What we learnt was that there are still opportunities; you just need to find the demand and the right market.

Then came the crisis in 2007/08 in the US and EU. Even though the Malaysian financial sector was not affected, economically, owing to the sudden surge in oil prices at the time, we in the property and construction businesses were also affected. Steel prices went up by two to three times and we were caught off-guard.

Bandar Sri Sendayan township had just been launched and we were building our infrastructure. Our houses were sold at prices before the subprime collapse and we had to honour those prices. Construction was halfway done and we needed to continue. About 70% of our bottom line was wiped out. To overcome this, we pushed affordable products for the masses. This proved to be the right move and it tided us over during this extremely difficult period — again.

Now, in 2020, Covid-19 is global and it will be a very different ball game for everyone. There are no construction and sales activities until the Movement Control Order is lifted or until the government allows us to resume work. Cash flow is a concern. We have to practise prudence for the next six months.

From all the crises, only one thing really stands out, and that is the human spirit. We as human beings need each other to overcome problems and I believe no man is an island — being part of a team or even a support circle is vital for every one of us. Family is important and true friends are those who help you through bad times. We must believe that we can overcome problems, otherwise problems will overcome us.

I have learnt that in business or even in life, cash flow is the single most important concern; you need to manage your cash flow efficiently, with much efficacy.

For property investors and owners, there are always opportunities; you just need to find the best deal for yourself within your cash-flow capabilities. For smaller developers, those that have to launch new projects, take note that the buying power within the next six months or so will be reduced by up to 50%. So, relook at your products to make it even more attractive to your revised target buyers. The need for good cash flow supersedes any other concerns, as it is the lifeline of the company.

Banks and financial institutions should be encouraged to relax the lending requirements slightly and shorten the process and procedures for both bridging loans and end-financing. Also, the government should consider reducing the 3% bank guarantee to 2% on gross development cost and, for subsequent developments by the same developer, to just a token sum of RM100,000 per development. Moreover, waive stamp duties; extend the Home Ownership Campaign for another year at least; and reduce 5% over every year for the real property gains tax and zero rate it in the fifth year.

Finally, there needs to be proper legislation and a legislature body for foreign workers in construction to look into their welfare — from selection to health screenings to proper documentation and banking facilities to good accommodation and structured transportation and activities. These migrant workers are often overlooked and their plight needs to be addressed urgently to avoid social ills and safety concerns.

Datuk Jeffrey Ng
SUNWAY REIT MANAGEMENT SDN BHD CEO

Potential homebuyers' strategy currently is to conserve their funds for a rainy day and, as such, big-ticket purchases are not on their minds during this stage of uncertainty and economic downturn. Unless the fears of unemployment and personal income shortfall subside, the property market's outlook will remain subdued for some time in terms of transactions and prices.

As homeownership is among the government's top agenda, especially for the B40 and M40 groups, property stimulus packages can be reintroduced when Covid-19 is contained. Consequently, we can expect pent-up demand for housing, as the younger age group will sustain the long-term annual demand for houses.

I have experienced the pan-electric crisis in 1987, Asian financial crisis in 1997 and global financial crisis in 2007/08. Each crisis saw combinations of soaring double-digit interest rates, lending curtailment or freeze on property transactions, a drastic drop in property values as well as tightened policies and guidelines, such as the property industry being classified as unproductive and restrictions on foreign ownership of properties.

Capital and operating losses were unavoidable, despite the untiring efforts made to consolidate costs and conserve cash flow. It was difficult to dispose of assets and the truth of asset divestment was that, during a crisis, only crown jewels were saleable at below market value. Under such circumstances, there was no choice but to bite the bullet on asset sales to allow the company to buy time and stay afloat until the property cycle recovered.

One of the lessons I learnt during the crises is that staying power is singularly the most important factor to overcome the cyclical nature of the property market.

The current pandemic and its effects on the economy are global — certainly not confined to only Malaysia. Usual business operations are in disarray, disrupted and disconnected.

Business cash flows and revenues were halted by the Movement Control Order, hurting the entire business ecosystem. It is about cash flow and balance sheet management to keep your head above water; and profitability is secondary, from a business survival viewpoint, if one needs to meet operational and financial commitments when they are due.

Over the past few decades, the government has been supportive of the property industry in recessionary times because of the generation of economic activities in the construction sector as well as the spillover effects on the manufacturing and services sectors.

In the current situation, new stimulus goodies should be "broad-based" to benefit a wider segment rather than specific segments. What we need is impactful economic results to achieve the "feel good" effects on the ground.

Certain stimulus proposals have worked well to boost the property market across the board — such as returning to zero real property gains tax after one has held the property for more than five years; stamp duty exemptions on sales and purchase agreements, memorandum of transfers and loans for all residential property transactions across all price ranges; easy access to house buyers' financing at subsidised interest rates; and interest-only loan instalments over five years — and will prove to be fruitful measures.

The government should also consider a contribution by developers of, say, 2% of a project's gross development value to the authorities, in lieu of providing an affordable housing quota, together with a residential real estate investment trust [to provide] for public rental housing. This will be a game-changer and have a big impact on the economy.

Datuk Khor Chap Jen
S P SETIA BHD PRESIDENT AND CEO

The coronavirus pandemic is unprecedented in many ways and cannot be compared with any previous crises that we have had to face. A contraction is expected in the short term. As it stands, the local market has been subdued over the past two to three years, thus the contraction would be buffered. The recovery will depend on how the outbreak will pan out.

The Movement Control Order had reinforced the importance of the home as a sanctuary and home office. Positive sentiment will return when the economy recovers.

My first experience of a downturn was the 1985/86 recession. Then, many were caught off-guard by the 1997 Asian financial crisis. Thanks to the swift intervention and comprehensive measures taken by the government, however, the economy stabilised. The Home Ownership Campaign (HOC) was introduced and became the lifeline of the industry. Liquidity was still very much present in the Malaysian market during the 2009 global financial crisis. Despite shaken confidence, the 5/95 Developer Bearing Interest Scheme helped rejuvenate interest in the property segment.

This Covid-19 crisis is entirely different in that it affects everyone in many countries and across all industries, and a vaccine has yet to be found. One must be prepared for the long haul and that means running a tight ship and maintaining cash flow.

The property market in Malaysia is unlikely to go off a cliff, as property is a relatively safe and sound investment in the medium to longer term. For those with the means, it is definitely a good time to pick up their dream property or add to their investment portfolio.

For most developers, as it had been for the last two years, the priority would be to maintain a healthy cash flow rather than profits. Unfortunately, some still think developers are raking in huge profits.

The property industry has been a big contributor of revenue to the government, especially the state government. I urge the government to step in and help the property market in the current situation.

Government intervention should include another HOC with additional incentives; reducing the real property gains tax to zero after four years; allowing foreigners to purchase all properties worth above RM500,000 to help clear unsold stock; releasing all unsold bumiputera units; and waiving the requirement of all quotas for one to two years.

In addition, defer or abolish the need to build subsidised low-cost units for one to two years; waive the requirement for all kind of deposits to local authorities; reduce and release the housing developers' 3% deposit required for developer licence application, as it will greatly aid developers' cash flow; and carry out a quicker release of monies in Housing Development Accounts to aid cash flow.