



## **The 18<sup>th</sup> National Housing & Property Summit 2015**

### **“Housing & Property Development in a Challenging Market”**

**21 August 2015 | Sunway Resort Hotel & Spa**

#### **SESSION 1:**

#### **CEO Roundtable: “The Changing Property Landscape: Is It All Doom & Gloom? How to Overcome the Tough Times”**

**Moderator: Mr. Christopher Boyd, Chairman, Savills (Malaysia) Sdn Bhd**

**Datuk Seri Michael Yam, Past President, REHDA / CEO, Impetus Partnership Sdn Bhd**

The first panellist, Datuk Seri Michael Yam, described the session title, “The Changing Property Landscape: Is It All Doom & Gloom? How to Overcome the Tough Times” as an apt subject which addressed existing uncertainties in the market. Describing it as a myth, he shared his experiences of going through three recessions, implying that it is not unusual for the market to experience calm and rough times. Datuk Seri Yam reminded delegates that such rough times makes us tougher, creating stepping stones for greater things and motivates stakeholders to make necessary adjustments of how to do business. Hence, the industry is simply going through a round of rough weather of which he is confident of surviving.

Datuk Seri Yam shared that 30 years ago, Malaysia has a population of \*7 million and mainly relied on agricultural products. Today, the country has a population of 30 million and offers a more diversified range of products whereby 30% of the economy is dependent on oil and gas. He forecasted a 5% GDP growth for 2015, of which growth for the last quarter was announced at 4.9%, which is favourable compared to Europe which is sub-1%. Malaysia’s unemployment rate is officially at 2.9%, but with the high influx of 2 million foreign workers, it is more likely that the actual unemployment rate is closer to 0. Per capita income, according to the ETP in year 2000 stands at \$6,500, while in 2020 it is targeted at \$15,000. This means that in theory, things should be more affordable. At present, Malaysia is reaching \$10,000-10,500 per capita income whereas Thailand and Indonesia is only at \$3,000-4,000.

Datuk Seri Yam told audience that in 2014, 224,997 marriages and 44,441 divorces were recorded, whereby approximately 20% of marriages end up in divorce. He pointed out that divorcees require new homes or both will sell the house and move to smaller units, the latter proving to be the general trend. The home buying population is between the ages of 20 to 44 years who are expected to start families, creating a strong demand for housing. He shared that it is now much simpler to obtain loans from banks which give loans until the age of 70. Hence, despite the uncertain times the number of jobs needed, marriages, and those in search for property do not change. This is compounded by the fact that most Malaysians have no choice but to live in this country instead of migrating overseas.

Datuk Seri Yam shared that a REHDA survey conducted in the last 5 years found that there is demand for up to 150,000 to 180,000 houses a year. However, yearly supply stands at 100,000, causing a shortfall of 50-80 thousand houses annually. In accounting terms, the shortage of at least 50 thousand homes is carried forward every year in the last 5 years, signifying that 250,000 units of latent demand have not been satisfied. Though such a demand does not seem obvious, in reality many will at some point be queuing up to buy houses, signalling the start of a pent up demand.

*\*(Note: Malaysia has a population of 15.76 million in 1985 according to the World Bank)*

Datuk Seri Yam revealed that the Malaysian House Price Index was 213.5 in 2014 and expects that prices to remain flat, but will continue to spiral upwards due to cost pressures and shortages in supply. He also said that the Greater Klang Valley shared a similar problem in London, which is in need of 80,000 units a year but only 40,000 units are produced, which is driving prices upward. In closing, Datuk Seri Michael Yam advised participants that investing in a house is still advisable compared to other modes of investment.

### **Datuk Charlie Chia, Group Chief Executive Officer, United Malayan Land Bhd**

Datuk Charlie Chia viewed tough times as opportunities for developers to realign and readjust themselves. He then turned his attention to Johor Bahru where UM Land owns the majority of the land banks. He shared that less than 2 years ago Iskandar was highly regarded, with interest spiking when Khazanah invested heavily in the southern corridor. Iskandar opened in 2012. Datuk Chia revealed that the Singapore government through GIC Capita Land, Temasek, and other investment companies have all taken position in Johor, leading Singaporeans to enter in great numbers. During the time, launches were sold out within a day. Iskandar's appeal has also gained the attention of developers from Kuala Lumpur. This was followed by the onset of Chinese developers with massive capital, buying big pieces of land up and thousands of units. This, however, has created a fear amongst purchaser that in 3-4 years' time, they may find themselves competing with thousands of other purchasers to rent or sell. This perception caused the market to cool down.

Datuk Chia shared that he has seen many developers struggling with poor sales with several deciding to stop, differ or adjust. With such a slowdown, there is a need to relook at whether or not a market potential exist. Datuk Chia cited the Theory of Impermanence, which states what goes up must come down, in reference to the sales which will also come up again in the future. He advised that it is a good time to prepare for the upturns while things are down and it is good for developers to have an overview of the situation and be able to capitalise when economic recovery occurs.

Datuk Chia explained that the Malaysian property market is still amongst the most affordable in this region compared to Thailand, Indonesia, Philippines, and Vietnam. He advised developers to tap onto previous investors who have capitalised on past booms and made savings, convincing them to reinvest their liquidity into something tangible with higher returns. The growing population of East Asian nations signify that there is great potential with foreign investors from these areas.

There is much focus on Johor due to the spill over effects from Singapore, similar to the situation between Hong Kong and Shenzhen. Singapore's industries need to move, its residents need more space with homes away from the tiny island. Many are looking towards Madini and Puteri Harbour as well as the potential of Iskandar, Malaysia. This is supported by the Malaysian government which has introduced several measures, incentives, and special economic zones to attract MNCs. For example, in Madini, incentives are given to relocate due to lower cost of operations and human talents can enjoy lower tax benefits.

Datuk Chia explained that there will not be shortage of buyers as there is a big pool vying for their first homes. Such an amount will never reduce as there are 220,000 graduates entering the job market annually, some supported by their parents. Therefore, more homes will be needed but at the same time, these homes need to be made affordable by lowering the cost of production. This requires a rethink of strategy on how to make the building process more efficient, compact and functional in designs, with the potential of being extendable or upgraded to become homes in pace with the levels of income of the home owner. The government is doing their part with schemes like PR1MA homes, but ultimately, developers from the private sector must also do their part to realise this vision.

### **Mr. Siva Shanker, Immediate Past President, Malaysian Institute of Estate Agents**

Mr. Siva Shanker explained that from 2011 to 2014, the volume of transactions for properties have dropped by 11% (430,403 to 384,060), with the biggest contraction in terms of volume experienced in 2013. Despite this, the value of properties have continued to increase. This is the opposite of what the government has intended, which is to reduce or slowdown rising prices, not to cause the number of transactions to fall.

Mr. Shanker shared that in 2014, the market found a slight balance for the first time in 3 years with the number of transactions going up slightly (162,974 from 152,372 in 2013), looking as though the fall has been arrested and caused many to speculate that things will improve in 2015 and beyond. However, based on the results from sales volumes from the first quarter (39,460), it is predicted that the numbers will be lower in 2015 compared to 2014. This is mainly focused on the residential area, which is the biggest market and the area which saw much development between 2010-2012 before the decline.

Mr. Shanker explained that this is happening because the mad dash is gone where we no longer see queues at developer launches or people buying multiple units. Buyers have become more cautious and worried about market crashes, causing everyone to hesitate. Financing is also much difficult to secure, with 50% of housing loans rejected in 2014 (though in another study by Maybank found that only 18% were rejected). Feedback from real estate agents similarly reveal that many deals have been aborted as purchasers have been unable to secure adequate financing. However, transaction prices have not come down. Though some speculate that the market prices are falling, in actual fact it is the asking prices which are coming down. This indicates that sellers are becoming more realistic with their offering price. Mr. Shanker revealed that the game changer was the introduction of the Government Service Tax (GST) which came to effect in the first three months of 2015, causing everyone to hold back to see what the GST effects will be due to a lack of understanding. Other factors which contributed to the slowing down of transactions include falling oil prices, the falling ringgit, and the unstable political climate.

In Mr. Shanker's opinion, 2015 will be a slow year for real estate and developers with a major portion due to uncertainties in the political situation. However, he assured delegates that it is not completely doom and gloom, explaining that if at all there was a bubble, it has already burst in 2013, but has since recovered. Instead, there was a slow recovery in 2014.

In closing, Mr. Shanker reminded delegates that bad times do not last forever and the people will quickly forget and move on. He foresees that there will be a slight recovery in 2016 with the next high occurring in 2018-2019. He observed an emerging trend in comprehensive developments (all-in-one concept where shopping centres, offices, hotels, etc in the same place), branded lifestyle living (high-end living styles), security (gated and guarded), and location (though people are now more willing to live further away from the city). He urged developers to put further consideration on sensible pricing as the days of huge profits are over.

### **Mr. Shan Saeed, Chief Economist / Investment Strategist, IQI Group Holdings**

Mr. Shan Saeed began his presentation by explaining the global economic outlook. He first informed participants of the poor outlook in Europe which is experiencing high levels of unemployment (30-40%) and high tax rates (up to 60% in France). He is also of the opinion that the US recovery is a statistic illusion and predicted that the Federal Reserve will not increase interest rates this year, referring to Janet Yellen broken promise to increase interest rates in June which did not occur, and doubts that Yellen's new date of interest rate revisions in September will come to pass as the situation is still very volatile. US recovery figures are questionable and not many Americans are in the workforce. In China, the stock market has been going down since July and the Yuan has devalued. However, Mr. Saeed is of the opinion that we should be more concerned about a strengthening US Dollar which is bad for the global economy.

Mr. Saeed predicts that the US Federal Reserve will cause another crisis in the form of inflation, causing a similar crisis to 1930, but this time putting the blame on labour and mismanagement. With all the turmoil that is happening, he surmised that we are now living in a modern day financial depression. Despite this, Mr. Saeed pointed out that Malaysia does not have a balance sheet recession and is cautiously optimistic of the chances of the Malaysian economy and Ringgit in 2016. He explained the role China played in controlling the global economy and global trade routes. The Chinese have made investments in Bandar Abbas (Iran), Gwadar (Pakistan), Hambantota (Sri Lanka), Chittagong (Bangladesh), Iskandar, all the way up to Beijing. He pointed out that every economy needed three things; affordable energy, affordable money, and productive labour. At present, 80% of oil supplies go through the Straits of Malacca. Therefore, Chinese investors see major prospect for the ASEAN region in geopolitics and the economy, tipping Malaysia for bigger opportunities.

Mr. Saeed predicted that office spaces are the next high-demand commodity as many European, Chinese, Korea, Japan and the Middle East are looking to relocate to Vietnam and Malaysia (but not Thailand due to political instability) due to rising cost in China. Therefore, Malaysia will continue to attract FDI, although it is not expected to be higher compared to 2012-2014. Mr. Saeed then talked about oil prices and currencies, revealing that the Wall Street Journal on December 8<sup>th</sup>, 2014 reported the governor of the Central Bank of Indonesia saying that the rupiah was too strong and needed to go back down to 15,000. However, it is now trading at 14,000. The Singapore Dollar is at 1.41 while the Vietnam dong has devalued for the third time. He expects the US Dollar to tank, and when this happens, other currencies will go up, explaining that in the past 1.5 years the reason why the US Dollar has gone up is because other currencies have gone down.

Mr. Saeed pointed out that there are still many opportunities for the Malaysian real estate industry which is why his company, IQI is still aggressive making inroads in the market, buying up office spaces with many of their corporate clients coming to Malaysia in a big way. He advised delegates to be more in tune with the prospects from economic sources, not newspapers which often portray the economic outlook in a negative light. Compared to other parts of the world, the Malaysian economy is still a good choice for many foreigners and global investors.

## Q & A

**Question from Tan Sri Ramon Navaratnam** questioned if the regulatory environment is allowing the property and housing industry to operate as they want without reasonable constraints and inhibition? He also commented that there is an impression that developers do not care about lower income Malaysians and only want to make money from the top earners. Developers need to get rid this impression as it is not good for the industry which makes them appear that they are ignoring their corporate social responsibilities.

**Datuk Seri Michael Yam** explained that REHDA represented 1,400 members or 80% of developers where standards of governance range from poor to good. This requires an oversight of who is going to control the supply of the property commodities. He pointed out that ones who practice good governance may be complaining about too much regulation, but at the same time, a form of regulation is needed to control the likes of unlicensed or new developer. However, Datuk Seri Yam is of the opinion that there is too much regulation and Malaysia cannot compare itself to more developed countries where the rule of law and enforcement is more efficient. At the same time, he acknowledged that it is also a good to have barriers to entry as certain regulations and tight controls bar the entry of pseudo developers without the necessary know-hows from entering the development market. Datuk Seri Yam then addressed the matter of CSR and explained that no country in the world prescribed conditions on developers to subsidies housing. However, 1 million units of low cost houses have been built versus the total housing stock of 4.5 million, but Datuk Seri Yam is doubtful if this is an accurate reflection of supply and demand. At present, 20-25% of the population is in need of subsidised housing. The control price is set at RM42,000, but the cost of construction today is around RM100,000 – RM150,000. Datuk Seri Yam explained that it is a fallacy that private developers are expected to subsidies from their profits, which is not true as in actual fact the subsidies are covered

by the middle-class families who purchase non-low cost houses (when a house is purchased, RM30,000 is added on to subsidies low cost housing). The government also recognises that low cost housing is not the way to go, but instead emphasis should be on affordable housing with projects such as PR1MA. In his opinion, should subsidised housing need to occur, it has to be done through federal taxation. He argued that no other country required the private sector to play the role of a tax collect from the middle-class to subsidies the poor. Finally, he explained that the balance sheet of public listed companies always reveal a profit margin ranging between 13-18%, rebutting allegations of a “super normal profits”.

**Datuk Charlie Chia.** In terms of regulatory effects and the monitoring of the property market, there is a need for efficiency to reduce cost in order to make pricing affordable. Both the government and the private sector need to play their part to make things more efficient to reduce cost by giving faster approvals and introduce more functional designs which will reduce cost. He pointed out that in difficult times, people go for best pricing, which is why it is important that the margins be reduced. The “gospel numbers” for a 15-20% profit need to be reduced for the next 2-3 years, where developers need to bite the bullet by reducing cost and pricing in order to survive as buyers are anticipating prices to drop.

**Comments from Dato’ Sri Dr. Vincent Tiew, Managing Director, Andaman Group.** Dato’ Sri Tiew cautioned that in conferences, only the pleasant things are shared. He encouraged speakers to be more on the ground as the reality is gloomy with many developers struggling to launch and sell new projects successfully. He observed that many developers of various sizes are beginning to sell their development lands and putting them on the market. Dato’ Sri Tiew also stressed the need to scrutinise the extra guidelines and policies imposed on developers on 1<sup>st</sup> July 2015 which additional cost are effecting developers.

**Mr. Shan Saeed** pointed out that there are two sides to a coin and it depends on how one looks at things. He acknowledged that there are many structural issues, but during bad times, it is companies who invest in human resources who will progress. In regards to sales conversation rates, Mr. Saeed emphasised the need for a trained sales team who will be required to explain the micro and macro perspective to clients.

**Mr. Siva Shanker** is of the opinion that things are not as bad as perceived and that the bad times will not last very long, referring to property prices in the past decade, which has also been marred with occasional times of difficulty and as well as good times. Despite the bad times, prices generally did not come down, only that the volume has decreased. Therefore, this is as good a time as any to buy as prices are unlikely to fall.

Closing the session, the moderator, **Mr. Christopher Boyd** surmised that there is a temporary blimp in the property market which is capable of finding its own level. For those who invested heavily in the property market, the future is very strong and Malaysia is far better off than many other countries in the region and globally.

## **Official Opening Ceremony**

### **Welcome Speech by Tan Sri Dr. Jeffrey Cheah, Chairman, Asian Strategy & Leadership Institute (ASLI) and Sunway Group**

Tan Sri Dr. Jeffrey Cheah welcomed the Guest of Honour, YB Dato' Haji Abdul Rahman bin Haji Dahlan, Minister of Urban Wellbeing, Housing & Local Government, as well as the rest of the audience. Tan Sri Dr. Cheah then summarised the situation of the housing and real estate sector as one that warranted cautious optimism. He lauded the measures implemented by the government to cool down the market, protecting the fundamentals of growth while discouraging speculation. In Tan Sri's view, the government's priority with regards to the sector should be focused on first-time home buyers because it has a strong impact on the standard of living of households as well as on the stability of society. S

Regarding the commercial and office property market, Tan Sri Cheah said that the market is healthy and that there should not be restrictions on selling to foreigners because there is no risk of crowding out local buyers. In his view, the only segment where there seems to be some oversupply is in retail – too many malls are being built and there may not be sufficient demand for all of them.

On a final note, Tan Sri emphasised the need for developers to keep improving their techniques and called on the government to provide incentives for industrial developments and industrial techniques for home-building. He insisted that the industry outlook is characterised by abundant opportunities and invited everyone to use the conference platform to learn about the industry, network, and express their concerns. He reminded everyone that the results of the conference would be comprised in a report which would be passed on to policymakers.

### **Opening Keynote Address – “The 11<sup>th</sup> Malaysia Plan and the Housing & Property Sector: Meeting Future Challenges” by YB Dato' Haji Abdul Rahman bin Haji Dahlan, Minister of Urban Wellbeing, Housing & Local Government**

The Minister began his keynote address by commending ASLI for organising the annual Summit, which is marked as an important event on the calendars of the Ministry and that of the housing and property industry. He is aware that 2015 is a challenging year for housing developers with the slowing down of sales.

YB Dato' Rahman Dahlan assured delegates that the government will continue to be responsive to the private sector and create a positive business environment as confidence is key in the macro environment as well as the business landscape, which is required of long-term property investment. He highlighted that in such times of global economic uncertainty caused a range of factors such as the weakened commodity prices, China's economic slowdown, anticipated hikes in the US Federal Reserve, and after effects of the implementation of the GST, has caused much uncertainty, it is essential that there remains strong confidence in the housing sector. The housing industry is one of the financial arteries for economic growth for this country and must be given importance.

YB Dato' Rahman Dahlan cautioned that demand for residential property in Malaysia is set to slow further in 2015 as forecasted by Moody's in its recent report, published in a quarterly publication, *Inside ASEAN*. Despite the report, Malaysia's property risks remain manageable for financiers and developers, both of which are expected to remain resilient to possible shifts in sentiment and property prices.

The Minister informed delegates that the National Housing Council, which is chaired by the Prime Minister, was to meet on this day to discuss efforts to standardise state housing policies, measures to reduce cost for Projek Perumahan Rakyat (PPR), and efforts to facilitate both developers and buyers under MyHome Scheme. He also acknowledged that it is the government's responsibility to ensure a

steady supply of affordable housing for the lower and middle-income groups who are struggling with rising cost of living, particularly in urban areas.

YB Dato' Rahman Dahlan also addressed the issue of Malaysia's aging population, where the country is due to reach the status of aging nation by 2030. According to the UN, if more than 15% of the population is above 60 years old, the country would be defined as an aging nation. In response, the Minister revealed that the National Physical Planning Council has recently discussed plans for Physical Planning Guidelines for Senior Citizens, which include *Perkampungan Warga Emas*, an area with good living conditions and a support systems for the elderly.

The Minister urged developers to work together with the government using tax incentives and land packages based on Public-Private Partnership agreement. He points to Budget 2015 which saw the largest allocation of RM29.3 billion channelled towards development expenditure of which housing, education, training, and health fall under, receiving RM12.6 billion. The 2015 Budget addressed the needs of the youth aspiring for home ownership with initiatives such as the Youth Housing Scheme, a joint-venture between the government, Bank Simpanan Nasional, the Employees Provident Fund and Cagamas. Under this scheme, many programmes will be undertaken to build 26,000 units through the National Housing Department (JPN) with a budget allocation of RM644 million. The government will also build 80,000 units through the 1Malaysia People's Housing Programme (PR1MA) at the cost of RM1.3 billion. Furthermore, there is also the need to raise the threshold for household income eligible for such scheme from RM8,000 to RM10,000. This is to factor-in the rising costs of living faced by Malaysians.

YB Dato' Rahman Dahlan revealed that the government has plans to introduce a Rent-To-Own scheme aimed at those who are unable to secure bank financing. He also revealed that Syarikat Perumahan Negara Berhad (SPNB) will be building and undertaking the following:

- 12,000 units of Rumah Mesra Rakyat (RMR)
- 5,000 units of Rumah Idaman Rakyat
- 20,000 units of Rumah Aspirasi Rakyat (to be constructed on privately owned land)
- Extension of the fifty percent (50%) stamp duty exemption on instruments of transfer and loan agreements in addition to increasing the purchasing limit from RM400,000 to RM500,000.
- Skim Rumah Pertamaku will also be positively changed by raising the ceiling to RM500,000 and the qualifying borrowing age will be raised to 40 years old.

Apart from this huge budget allocation and property market slowdown, industry players must remember that this industry contributes significantly to the socioeconomic development and wellbeing of Malaysian communities, YB Dato' Rahman Dahlan reminded participants. Focus should not be on financial interest alone but must include elements of creating vibrant living environments that will influence human behaviour, productivity and social development. He also advised industry players to look into technology as a means to make processes more efficient in the quest to make home more affordable. The Minister suggested to make the design and facilities simpler to lower cost which will be beneficial to buyers. He also urged developers to size down on expectation of profit, particularly in holding of banks which have been bought at very affordable prices, and work with the government to provide affordable housing.

YB Dato' Rahman Dahlan urged developers to look into the "false demand", observing that many houses are being built, but when the economy takes a turn due to global slowdown, the demand to purchase a 2<sup>nd</sup> or 3<sup>rd</sup> home will slow. The priority should be on first home buyers, who has a greater demand. On part of the government, concerns from developers regarding contribution fees (from local government and utility companies) can be unfair. This is a challenge which the Minister will continue to pursue. In particular, utility companies should see the increase in development projects as an upside as the quantity of avenues have increase rather than putting up complaints against developers.

In other countries, there is healthy competition among utility companies to provide services to housing, but such competition does not yet exist in Malaysia.

The Minister sought the cooperation of Bank Negara to ease bank loans, but acknowledged the need to balance between providing means of financing home buyers and at the same time addressing increasing household debts. The National Housing Council will also discuss the streamlining PPPs, which will lead to the creation of a new agency under Jabatan Perumahan Negara to facilitate the needs and wants of industry players.

The 11<sup>th</sup> Malaysia Plan has put forward several specific strategies to help low and middle-income households achieve the goal for affordable housing. 11MP aims to provide quality affordable homes with 47,000 houses to be constructed or repaired for the poor. Meanwhile 606,000 more houses to be developed for low and middle-income households throughout the country. The 11MP will see policy makers increasing easy access to the low and middle-income groups via special interest rates and loans to buy houses. The bottom 40 percent bracket is one of the main focus groups for the years ahead, making an inclusive housing policy important.

YB Dato' Rahman Dahlan relayed concerns from the Prime Minister that housing is a main driver for the economy and is on his main agenda. The 11MP will give more emphasis on the housing sector, with more allocations available. The Minister hoped that stakeholders such as REHDA will understand the government's position, take advantage of the challenges, and look for ways to revive the housing industry. In closing, despite the challenging times the Minister has no doubt that all industry players and delegates present in the Summit has what it takes to rise to the challenge. He then declared the 18<sup>th</sup> National Housing & Property Summit 2015 open and wished all delegates a fruitful and engaging discussion.

## **SESSION 2:**

### **Industry Outlook and Future of the Housing and Property Sector**

*How have the cooling measures affected the Housing & Property market? Are they working, effective or overdone? What new strategies should the industry adopt to move forward? What are the sectoral outlook for condominium and residential, commercial and industrial? Where is the market heading? Where are the opportunities in a tough market?*

**Moderator: Dr. Zailan Mohd Isa, Selangor State Director, Valuation & Property Services Department, Ministry of Finance**

Dr. Zailan Isa noted the earlier session which saw differing opinions of how the property market is performing. In terms of transactions, she explained that the first half of the year has experienced some softening, but property prices are still picking up. This is indicative that properties are still moving positively.

**Mr. Elvin Fernandez, Managing Director, Khong & Jaafar Sdn Bhd**

Mr. Elvin Fernandez began the session by explaining that real estates are very much driven by interest rates with global effects. He highlighted the normalisation of interest rates (in the United States) which could be raised as early as September 2015, which has not been "normal" since the global financial crisis in 2008, where real estate companies have enjoyed an environment of low interest rates, but things are finally changing. On August 19, 2015, the Financial Times reported that emerging markets have been rocked by a USD\$1 trillion capital flight as capital slumps over the past 13 months. This exposed the vulnerability of emerging markets which will have an affect on the property market.

Mr. Fernandez also pointed out that growth in the European Union was also very low, posting a mere 0.3% growth in the last quarter. There were regional issues as well, with China's apparent slowdown

as seen in the Shanghai and Shenzhen Stock Markets, coupled with the devaluation of the Yuan. This has major effects as China is a big economy as whatever happens in China affects the region, Mr. Fernandez explained. As for ASEAN, with a market of 600 million people, there is much hope that things will improve with the initiation of the ASEAN Economic Community at the end of 2015.

Turning to Malaysia, Mr. Fernandez highlighted that the country has been rattled by political scandals which are affecting consumer & business confidence which has slowed but still at a positive. The latest GDP growth stood at 4.9% due to the improved production of palm oil. However, the Consumer Sentiment Index has gone from 71.7 points to 72.6 in the first quarter of 201 and retail sales prices have been revised twice downwards. It is anecdotal if GST has had any effects as it is too early to tell as the statistics are not yet available. Instituted cooling measures have been successful in addressing issues with increasing household debt, substantially removing market speculation, but the industry is uncertain if this policy will continue.

Mr. Fernandez explained that the residential sector market has been rumoured to have slowed, but is still awaiting the official numbers. The secondary market is still bigger than primary, making the secondary market the driver. Primary and secondary transactions for in Kuala Lumpur and Penang has a more marked slow-down compared to the general trend. Instead, there has been a push-up in Johor. The average value of residential transactions is still higher in the primary market than the secondary market due to incentives built into the price. The Malaysian House Price Index is still going upwards, but the rate of growth is decreasing. However, Mr. Fernandez pointed out that the index is skewed as it does not reflect house prices in real-terms. He explained that the office market has a high supply of 140 million square feet, causing rental to soften. He also pointed out that the costs of construction is rising.

#### **Ms. Malathi Thevendren, Executive Director, Jones Lang Wootton**

Ms. Malathi Thevendren explained Bank Negara's intent of introducing measures to bring about corrections to deal with rising house prices in response to increasing household debt from the marginal 86.7 to 88.9. At the same time, annual household growth is 55,000, which is a cause for concern considering how developers and banks can meet this demand. In terms of rising household income, in 2014, a double-digit growth was observed in Kuala Lumpur, which verifies the consumer's capability to purchase housing despite the rise in prices.

Ms. Malathi pointed out that the biggest groups are the low and mid-cost housing. However, she clarified that there is no oversupply due to overwhelming demand. The main concern is with a mismatch of demand for low and middle cost housing. Many people prefer retail in city centres, not suburbs, and integrated developments in right locations have highest demand compared to stand-alone megamalls which have gone out of trend.

Ms. Malathi shared that the formula for success depends on; (i) Location, (ii) Catchment, (iii) Design, and (iv) Accessibility. This is evident from the new wave of retail in the area of integrated developments. However, research conducted through observing the stock of integrated development has revealed that without the right formula, such developments can lead to poor tenancy rates. Hence, she cautioned delegates to conduct a proper analysis and identify whether there is demand.

In terms of housing and condominium launches, Ms. Malathi shared that there have been no launches of detached-houses in Q1 and Q2, indicating that most of the pent up demand has been met and that demand is greater for properties with a value of RM500,000 to RM1 million. It also suggest that developers are aware of where the demand is. Such markets are highly cyclical and at present the demand is focused on affordability. 2014 saw the record number of condominium launches. Ms. Malathi shared that in terms of launches per residential, Hulu Langat is picking up pace as it has the

infrastructure, MRT and the township. When DIBS was introduced between 2009-2011, many developers raised selling prices. Out of 44,000 stocks which were monitored, only 74% have been completed. There were concerns with holding power as purchasers have to begin paying their monthly instalments, some seeing depreciation on their purchases.

Ms. Malathi concluded her presentation by advising participants to be cautious as the market is highly cyclical and a cooling off period is good as it brings about corrections in terms of the number of launches of the required types of houses based on the demands of the market segment.

**Mr. Christopher Boyd, Chairman, Savills (Malaysia) Sdn Bhd**

**“Greater Kuala Lumpur Residential Property Market Overview”**

Mr. Christopher Boyd told delegates that they have to accept that the current and future state of the housing market is a result of the free market which has been affected by the various state and federal controls put in place for various reasons. There is a need to re-examine if the current state of affairs is what was intended. A quick-fix was introduced in Budget 2013 which came into effect in 2014, with the introduction of the real-property gains tax, the speculation-busting loan evaluation ratio, and imposition of stricter income requirements for mortgages to measure income based on nett rather than on a gross basis. These are artificial controls which took away lending decisions from banks in compliance with Bank Negara’s requirements.

Mr. Boyd pointed out that the amount of mortgages given in 2014 was the same as 2013, which is essentially a negative growth. He agreed with an earlier statement that the market has already begun to stabilise in 2013. However, artificial controls are often too heavy handed and typically exceeded their shelf life. Mr. Boyd shared that he was delighted to hear that the Minister is attempting to engage Bank Negara to relax some of these controls as he is of the opinion that it should be left to the banks to assess the credit worthiness of applicants. Many applicants have been denied mortgages because they do not meet the required level of household income. He felt that this is unfortunate as that the solution to this is to build smaller houses. He is, however, of the opinion that buyers should be allowed to purchase homes which they are able to afford and dumbing down the housing industry is not the right way to go.

Mr. Boyd explained that when times are bad, developers simply do not build. There has been slow growth in supply within Greater KL. In 2014, 26,675 houses were completed against the total required stock of 1.86 million, which is simply not enough. With a population growth rate of 2%, the growth rate of new houses coming into the market is lagging behind at only 1.5%, leaving buyers with limited options. Focus needs to move from fighting speculation to one that stimulates the market. Mr. Boyd recommended the relaxation in lending policies which are necessary to allow individuals who need to buy homes for their own living, by allowing a higher lending rate. Without easing these controls, houses prices will continue to spike.

Mr. Boyd expects the next spike to take place in 2018-2019 as the fundamentals are still strong with demand for houses remaining high and the finances are still available, but yet there are still shortages in supply. This indicates that there is no housing bubble but the opposite. Should easing the lending of finances not be carried out, this could led to prices continuing to increase. On a positive note, Mr. Boyd highlighted that there are good prospects ahead as Singaporeans are seeing cost advantages to set up in Malaysia and for the first time Greater KL will be hitting 100 million sq. ft. in 2015, which is cause to celebrate.

**Mr. Previndra Dato’ Singhe, Group Chief Executive Officer & Founder, Zerín Properties**

## **“Klang Valley Property Market Office & Hotel Sectors – Overview & Outlook”**

Mr. Previndra shared that in 1998 to 2015, the number of office spaces have doubled in Greater KL, reflecting a shift to the service economy from the manufacturing economy. A high proportion of workers in service industries spend most of their time in the office. Therefore, there is a positive trend in the office market.

Mr. Previndra pointed out that overall growth is robust. Under the current supply, there has been an increase in overall occupancy from 82% to 84.9% in 2014, with a record take up of over 8 million square feet nationwide. At the end of 2014, there were 201 million sq feet of office space throughout Malaysia. KL's market is proving resilient with an 83% occupancy. Mr. Previndra also shared that there is an upcoming 80 million sq feet of supply with 18 office building transactions worth RM1.1 billion in 2014. Rentals have generally been stable, particularly places with good accessibility and transportation nodes.

The office market in KL is very resilient, despite many predicting a crash, the lowering of rental prices, and lower occupancy rates. Instead, there was a very strong take up with occupancy rates improving from 80% to 83.5%. In KL, 3.2 million sq feet entered the market in 2014 compared to 465 thousand in 2013 (ie. Bank Rakyat along Jalan Travers, Menara Shell, 1 Sentrum, Menara Hap Seng, and Menara LGB) and will reach 100 million square feet in 2015.

Malaysia has the biggest supply of offices in ASEAN, with occupied supply more than existing supply in places like Jakarta, Bangkok, and Singapore. Greater Bangkok has 87 million square feet, Jakarta 65 million square feet, followed by Singapore with 64 million square feet. 2014 posted a record take up of office spaces in the Klang Valley with 7.1 million square feet taken up, an approximate 100% increase compared to the take up in 2013 of 3.4 million. Mr. Previndra simulated pointed out that without take up/absorption, the market will be at 74% - 79%, but this is still not a market crash as many of these offices are refurbishing themselves.

In the hospitality sector, implementation of the GST have made it possible for an analysis of the hotel industry where previously, certain hotels would notoriously under declare their occupancy rates to evade taxes. Top performing states in the hotel industry include Putrajaya, Penang, Pahang and Sabah. Overall, there has been a growth in occupancy, though in has declined in KL mainly due to the tragic incidents with air crashes, which saw occupancy drop from 68% to 63%.

For the future outlook, the office market is expected to remain resilient with upcoming projects in 2015 such as IB Tower, Menara Bangkok Bank, Menara Centara, Ken TTDI, Wisma Luxor, The Ascent, and The Vertical @ Bangsar South. In Q2 of 2015, Integra Tower @ The Intermark saw a transaction of RM1.065 billion.

Mr. Previndra believed that the ETP initiatives with INVEST KL attracting MNCs is having a positive impact. He expects office buildings with good accessibility and dual-compliant features to continue to perform well. He also foresees an increasing trend of gentrification of old office buildings in prime locations. To this, a drop of 3-4% in occupancy and rental rates for older and less relevant office spaces is expected. Such refurbishments are being observed at UBN Tower, Menara Hap Seng, and Menara TA One.

In the hospitality market, many hotels in Sabah and Melaka are reporting full occupancy due to the falling Ringgit. As such, Mr. Previndra expects the tourism sector to do very well in 2015. Taking advantage of this, the government has extended the pioneer status and investment tax allowance to relieve cost. The hospitality transaction market is active with the entrance of many players. For instance, Doubletree by Hilton recorded a RM388 million transaction in Q2 2015. Mr. Previndra expects to see room rates increase with the introduction of new players such as St. Regis Hotel in

2015, setting up benchmark rates, which will push up rates in Meridian and Hilton in KL Sentral. Other hotels of the sort are Banyan Tree @ Banyan Tree Signatures in 2015, W Hotel in 2016, and Harrods Hotel is rumoured to enter in 2018.

**Mr. Ho Chin Soon, Director, Ho Chin Soon Research Sdn Bhd**

**“Follow the Infrastructure”**

Mr. Ho Chin Soon shared news of recent infrastructure developments around Malaysia by first revealing Gamuda’s appointed as Project Delivery Partner on 14<sup>th</sup> August 2015 to oversee the Penang Transport Master Plan and informed delegates of land acquisitions in Kim Teng Park, Bukit Chagar which is tipped to be chosen in 2016 for MRT development when the two Prime Ministers meet. Mr. Ho believed that the rapid transit system will prove to be a game changer for Iskandar and if done correctly, property prices in Johor Bahru can be higher than Kuala Lumpur. He then revealed that a planned Woodland North MRT Station is set for 2019 using the Thompson East Coast Line which will connect Bukit Chagar to Singapore.

Mr. Ho then talked about the KL-Singapore high speed railway, of which eight of the following stations are planned:

- Sungai Besi, Kuala Lumpur
- Cyberjaya-Putrajaya
- Sime Darby, Seremban
- Labu & Kirby Estate
- Ayer Keroh, Malacca
- Pagoh, Muar
- Ayer Hitam, Batu Pahat
- Gerbang, Nusajaya–Iskandar Malaysia

Mr. Ho advised participants to attain a copy of the latest Ho Chin Soon maps which already contains locations of all the MRT2 Stations for investment planning purposes. He shared that in the week prior to the Summit, the deadline for MRT2’s three month objection period has lapsed. He expects the awarding of projects to begin by the end of the year or next year.

**Q & A**

**Question from a delegate:** Questions were posed on how to deal with federal and state government policies which are constantly changing and becoming increasingly “unexpected” (ie. adjustment of Bumiputera quotas). Some developers have difficulty obtaining approvals over extended periods of time despite meeting all criteria. In Iskandar’s international zone, freehold becomes leasehold if sold to foreigners. The delegate requested panellist to address these issues.

**Dr. Zailan Mohd Isa** explained that every jurisdiction has their own forms of controls towards development depending on state or federal government authorities.

**Mr. Christopher Boyd** reminded participants that YB Rahman Dahlan, in his speech, highlighted that there are attempts to streamline these controls.

**Mr. Elvin Fernandez** clarified that land is a state matter as recognised by the Constitution, but also has provision which states that for the purpose of uniformity of law and policy, there shall be a committee (the National Housing Council) which is chaired by the Prime Minister. He acknowledged

that there are difficulties for this committee in attempting to standardise policies and law as individual states rigorously guard their rights to land matters.

**Mr. Ho** is of the opinion that it is time to end the Malay Reserves policy, arguing that this was colonial policy which does not make sense and is hurting city growth. He also stressed the need for less regulation and for more dynamic markets.

**Dr. Zailan Mohd Isa** summarised the session by concluding that the property market is healthy, where office markets have high occupancy ratios, leaving plenty of room for the expansion of businesses. On the supply side, there is confidence from industry players toward the Malaysian economy. To make houses affordable, many young people still require assistance from the government. The property market remains resilient and has dealt with external turbulences.

### **SESSION 3:**

#### **Perspective and Aspirations of Younger Property Market Leaders**

**Moderator: Mr. Ishmael Ho, Chief Executive Officer, Ho Chin Soon Research Sdn Bhd**

**Dato' Beh Huck Lee, Group Managing Director & CEO, Eupe Corporation Berhad**

#### **“A Whole New World’: Surviving and Thriving in 21<sup>st</sup> Century Property Development”**

Dato' Beh explained that some changes are cyclical while others are structural. Similarly, the property market can be cyclical as it is prone of going up and down while others factors are more structural, such as changes in demographic patterns (ie. smaller family sizes). He noted that the Malaysian population is aging and is expected to reach 14.7 million people or 40% of the population to be aged 60 and above by 2050.

Dato' Beh also noted that a big portion of the population is becoming more mobile with 75% of the population shifting to cities, dispelling the fallacy that development will come to smaller towns as more and more people are relocating to bigger cities. Smaller family sizes also indicate that older parents will no longer need to invest for their future generations. These are cultural changes with an increased focus on consumerism unlike in the past when people buy homes for security. With these changes, it is unknown if properties will continue to be the natural inflation hedge.

Shifts to big cities also create major challenges, such as increased population density, heavier traffic jams, utility shortages, and an increasing income gap. Dato' Beh warns if housing hits the Housing Affordability Index of 5.0, even without interest rates, it will take a person spending 30% of their income paying bank loans 15 years to pay off the loan. With interest rates, this will likely take 20 years. Cities in Sabah, Sarawak, Kuala Lumpur, Selangor, Penang, and Kelantan are already above 5.0.

Dato' Beh pointed out that the housing sector is responding with competitors consolidating and becoming bigger. Yet the market is beginning to fragment into micro-markets which have a niche of their own, preventing “copycat strategies”. Dato' Beh lamented that methods of construction have not improved radically enough, forcing continued reliance on manpower and uncertainty of how to deliver a certain quality. He called for tighter controls for the provision of skilled labour.

Dato' Beh mentioned that a planning system the government's role as a regulatory body still key. Though frequent changes in guidelines are giving many problems, not enough has been done to make this industry permanent and sustainable. The industry is stuck in the old ways of thinking and doing things, which risk the sector failing meeting the demands of a rapidly changing society, meeting changing customer needs, and providing products that address the changing roles of property development in the 21<sup>st</sup> century.

Dato' Beh is concerned if developers all adopt the same approach, such as the higher plot ratio efficiency which no longer translates into effectiveness as it will reach a point where marginal cost will be higher than marginal benefit. The traditional models of construction needs to be changed, but he laments that we have not made use of technological advances, such as the insufficient adoption of IBS. He believed methods will change, where houses will one day be fabricated at in factory instead of on site. With increasing property prices, homes can no longer use a one-size fits all concept and needs to allow customisation based on the changing needs of the individual homeowner lifestyle. There is also a need to respond to changing living habits as today, society is more accepting of shared living spaces to make things more environmentally sustainable. The traditional way of doing things, solely owning properties, may no longer apply. Such a mindset change could see the emergence of new techniques, such as urban farming, ease of customising and changing their configuration of homes more efficiently. Hence, sustainability is a strategic response to new challenges.

Dato' Beh then talked about Eupe's Sustainability Plus programme where the business is not just about balance sheets and has the opportunity to contribute to society in a meaningful way. The property sector is also a major user of environmental resources, such as water and energy, making them responsible for thinking of ways to replenish and add to these environmental sources. The sector must also think of ways to do business activities in the long-term and reinvesting the profits to prolong the lifecycle of the industry. As such, the housing industry needs to think outside of the box and be innovative in addressing key social and environmental challenges, while at the same time understanding customer needs. The "Four Wall" approach for sustainability is insufficient, whereby there are still needs for CSR efforts to be conducted in a more structured manner.

Dato' Beh gave the example of Sky Residence, one of Eupe's developments in Kedah and Malaysia's first LEED accredited residential building which is eco-friendly and resident-friendly. It incorporates sustainable methods by harnessing the wind for cooling, provides natural lighting and so on. This is a plus point to reduce long-term maintenance cost. Dato' Beh also announced plans to organise musical festival, dubbed "Planet Eupe Music Festival", inviting several big names to perform. Though they are unlikely to profit from the event, Dato' Beh pointed out that this was a way to provide certain benefits in the form of entertainment back to the community. He stressed that developers and the government must work together to address the needs of the customers and the people they serve. There are many challenges and opportunities ahead, therefore, there is a greater need to listen to customers in order to learn and adapt.

### **Ms. Dianna Lee, Group CEO, Country Heights Holdings Berhad**

#### **"Breaking Boundaries"**

Ms. Dianna Lee shared that the biggest trend today is in healthcare as all other sectors want an association with the wellness business. This makes hospitality one of the industries which can breakdown inter-industry boundaries. She gave examples of hotels which focus on wellness, such as MGM Grand which introduced its Stay Well Room, which experienced its occupancy rate increasing by 92%. She revealed many other big hotel names such as Westin, Marriot, and Trump moving into wellness concepts.

Ms. Lee explained that the wellness tourism market is also one of the fastest growing markets which contributes approximately \$439 billion globally and is growing 10% annually, the fastest growth in the tourism industry. The global wellness industry is estimated to be worth \$2 trillion, yet, it has not been something the property market has been able to tap into.

Ms. Lee then provided several health statistics, which showed 1 of 4 Malaysians suffer from Hypercholesterolemia, 1 of 10 suffering hypertension, 2 of 5 with obesity, and 1 of 7 with diabetes. This implied, if a condominium complex has 100 residents, 40 of them suffer from obesity. She

questioned if properties are tailored to suit such increasing health needs. Other notable trends include increasing healthcare cost with hospitals charging 10% more than a year ago, a growing aging population, increase of health awareness via social media, and a growing middle and upper-class population. Ms. Lee argued that people are now looking for value added lifestyle solutions in properties, not just the traditional basics. Ms. Lee shared that the key is in breaking the boundaries between real estate and health care, creating buildings which are good for people's health. She pointed out that property is a steady market while health care is recession proof. Together, such a convergence creates a very successful formula.

Ms. Lee stressed that understanding buyer's healthcare needs would allow developers to tailor homes to supplement the occupants health needs. For instance, if an occupant does not have enough Vitamin D, homes can be designed with more access to sunlight. This in turn may turn into key feature for such potential buyers when selecting a unit.

Ms. Lee mentioned that green buildings are no longer a phase but a necessity, but there is also a need to incorporate a healthcare angle and not just an eco or cost-saving angle. She then talked about Cyberjaya Lakeview Residence, the first home incorporating these concepts where the entire home is made using silicate mineral as one of the building materials which has negative ions in building. Positive ions cause tiredness and accelerates aging. On average, a person needs 300-400 negative ions per cubic meter in order to be healthy and not feel tired. Normally, an average person only receives 30-40 negative ions per cubic meter, which is insufficient. Therefore, the home has become part of the therapy.

Ms. Lee also shared about the Mines Wellness City (MWC) which has two big lakes nearby, causing the temperature to be on average 1.5 degrees cooler than the city, making it a good venue to fuse real estate and healthcare. Mines has received support from the MoF to provide the entire value chain incentive where property developers receive 100% tax free, encouraging developers to reinvest in building materials to improve a person's health. MWC building managers also receive 100% tax exemption for the purpose of reinvesting in a better building technologies for healthcare. MWC operators (ie. yoga studio, pharmacies, organic food, etc) also receive a 70% tax incentives, demonstrating the emphasis on the healthcare strategy.

**Ms. Jane Leong, Senior General Manager for Business Development & Investments, Mah Sing Group Berhad**

Ms. Jane Leong asked delegates to consider what the future holds and consider what the factors driving future growth will be in the Malaysian property industry. Malaysia has a very young demographic, the second youngest in Asia with the median age of 27.7. By 2030, the median age is expected to be 33 years old with an expected increase of 2.5 million residents from aged 60 and above. Therefore, it is foreseeable that demand from the young and matured age groups will increase. Ms. Leong also highlighted the significance the Millennials, born in the 1980s to 2000s, who are the key drivers for housing consumption in the near future. She revealed that a study conducted by Goldman Sachs have shown trends of the Millennials who are delaying marriage. The median marriage age is currently 30 years old compared to the 1970s when it was 23. Household sizes are shrinking as families choose to have lesser children (5 children in the 1980s to 4 in 2010).

Ms Leong also told delegates that there has also been a shift in lifestyle and mindset as Millennials want convenience at their doorstep, leading them to live closer to cities where the excitement is. They are willing to pay for lifestyle experiences such as fitness, holidays, good food, and wellness products. Values of sustainability also play a big role in community. This is the essence of an emerging "sharing economy" which emphasises the importance of "access" which is the new "ownership". This is evident from the demand for such services which can be observed in the mushrooming of services like Netflix, Airbnb, Rent the Runway, and Uber.

Long-term commitment is also on the decline with a growing number of Millennials who prefer to rent, rather than to buy. This is a shift of mindset from the previous generation. It might also be harder for them to get a bank loan which is partly due to escalating prices around the world, making it more difficult for potential buyers who require higher rates of down payment to obtain the loan. However, Ms. Leong is still of the opinion that Millennials aspire for their own homes in the future if prices are affordable and if there is ease in financing. Based on these trends, Ms. Leong, recommended that developers need to push themselves to cater for future needs off rental market, instead of focusing on the sales of pure ownership. There is also a need for an integrated development and connectivity which offer convenience which suit to the practical needs of their lifestyles. Emphasis also needs to be given to sustainable development. The main point is to build improve customer experience to create brand loyalty, not to focus solely on assets.

Ms. Leong revealed that Mah Sing has a development in the form of D'sara Sentral in Sungai Buloh which takes account of these future trends. She explained that this is an integrated development which comprise of residential, retail, and office. It has a direct link to Sungai Buloh MRT Station, providing convenience. This project emphasises the promotion of community living and a healthy lifestyle, which is what the current generation is looking for. There is a constant need to value add, innovate and have sustainability-focused projects by embracing current trends to meet the needs of the future in order to stay ahead in the property industry. There is also a need to change the perception amongst young professionals about the property and construction industry in order to attract young talent and expertise to build a better property industry as they may not realise that it is as lucrative as the banking or financial industry. Mah Sing also has plans to promote Malaysian homes to the world market via a global network.

## Q & A

**Mr. Ishmael Ho** posed the first question to the panel by asking what are the ways used to attract young talents into the property sector.

**Ms. Jane Leong** explained that the Gen Ys are already entering this market and is a large group which needs to be catered for as they are intelligent and driven. They are not just looking for the money but want to be acknowledged for their contributions to the company, be heard by their superiors, and want to be treated fairly. They are constantly in search of career progression and are unable to thrive in a static environment.

**Ms. Dianna Lee** shared that Country Heights runs a Leader Excellence Acceleration Programme (LEAP) where outstanding employees are selected. These employees receive more perks, more annual leaves, flexible hours, dedicated training, and so on. These rewards keeps them in the company by providing them opportunities to grow.

**Dato' Beh Huck Lee** shared that young employees are more impatient and want to see higher income and results more quickly. To manage this, there needs to be a meeting of minds and principles between various aged employees. He agreed that young employees must be given the right platform to perform and contribute to the company. At the same time, there needs to be realistic expectations and understanding towards them. Employers must clearly communicate their expectations and give them sufficient leeway as creativity and performance cannot be seen from a short-term perspective.

**Mr. Ishmael Ho** posed another question regarding achieving economies of scale to be cost effective - does one require to be of a certain size in terms of land to operate wellness health elements?

**Ms. Dianna Lee** revealed that same person who created LEAP also created the Well Building Index, which looked at categories like air and water quality. However, such tools have not been fully utilised by the industry. Many developers still fail to understand the importance of healthcare. With more effort from both sides, it should not be more costly constructing an eco-building than a conventional building.

**Question from delegate.** Older generations have generally gone for bigger property, but the next generation tends to choose property with a different sense of lifestyle, rather than solely on size and

location. The delegate sought the panel's opinion as young developers of how are they are reacting to this and how are products changing.

**Ms. Jane Leong.** As developers, there is a need to cater for both the young and matured age groups. In terms of demand from younger families, she shared that household sizes are shrinking, implying that smaller sized homes are required. She also revealed that young buyers like an open space concept and developments with more lifestyle facilities. Due to affordability reasons, they choose to buy homes further from the city. But if money is not a concern, young people would prefer to live closer to the city. If so, units need to be smaller. Millennials like convenience and flexibility as they might do more travelling overseas for pleasure or to gain work experience, rather than settling down while they are young.

**Dato' Beh Huck Lee** gave a different perspective as he preferred to live further away from cities due to traffic congestion and property prices. Properties up north are much affordable as a two-storey terrace can still be bought for RM250,000. Dato' Beh advised that there needs to be sensitivity to the lifestyle needs of the various ethnic groups with different forms of community requirement. He shared how the Novum development in Bangsar, which targets younger families who will only stay for a few years for work purposes before moving on. Though such units are slightly smaller, they provide many central facilities. Dato' Beh also stressed the importance of integrating practical living needs in a shared environment, not merely focusing on how fancy things can be.

**Question from Mr. David Hashim.** Malaysia has seen the gradual empowerment of women in the marketplace. How has this influence the way developers gauge or modify their products to cater for factors of purchase with these changes in society?

**Dato' Beh Huck Lee** has a living philosophy that his wife is always right. She makes choices on what to buy, how to design, and how much to sell. Women knows better.

**Ms. Dianna Lee** explained that women tend to be the ones staying at home more often as they are the caregiver. This gives women greater insight towards the functional needs for families, when women are put in a position to make decision about house designs, the designs become more detailed and thoughtful, adding value to the design of the building.

**Ms. Jane Leong.** Women already play a major role in decision making in the past when it comes to purchasing homes. She agreed with Ms. Lee's point that women are more meticulous and has an eye for beauty.

**Mr. Ishmael Ho** asked panellist how it is like working for their parents.

**Ms. Jane Leong** shared that she is fortunate as her father has given her many opportunities and exposure, bringing her to site visits and meetings when she was young and has learnt a great deal. She shared that at times, they have differing views on how to manage the company. Members from the older generation tend to be more stubborn, but a prolonged working relations with her father has seen much improvement and trust.

**Ms. Dianna Lee** admitted that it is very difficult working with her father and it is often times a love-hate working relationship. Ultimately, she enjoys the work when she see the differences they can make. Ms. Lee advised that it is about striking a balance between each other's strengths and weaknesses, creating the best complement out of this combination. She acknowledged that they make a very good team despite occasional disagreements.

**Dato' Beh Huck Lee** shared that he was fortunate when he took over the company as his father trusted him to run the company. Though initially it was quite traumatising, overtime he was given a free hand. The older generation is more experienced and is fearful that their young will make the same mistakes, but this is sometimes necessary in order to grow. It is important to allow room for mistakes as long as these mistakes are not too costly. Dato' Beh also cautioned young developers not to be hypocritical and blame the older generation for being unreasonable as they too do the same.

## **SESSION 4:**

### **Green buildings and Eco Development**

*Green and sustainable development and eco-development are the new imperatives and new opportunities in the housing and property industry. Growing trend for green living creates new market niches for developers. Green development has also become a lifestyle choice. Branding green projects enhance value for property projects. Skyscrapers: Creating Spaces in the City's Skyline. What are the key challenges and issues?*

**Moderator: Dato' Stewart LaBrooy, CEO & Executive Director, Axis REIT Managers Bhd**

Dato' LaBrooy commenced the session by explaining that green buildings are an increasing trend, being the choice of developers as well as the choice of multinational tenants who ask for green buildings. Unfortunately this is hard to come by in Kuala Lumpur and the existing green buildings which do exist barely have an effect on the carbon footprint.

**Ar Mustapha Kemal Kamal bin Zulkarnain, Council Member & Chairman of Council Wellbeing, Sustainable Urban Wellbeing, Sustainable Housing and Resilient Environment Committee of Malaysian Institute of Architects (PAM)**

Mr. Mustapha Kamal mentioned that Asia needs 20,000 homes a day to accommodate the influx of migrants. 64% Asia's population will be living in cities by 2050. 16 out of 20 of the densest cities in the world are in Asia, with the density of 10,000-20,000 people per square kilometre. Mr. Kamal also revealed that the biggest population boom is occurring in Asia, posing a strain on land, transportation, habitation, and food supplies. He showed a map of KL in 2000 which still had large pockets of green, but developments a decade later resulted in a rapid depletion of green areas. KL's population in 2000 was 1,627,128 people or 6,696 inhabitants per square kilometre. By 2020, KL is expected to have 6 million residents or 24,691 inhabitants per square kilometre.

Mr. Kamal posed delegates the question whether to build vertical or horizontally and argued that building vertically would be more efficient. It is not merely about density per se but rather about sustainability and efficiency. Such developments must consider the practicality of connectivity to delivery convenience to its residents.

Mr. Kamal then talked about the concept of vertical cities. He explained that the main difference between vertical cities and modern skyscrapers is that skyscrapers have a single use (ie. office), while vertical cities offer all forms of services from commercial, residential and even schools. Such cities are centred upon the needs of people, not cars, echoing the words of Enrique Penalosa, the former mayor of Bogota, who said that "a city can be friendly to people or cars but not both".

Several benefits and issues with vertical cities were highlighted by Mr. Kamal:

- Volume *compact* to save energy. For instance, despite New York City being a dense city, it has a low energy consumption, making it very sustainable. Its average consumption is 6 kilowatts per person compared to Los Angeles which is four times more.
- Connectivity to *maximise accessibility* – avoiding direct connections for security and privacy reasons.

- *Comfort* considerations in climate, lighting, noise and air freshness.
- And limited areas to create public spaces.

Mr. Kamal then showed conceptual examples combining green with vertical such as sky farms and vertical gardens. He also showed participants conceptual designs such as the Yatra Tower in Mumbai, Chicago Gateway, Peruri 88 in Jakarta, and other examples of conceptual vertical cities in Ukraine and Rotterdam. In conclusion, vertical cities are a viable solution to solving issues in density, community development, land scarcity, and food and water scarcity, creating a sustainable future.

**Comments from Dato' LaBrooy.** He found the idea interesting but wonders if such developments will be too costly to purchase and what the service charges will be in such developments.

**Dato' Othman Omar, Chief Executive Officer, Oxley Holding (M) Sdn Bhd**

Dato' Othman Omar akin green & sustainability developments to a jigsaw puzzle which has many factors which need to be considered. These include:

- i. Best practices – recognition for taking the effort.
- ii. Environmentally friend – reducing the carbon footprint and using more recycled materials.
- iii. Integrated development – many components to a development for practical living and comfort.
- iv. Growing trends – Gen Ys more brand conscious.
- v. Market niche – developers who target buyers looking for green developments.
- vi. Lifestyle choice.
- vii. Enhanced value.
- viii. Public transport.
- ix. Building efficiency – savings for utilities.
- x. Branding – good to find out what green features the market is looking for, which are usually to minimise cost.
- xi. Certification.

Dato' Othman then reasoned with delegates of the necessity to start going green. For one, it is beginning to be a key feature increasingly being demanded. If such features are not provided by developers, customers may opt for one offered by competitors. Such is the rising awareness and trend where the public wants to save the planet by reducing the carbon and ecological footprint. Properties attaining green certification could also lead to higher prices. However, developers can make it more affordable by using less materials and recycled materials.

Dato' Othman stressed that a green strategy only works if planned correctly. This includes a transport oriented development as well as coordination and integration of networks. He concluded his presentation by giving examples of Oxley's developments around the world, such as the Oxley Towers in KLCC, Oxley Towers in Singapore, and the Royal Wharf in London.

**Mr. Anwar Syahrin Abdul Ajib, Managing Director / Chief Executive Officer, UEM Sunrise**

Mr. Syahrin emphasised that going green is not only a social responsibility on part of the developer, but it is also a competitive advantage. He explained that when developers sell, they do not just promote houses, but also the lifestyle that comes with the house, such as parks, lakes, people having a good time, etc. This has become an important part of the marketing strategy.

The changing trends towards green eco-development are evident. In 2009, only 13% of developers worldwide had more than 60% of green projects. This has increased to 51% of world by 2015.

Mr. Syahrin revealed that there are several types of certifications which can be used to promote green developments, such as the Green Building Index, BCA Green Mark, and GreenRE. Key areas for developers to focus on for industry recognised certifications are (i) Energy Efficiency, (ii) Environmental Quality, (iii) Sustainable Site Planning, (iv) Materials & Resources, (v) Water Efficiency and (vi) Innovation.

Following the eco-friendly trend, Mr. Syahrin shared that it is part of his marketing strategy to emphasis on green developments. 60% of UEM Sunrise's projects will be green in 2015. However, he cautioned the crucial need for planning and assess market assessment. Other aspect which warrant consideration were:

- i. Lighting and air – promote natural lighting and air circulation in living spaces.
- ii. Energy efficiency – reducing heat gain and air-conditioning demands, adopting ingenious designs for shading, introduce LED lighting – save electricity by 30%.
- iii. Climate control – arrange individual blocks to maximise natural cross ventilation.
- iv. Waste reduction – introduce more recycling efforts – provide recycling centres and make it convenient for residents.
- v. Water – Harvesting rainwater for irrigation.
- vi. Materials and construction – Low use of organic compound for paints, source for materials nearby and reduce carbon emissions from transport transfers, encourage developers to recycle materials for construction.
- vii. Community Connectivity – promote the use of public transport.

Mr. Syahrin shared that developments by UEM Sunrise beginning from the Mont Kiara 11 development in 2008 have slowly introduced green solutions to their developments such as energy efficient lighting, heat recovery systems to recycle air conditioning heat, and use of green label timber. These efforts were further enhanced in future developments. An example of how building designs can incorporate eco-development techniques was shown of the horizontal slab projection, where the slab protrudes out by 900mm to 1500mm, shading the floor below and offers protection from sun, glare heat, and rain.

Mr. Syahrin also talked about Puteri Harbour, a development which provides wider bicycles and pedestrian walk ways to encourage more walking and cycling rather than driving. This development also provides 17% of green land areas, which is 7% more than the mandated 10% by the state government. He also introduced Sireh Park at Nusajaya which has 343 acres of green space, likened it to Central Park in New York, as part of the company's investment into a green space for recreational purposes.

It is a balancing act as green effort are costly in capital expenditure, at least in short-term, but with long-term operational cost savings. Consumers seldom appreciate the advantages of green building as they are unaware of the benefits of green features, but this is changing. There is a need to create awareness. In closing, Mr. Syahrin argued that there are clear advantages and savings in the long-run, which is why the government must provide incentives by setting targets and mandating certifications to force through green initiatives.

### **Ar Sarly Adre Sarkum, President, Malaysia Green Building Confederation**

Mr. Sarkum began his presentation by highlighting the Green Building Index (GBI), which already has 142 million square feet of certified space, equivalent to 679,169 tons of CO<sub>2</sub> per annum. He pointed out that there are intrinsic economic incentives for going green, such as the fact that green initiatives have proven to recover faster than other forms of development.

Enabling green technologies are not new. In the past, the ancients have already looked at forms of green technology such as sanitation, clean water with aqueducts. Today, popular culture has increased the appeal of the American way of life – living in suburbs with a big house, etc. Cities like Shah Alam are based on this concepts which are built for cars in mind, not people.

Mr. Sarkum revealed that in the future, 70% of the world's population will be in Asia. He showed a pictorial comparisons of Shenzen and Shanghai between 1980 and 2010, which has completely changed its landscape from rural to urban. However in Europe, nothing much has changed in the past 30 years.

Mr. Sarkum raised the question on how to manage the urbanisation of Asia with increasing traffic jams, soaring prices and the side effects of slum creations, which is unsustainable. He argued that ultimately, green initiatives boil down to liveability in an urbanised environment. He shared that the pillars of a world-class urban design takes account of prosperity, sustainability, and liveability. These are based on the principals of:

- i. Walkability
- ii. Connectivity
- iii. Mixed-Use & Diversity
- iv. Mixed Housing
- v. Quality Architecture & Urban Design
- vi. Traditional Neighbourhood Structure
- vii. Increased Density
- viii. Smart Transportation
- ix. Sustainability
- x. Quality of Life
- xi. Food Security

On the matter of quality architecture and urban design, Mr. Sarkum reminded developers not to lose focus on liveability and sustainability when building. He gave the example of a Metropol Parasol in Seville, Spain which created an events space for community activity, adding to the quality of liveability for nearby residents. He also urged developers to follow the traditional neighbourhood structure using transect planning which allow for open spaces, food security, parks, and so on. He lamented that at times, developers do not follow planning guidelines in their rush to build.

Mr. Sarkum is also of the opinion that having increased density is not necessary a bad thing as it allows for the ease of walking and enables more efficient use of services and resources. KLCC is such an example where a concentrated urban density model is used for more wholesome utilisation of green spaces. He also stressed the importance of walkability, similar to Hong Kong which has many high rises, but walkability is simpler and is more convenient. Whereas London, with a flatter landscape takes more effort to commute on foot. Mr. Sarkum also emphasised the need for smart transportation, which is minimisation of the use of cars and used a networks of trains or making it friendly to pedestrians, bicycles, rollerblades, and scooters, which will leads to significant space creation.

Mr. Sarkum urged for a change in paradigm where cities need to put more emphasis on sustainability and transforming the landscape from vehicle-focused to pedestrian-focus. He gave the successful example of the Puente del Rey riverside in Madrid where highways and flyovers were replaced with pedestrians walkways with added with vegetation and landscaping. Delancey Street and Times Square has also been pedestrianised.

Mr. Sarkum said that there is a need to change our mindset from the American mindset of living in a big house in the suburbs with many cars and it is time to seek harmony and sustainability by embracing green technology and town planning methods. He warns that humanity can no longer ignore this as the planet will suffer and ultimately, all of us will lose out.

**Mr. David Mizan Hashim, Chief Executive Officer, Veritas Architects Sdn Bhd**

**“Skyscapes: Creating Urban Spaces in the city’s skyline**

Mr. David Mizan Hashim’s take on eco-development came in the form of “skyscapes”, or creating urban cities in the sky. He argued that cities are becoming denser and are growing at exponential rates. The density of Kuala Lumpur is predicted by the NKEA to be as dense as Shanghai or Seoul by 2050. By that year, it is predicted that 75% of the world population will be living in cities. He stressed that a change of mindset is required, moving always from preconceptions that cities must be planned in 2-dimensional setting, as they can instead be planned in 3-dimensional objects.

Mr. Hashim gave the example of the city portrayed in the motion picture *Metropolis* (1927) where cities exist in multiple levels and are connected with multiple links. He shared that his interest in this subjects stems from his thesis project while studying at Harvard University with the idea of taking elements of Times Square and distributing offices, schools restaurants, bars, and clubs into the sky to reduce the footprint of the building and opening up more green spaces on the ground. He pointed out that the idea of vertical distribution is not new, giving the example of unite d’habitation in Marseille which was built in 1952.

Mr. Hashim explained that vertical cities are not merely an accumulation of tall buildings, but a city composed of a network of interconnected tall buildings whereby components of city living is organised vertically with elevators and staircases acting as the roads of the vertical city. Increasingly, this is made possible with the availability of enabling technologies such as longer escalators which move at quicker speeds, double decked elevators, and destination-based elevators, all which have further strengthened the possibility for vertical cities. He also showed examples of sky farms concepts which already exist in Japan.

Mr. Hashim then gave several example of skyscape concepts in Malaysia, such as Tribeca along Jalan Imbi which has several lifestyle pods, common public facilities similar to those in the street such as parks, gyms, or business centres that are distributed throughout the building. These are spaces which the general public can access and enjoy. Another example is the W Hotel which features retail, hotel, and serviced apartments that are all connected. Its main lobby is no longer on the ground but 10 storeys above the ground. Other examples include Signature Tower, The SkiLine, and Oxley @ KLCC.

In his concluding remarks, Mr. Hashim stressed that there is a need to drastically increase sustainability of cities, warning if we do not move in the vertical direction humanity risk killing the Earth and itself.

## **SESSION 5:**

### **The 11<sup>th</sup> Malaysia Plan and Affordable Housing: Can We Meet The Targets?**

*The 11<sup>th</sup> Malaysia Plan tabled in Parliament in May this year has prioritised affordable housing as a key target. Can the targets for affordable housing be met? What are the challenges facing developers in addressing the needs for affordable housing? How can affordable housing be expedited? What are the new strategies to adopt?*

**Moderator: Tan Sri Dr. Michael Yeoh, Chief Executive Officer / Director, Asian Strategy & Leadership Institute (ASLI)**

Tan Sri Dr. Michael Yeoh reiterated how the 11<sup>th</sup> Malaysia Plan has provisions to meet growing demand for affordable housing, but he questioned if these targets are being met, and if not, what are the alternatives.

**Mr. Haji Azlan Alifiah, General Manager, Selangor State Development Corporation (PKNS)**

Haji Azlan pointed out that under the 11MP, 606,000 new houses will be developed for low and middle-income households between 2016-2020. He shared that the Selangor State Government has set a target to build 20,000 units of Rumah SelangorKu homes within 3 years, of which 29.4% will be developed by PKNS. They will maintain their 85% focus in the affordable range, targeting the middle-income group. Thus far, 1,977 units of Mampu Milik have been delivered in Selayang Mutiara and Bangi. As Selangor produces 20-23% of Malaysia's GDP, there is an urgent need to provide affordable housing to encourage this growth. From 2015 – 2019, 5,883 additional Mampu Milik units will be constructed. Such homes have a price range of RM42,000 to RM215,000. The maximum income eligibility to qualify for such homes is RM8,000 and below. To encourage the development of affordable homes the Selangor State Government is introducing a new initiative offering a 10% discount this year on land premiums based on current value, considering increasing the density up to 120 units per acre, fast tracking approvals,

Haji Azlan shared that PKNS has been entrusted with the vision of building communities, enriching lives and realising dream. Another of its objectives is to promote, develop and establish new growth centres, residential, industrial and trade areas. He revealed that Science Park 2 will soon be launched, the size of 1300 acres, featuring 2,000 units of Mampu Milik. This township, under PKNS, will have direct access to the MEX and ELITE highways. Haji Azlan also talked about other initiatives by PKNS, which has been tasked with the rejuvenation of existing townships which have "slowed". PKNS is also exploring options to participate in investment and trade sectors by producing effective management and equity participation in commercial and industrial sectors.

One of the issues faced by Selangor is the lack of industrial land, as the ones available are too expensive at RM120 per square feet, which is unaffordable to many SMEs, causing many to move towards Bandar Enstek where land is more affordable. Haji Azlan highlighted other affordable areas where industrial land is still available such as Pulau Indah, Bandar Sultan Sulaiman, Bernam Jaya and areas

close to Klang. These areas are gazetted by PKNS for the development of industrial parks. Bernam Jaya, in particular, which is located up north is planned for 5,000 acres of development.

Haji Azlan then talked about PKNS's efforts in provision of affordable homes, where close to 156,000 units have been developed since 1964 of which 85% are affordable homes. He shared that in the coming 4 years, PKNS is targeting a total of 36 projects comprising 10,496 units with a total subsidy of RM444.7 million. High-end development projects will still be continued which profits will be used to compensate the cost of subsidising MampuMilik. Otherwise, developers will not be able to make any money under usual circumstances. To do this, there is need to work together with contractors, using Build and Transfer (BOT) arrangements where financing is provided by contractors. One of such contractors is Selayang Mutiara of which PKNS maintains a working partnership.

Haji Azlan lamented that many low-income groups do not have good credit ratings for loans. To remedy this, PKNS is working with financial institutions to introduce buy back schemes. However, Haji Azlan warned that this can only be realised when prices are affordable. PKNS is selling at RM165,000 while the market price is RM250,000, yet there are some units which are sold at RM500,000. This is only possible when the profits are subsidies. He also proposed a partnership with the EPF, emulating Singapore's CPF initiative of which savings of up to 36% can be used as down payment and month housing mortgage. In this scheme, 16% - 36% is contributed by the individual while 20% is contributed by government. Haji Azlan also revealed that Selangor has allocated a budget of RM20 million to serve as down payment.

Haji Azlan mentioned that PKNS has always taken the build-then-sell approach, where they sell their products after about 60-70% completion. He suggested that the government should consider special incentives for developers taking the build-then-sell approach especially for affordable homes such a giving tax credits.

#### **Dr. Daniele Gambero, Chief Executive Officer & Co-Founder, REI Group Companies**

##### ***"Perception Vs. Reality"***

Dr. Gambero shared that during the 10<sup>th</sup> MP between 2010-2015, 181,637 homes were completed and under construction, including affordable homes. This is an average of 36,327 homes per year. He listed several affordable housing initiatives undertaken by 6 organisations/agencies:

- Program Bantuan Rumah (PBR) by the Ministry of Rural and Regional Development
- Program Perumahan Rakyat (PPR) by the Ministry of Urban Wellbeing, Housing and Local Government
- Rumah Mesra Rakyat (RMR1M) by Syarikat Perumahan Negara Berhad (SPNB)
- Perumahan Rakyat 1 Malaysia (PR1MA) by Perbandanan PR1MA Malaysia
- 1Malaysia Civil Servants Housing (PPA1M) by the Prime Minister's Department
- Rumah Wilayah Persekutuan (RUMAWIP) by the Ministry of Federal Territories

The above excludes others which are upcoming under Budget 2014. However, under Budget 2014 the government committed to delivery of 223,000 new houses while the previous Malaysian Plan has seen the delivery of 36,000 per year. But in reality, less than 15,000 houses were launched and under construction in 2014. Under Budget 2015, 143,000 homes were supposed to be built comprised of:

- 80,000 under PR1MA
- 37,000 under RMR, RIR and RAR
- 26,000 under the People Housing Programme

Dr. Gambero also pointed out that under the 11MP, 47,000 homes will be redeveloped or maintained with 606,000 to be delivered in the next 5 years. He revealed that REHDA, which has a membership

of 1,400 developers, admitted that the maximum total supply of homes they can provide on a yearly basis is only 150,000 units.

Dr. Gambero stressed that there is a need to define what it means to be “affordable” and pointed out that affordable and low cost are not the same. He also said that RM100,000 for a house is no longer low cost, calling for a need to relook at the purchasing power of the population. He revealed that 60% of the Malaysian population has an average household income of RM5,032 per month. This translates to a RM390,000 average value for Selangor, RM815,000 for Kuala Lumpur, RM390,000 for Penang of average affordable value.

Mr. Gambero gave emphasis to Johor due to speculation of a “market freeze”. He shared that he has conducted extensive research on Iskandar and is still bullish of its chances. He advised delegates to realise what the market is looking for, believing that the market is looking for houses with an average value of RM260,000. To be able to solve the issue of affordable housing, there is a need to know the levels of percentage of income, know how many homes are needed, and knowing the selling value. He explained that individuals in Johor have average earnings between RM2,000 to RM7,999 which is the same salary range of 54.3% of the population. Such an income range will allow loans which corresponds to the price range of 68.2% of homes supplied in Johor. However, Dr. Gambero stressed that 36% of homes need to be at the value of RM260,000, otherwise people will never be able to purchase. There is also a need to know the issues faced by current and future purchasers, where developers need to be aware of how much buyers are able to afford.

Dr. Gambero shared that approximately 31% of purchasers are aged 20-39 years. He also stated that there is no oversupply of houses, but instead, there is a big oversupply of high-end products. He revealed that by 2020, there will be a supply shortage of 3.3 million homes. To be feasible, he advised that each of these homes should be priced at RM500,000 and below.

Apart from affordability, there was also the issue of financing. Developers are discovering that there is a major difference between “sold” and “bought”, where houses which may have been “sold” through bookings, etc, but purchasers are struggling to finance their loans which have not been approved by banks. Dr. Gambero highlighted that PTPTN is a factor. Since 1<sup>st</sup> June 2015, Bank Negara Malaysia has been cracking down on delayed PTPTN repayments of 412,245 borrowers. This means 350 thousand Gen Ys will be unable to purchase homes as they are blacklisted.

The next task is to seek out areas which are affordable. In the centre of Kuala Lumpur land prices are currently at RM3,000 psf in central KL, while the city fringes cost RM900 psf, and the suburban areas cost RM300 psf. However, Dr. Gambero pointed out that opportunities lie in the southern corridor in areas such as Bangi and Nilai which only cost RM10-20 psf which should allow developers to build affordable homes. However, he revealed that many developers have been buying them out, but they are still making homes unaffordable. He asked developers to consider if purchasers will be willing to buy homes in the south for RM700,000 or if it makes more sense for consumers to buy a home for the same price in Seri Kembangan, also in the south but nearer to Kuala Lumpur, which is better connected.

Dr. Gambero stressed that the government needs to assist in providing infrastructure and urged Bank Negara and the Developers Association to find a solution to the PTPTN issue. He mentioned that first time home buyers need to be given rebates and ease in using EPF deposits. Developers also must realise that 1300 sqf is more than enough for a family and there is no need to be excessive with sizes of 2000, 3000, or even 5000 sqf.

#### **Dr. Ishmael Ho, Chief Executive Officer, Ho Chin Soon Research Sdn Bhd.**

Dr. Ishmael Ho explained that home prices have been on an uptrend, which is good news for existing home-owners, but a pain for those who are still yet to buy their first home. He shared that in 2013, he wrote an article after the announcement of Budget 2014 which addressed the issue of a homeless

generation where he recommended the identification of suitable locations for the purpose of affordable housing.

Dr. Ho shared that many affordable housing schemes were introduced under Budget 2014, such as Program Perumahan Rakyat, Rumah Idaman Rakyat, etc. He focused on PR1MA which targeted the construction of 80,000 units with a budget of RM1 billion. Budget 2015 saw a similar trend which also targeted the construction of 80,000 units with a budget of RM1.3 billion. He then revealed that the number of homes completed between 2011 – 2014 was less than 100,000 per year. The 11MP, Chapter 4, Focus Area B list provisions for “adequate and quality affordable housing to poor, low and middle-income households”. At this juncture, there is a need to strengthen economic fundamentals and not lay blame with current short-comings, particularly with the lack of sufficient affordable housing.

Dr. Ho highlighted urban considerations of those in the low income bracket or first time home buyers who require financial education to prevent them from overestimating what they can afford. This requires better coordination from the federal and state governments which need to work together. Unfortunately, the two often want to be seen as the “hero” with their own schemes instead of working together.

Finally, Dr. Ho called for a rethink of land use planning, recommending a need to revamp Malay reserve land policies, many of which are underutilised. He showed examples in Puchong, Semenyih, and Gombak where large patches of Malay land were undeveloped.

## Q & A

**Comments from Ar Mustapha Kamal.** Housing is a sensitive issue as it is not only about ownership but also about how it is obtained. In Johor Bahru, there is a hangover of 87,000 service apartments. The reason why there are so many is because they wanted to avoid an allocation for public facilities (ie. building of schools, etc). There is a need to relook at township planning as many new developments are of mixed land use, but officially, there is no such land category. This is problematic when there is a residential apartment on top of a commercial piece of land, which implies that such developments can only be for service apartments, incurring charges of commercial rates for water and electricity. The Malaysian Institute of Planner and the Malaysian Institute of Architects has requested for such a mixed category to be in place to enable affordable prices in cities. As all these houses require public facilities, there needs to be a change in mindset for space requires, such as how the MOE requires a minimum land size to be available for schools prior to approval. Different modes of township planning must be introduced, otherwise it is difficult to reconcile the demands of the authorities with those of developers.

**Dr. Daniel Gambero** explained that Malaysia does not have an effective and enforced master plan and everything is “negotiable”. In Johor Bahru, although some service apartments in some areas can be sold, others areas are simply out of place, out of priced and out of demand. There is a need for a serious master planner who has the authority to decide. As all land matters are matters of the state, all states must have a master planner who is able to finalise the use of land. Mr. Gambero was unsupportive of service apartments on these mixed concepts, unless they explore vertical skyscrapes which are practical in some areas, but are illogical in low density areas.

**Questions from Mr. Ikram.** Is it that important to buy a home when you can rent? For the middle-income groups, is renting a viable alternative which can solve the housing problem? Can developers work with governments to build homes to rent, where a 6-7% yield goes back to the developers? So there is no need for people to own homes but they can rent at affordable prices.

**Haji Azlan** acknowledged that there are several income segments which cannot afford housing nor have the finances to obtain loans. In Selangor, Lembaga Perumahan (Housing Board) has plans to purchase affordable houses to be rented out to individuals who are unable to afford purchasing a house. He shared examples in the United Kingdom where the concept of Council Homes has enabled people to rent houses instead of buying. Selangor has been discussing means to emulate these

concept. However, he explained that it is different in Malaysia because there are equities which increases overtime, enticing people to buy instead of rent. At the same time, many graduates do not have enough equity for down payments, increasing the appeal of a rent-to-buy scheme, which has been in discussion for the past two years. Haji Azlan also suggested a means to free up developers whose funds have been allocated into the cost of construction. This is where the state or federal governments can buy the house from developers and put up the house on the market for lease or lease-to-buy. Haji Azlan also shared that household debts-to-GDP has reached 87%, causing many banks to be unable to sustain lending. A new organisation or agency needs to be created to purchase property to be leased. A system still needs to be devised where renters can one day be homeowners. Historically, the increase of house prices of 9-12% per annum provides an equity which can be developed overtime, allowing individuals to upgrade to better homes. In 2015, Selangor has budgeted RM20 million to be given as loans to first-time home buyers as down payment. These are all small steps to resolving the affordable housing needs.

**Dr. Ishmael Ho** is of the opinion that the change of mind-set has been induced and forced upon, as consumers are unable to buy homes as they have no choice but to rent, implying that a problem still exist in terms of affordability shortages. Commenting on developers playing a role, he believed that this is not feasible as there will not be enough cash flow. To enable this, there is a need for buy in from bankers who will only feel secure if there is a guarantor, like the government.

**Dr. Daniel Gambero** was supportive of the idea to have a rental scheme as a source of revenue to the government to carry out proper maintenance. It is a good temporary solution as people will always have the push to look for better homes. He reminded participants of the period between 2009-2014 when developers were factoring the first 10% into the house price and questioned if first-time home buyers able to sustain such cost as they are required to pay their loans which factor in the first 10%. Banks and developers are unhappy as non-first home buyers, those who are capable of paying the 10%, are taking advantage of the system. There are already tools to find out whether or not a person is a first-time home buyer, but this needs to be monitored by an agency, otherwise it is unfair to developers and first-time owners.

With completion of the session, Tan Sri Dr. Michael Yeoh declared the end of the 18<sup>th</sup> National Housing Summit.

## **RECOMMENDATIONS**

### **1. Arresting Increasing House Prices**

Although the increase in house prices have slowed, it is highly unlikely that such prices will decrease due to the overwhelming shortage of housing. A high demand for housing coupled with insufficient supply is a major factor causing the increase of house prices. However, developers have been unable to keep pace with the needs of construction.

There was a prevailing theme calling for a need to make homes more affordable throughout the Summit. Developers need to focus cost reduction using improved technology, alternative building materials and source for land areas with lower cost psf. Government policies can also be used in the quest to make houses affordable such offering rebates and tax incentives, but regulators need to carefully monitor this practice as to avoid developers from taking advantage in increase profits. This is currently being practiced and should be continued, especially in light of the current slowdown.

Under such economic uncertainties coupled with rising societal needs for housing, there is a need to sync of cooling policy measure intending to address rising house rising, where the government needs to communicate their intentions to developers of what they might not be seeing from a demand and supply perspective, such as the fact buyers who cannot afford a certain house price

will not be able to buy, ultimately leaving developers with no sale. Likewise, developers need to communicate their concerns to the government if they are truly losing out should certain price levels not be increased or if it is simply a matter of being unable to maintain profit margins for their shareholders. A government review needs to be conducted alongside developers and consumer groups to examine if cooling policies and preventive measures have outlived their shelf lives.

It is also worth examining factors which are leading to the rising cost of construction – land, material, and labour. For instance, did the implementation of minimum wages significantly increase labour cost or if a weakening Ringgit has made cost of building materials sourced from overseas to chip away at developer revenues or if the cost has been passed on to buyers. Reducing base cost, introducing government support incentives, and introducing more efficient construction methods can lead to affordable house prices without need to compromise living quality.

## **2. Financing Issues**

The need for more housing, with approximately 55,000 units annually, is too heavy for banks to finance, causing them to become more selective and stricter with the approval of loans. But if bank do not finance these loans, people will not have places to live. With 150,000 homes required annually, financing has become a real issue. Bank Negara's attempts to address rising house prices is having adverse short-term effects on borrowing. As such, alternative financing methods are required.

It is recommended that a build-then-sell approach as a solution to financial shortage, which developers can be offered tax credits as long as they adhere to terms of making homes more affordable. This will allow sufficient cash flows for developers who can be released from post-development to take on another development project elsewhere, instead of waiting for the funds to come in which could take time, especially in current climate of slowdown.

Government initiatives from 11MP and the various Budgets must sync more effectively with their existing initiatives and collaborate further with the private sector financial institutions for successful loan applications.

Effective measures need to be undertaken to encourage PTPTN defaulters to start paying back their debts. However, special treatment should not be given to blacklisted defaulters as it would encourage more to take advantage of the already embattled fund.

## **3. Rethinking Design of Cities.**

Each state is in need of a strong and effective master planner who can approve developments based on reason and feasibility of success for such developments. State governments need to be more proactive and take the lead in ensuring their master planners are doing their jobs properly. Master planners also need to know their role in state and local development, not simply approving projects without proper analysis as that sets up such developments to fail. For instance, there are simply too many retail malls in the Klang Valley and it is time to cut down as they are struggling to gain a sufficient market share which is bad for business.

There is also need to assess if there are prospects for integrated development schemes in areas which do not have sufficient population density. It is questionable if developers are simply trying to maximise on the plot of land obtained with the intention of multiplying profits by building upwards instead of considering the sellable feasibility for such projects in certain areas.

Governments must also integrate outskirts areas which have a lower cost of land psf, particularly means of transportation and amenities, if they intend to encourage developers to build in those areas as to enable them to market more effectively to potential buyers.

To make things more affordable and sustainable, the concept of vertical cities is a viable option. This would require active leadership from the state government or local council/mayor to champion such an idea. Perhaps if more skyscrapers are built and become mainstream, the cost will decrease when economies of scale are achieved, yield cost savings from energy from the redesign of cities which minimise vehicle use, shifting the cost of infrastructure from one that is vehicle-focus to people-focus.

More incentives need to be undertaken to encourage the development of eco-friendly homes and eco-friendly cities in a bid to reduce the carbon footprint and making the environment more sustainable. Developers need to consider more techniques to encourage sustainability (ie. use more LED lights) and provide the necessary infrastructure to promote sustainability efforts (ie. provide two waste disposal bays for general waste and recyclable waste).

#### **4. Preparing for Changes in Global Financial Climate**

With the impending revision of interest rates by the US Federal Reserve, it is best to have contingency plans in the event of capital outflows from Malaysia. Should US interest rates be increased, this could also see further weakening of the Ringgit. It is important for the Ringgit to stabilise to prevent further capital outflows.

China's imminent economic slowdown could also see a drop of investors to Malaysia, further complicating sales in the property market. In the short-term however, during times of acute housing supply shortages, this may not necessarily be a bad thing as Malaysians do not need to compete with foreign buyers when it comes to house purchases. This may change in the medium-term as the Ringgit stabilises as a weakened Ringgit will encourage foreign purchases who will take advantage of the low value currency by buying up Malaysian assets. However, focus and priority should be given to local residents by strengthening their financial capacity.

#### **5. Possible Themes, Sub-Themes and Questions for Future Summits**

- a) Inflated house prices. Are there too many foreigners snapping up houses and pushing up house prices for resale? Are first-time Malaysian home buyers given priority to purchase homes to a non-resident foreigner? Is the current price ceilings sufficient in preventing the sale of affordable homes to non-Malaysians? Have foreign purchases/investors been encouraged by developers due to a lack of funds to finance further development projects, because a developer's finances are "stuck" in stock assets which are not liquid? Has foreign sales significantly contributed to the lack of housing supply which in part has been blamed for rising house prices? What can be done to address this?
- b) There are existing discrepancies over who is "in-charge" of a completed development - is the Federal, State or Local government, or is it the developer? In places like Setia Alam by SP Setia and Bandar Sunway by Sunway Group, the developers seem to have more influence and authority compared to the authorities themselves. In terms of provision of facilities in certain developments, it is good and should be at such standards, but has this been neglected by governments? It is a slippery slope as developers are playing the role of local government, instead of local government itself. Are developers given too much influence? Are developers focusing too much on profit maximisation (ie. negation of pedestrian facilities such as sidewalks which have seemingly disappeared from Malaysian society)? Will this lead to civil confusions over issues of legal matters (ie. security) where law enforcement is carried out

by the auxiliary police under the management the developer, rather than the local and state governments themselves. Should developers be playing the role of local council? How can this be corrected?

- c) Who takes the lead in initiating a development? Do the various levels of government have a plan before asking for developers to develop it? Or is it the other way around where it is more so that the developers want to develop an area, asking governments to merely approve the developer's plans? If so, it becomes a free-for-all between developers, whereas the rakyat are caught in between. Whose vision is it when it comes to the development of a state or country? Where is the focus?