COVER STORY

Cautiously optimistic

CARMEN CHUA

Managing director ONE KLCC Sdn Bhd

Is the current property development industry conservative? What needs to be changed?

Revisions to the tax structure, such as the recent exemption of the Real Property Gains Tax, can enhance the return on real estate investment. Over the past year, we have witnessed changes in public policies and financial market innovations that have allowed a larger percentage of the population to purchase their own homes.

The nod for withdrawals from the Employees Provident Fund for mortgage repayment has generated immediate housing demand. The number of cranes on the Kuala Lumpur skyline is evidence of a revival in the construction industry after a brief interruption because of the Asian financial crisis.

As demand can come in many forms — being domestically driven or stimulated from the investment of foreign real estate funds — it is imperative that Malaysia takes steps to create a sustainable real estate sector by boosting domestic consumption.

Many of our neighbouring countries have strong domestic consumption, which allows their real estate sector to have better pricing power, both in residential and commercial developments. The ability to justify costs against pricing power allows the transformation of focus to lifestyle, branding and quality, giving rise to luxury developments.

Dubai has emerged from a desert and successfully transformed itself into a new frontier for global investors in the last five years. Its success factors include the legal framework and financial systems that have been put in place. Special areas are designated with global jurisdiction, exempted from local laws and follow international rules and practices. For example, the Dubai International Financial Centre (DIFC), one of Dubai's key developments, offers a variety of investor-friendly incentives and operates under English common law.

Another success factor is the political will and single-voiced commitment of the government. With this framework, Dubai has successfully attracted commitments from reputable global investors. The Iskandar Development Region (IDR) has been planned on a similar platform and Dubai will be a good model for it.

Your property market outlook for 2008?

Real estate has two challenges in 2008 — high oil prices and the US subprime mortgage crisis. High oil prices will cause a rise in the price of other resources and materials and this will, in turn, cause an increase in construction cost by 30% to 50%.

The subprime and credit crunch crisis has affected all investment assets — hard and soft commodities, currencies, bonds, equity and real estate — with the financial markets in turmoil. The entire investment atmosphere has changed in the last three months, with a reranking of investment allocation priorities. Mindsets have changed and investors are less risk-averse. Investment managers are becoming more focused on the home/prime markets that they are in and will be adopting a more cautious approach to deciding on their commitments to second-tier markets.

Thus, foreign investment inflow will slow in 2008, resulting in a slower inflow of buyers. This is already evident in the global market as headlines in the UK show fewer luxury London homes have been sold in the past four months, while commercial property sales in the US were down 70% in October. This is yet another sign that the credit crunch that began in the US housing market has spread to the commercial real estate market.

Although Malaysia is not immune to the current turmoil, as a resource-based country, we remain relatively attractive. Interest rates are predicted to remain low, while inflation is moderate. However, the cloud of uncertainty continues to hang over the government's future direction in utilising the export earnings of oil and gas to subsidise the nation's energy prices.

Many believe Malaysia, especially the KLCC area, have seen prices of real estate rise to dizzying heights. However, a close look at prices will show that KL property prices started from a very low base. The rate of increase was moderate compared to the rates seen in global cities during the same period.

On a positive note, two main investment sources may provide a cushion against the collapse of the global real estate market — petrodollar investors and Asian central banks (and their sovereign wealth funds).

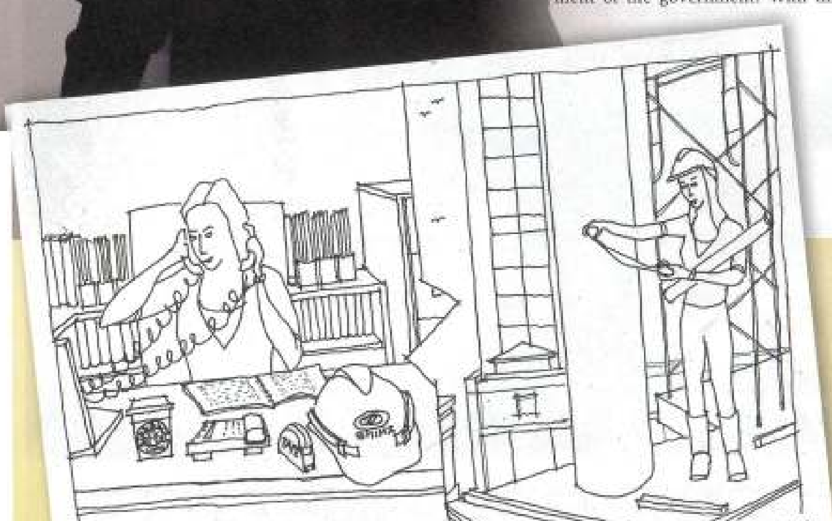
Petrodollar investors, with US$3.4 trillion (about RM11.28 trillion) in foreign financial assets, have benefited from the tripling of oil prices since 2002. They are a diverse group, comprising mainly the Gulf Cooperation Council — Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates — which have a long-term investment horizon and a higher preference of risk in search of higher returns.

> "Real estate has two challenges in 2008 — high oil prices and the US subprime mortgage crisis"

Asian central banks, and their sovereign wealth funds, had about US$3.1 trillion in foreign reserve assets at the end of 2006, and are mainly concentrated in the hands of China and Japan (US$1.1 trillion and US$875 billion respectively).

These two sources may continue to be active in searching for value preservation and better returns. The more aggressive sovereign wealth funds and private oil investors are increasing their allocations in alternative asset classes, such as real estate, private equity and hedge funds, and in emerging markets. Aside from these two sources, Malaysia will continue to benefit from the inflow of foreign real estate investment trusts and private equity property funds, which have only just begun to explore the Malaysian market since the relaxation of Foreign Investment Committee regulations.

I am cautiously optimistic, going forward. Developers have to be cautious in reading the property cycle and should adopt a prudent approach. A conservative debt equity ratio will enable developers to carry through a down cycle in anticipation of the next upturn to enjoy the fruits of the next cycle.



Chua's sketch of her typical day at work

IN 2004, Carmen Chua, 24, graduated with a Bachelor of Science majoring in economics from the London School of Economics and Political Science, UK, and is currently responsible for the development of the iconic ONE KL project. Not only does Chua sit on the board of various member companies of CMY Capital, but she is also a non-executive director of Second Board-listed Furniweb Industrial Products Bhd and the honorary secretary of the Kuala Lumpur Business Club.

One KLCC Sdn Bhd is the developer of the 35-storey condominium building of ONE KL, which is adjacent to the Petronas Twin Towers. Launched at end-2005, the project has the tagline of "94 apartments, 95 pools".

Carmen's dad
Datuk Chua Ma Yu