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Biz
Fund-raising disrupter

Outlook for luxury condo market improving

>2

Luxury condo market likely to improve

Analysts say economy is on a steady growth path

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PETALING JAYA: The Klang Valley's luxury condominium segment is expected to see improvement by the middle of next year on the back of better economic fundamentals and closer demand-supply balance.

CBRE|WTW managing director Foo Gee Jen said the Malaysian economy was still on a steady growth trajectory, which bode well for the local property sector – especially the luxury condominium segment.

"The economy is improving and there has been a revision upwards in terms of performance," he told *StarBiz*.

Foo added that the upcoming general election should also spur investments into the country.

"We should start to see some improvement in the luxury condominium market," he said, adding that improved rail connectivity within the city will increase demand for high-end, high rise units within the Klang Valley.

Early this year, the Government had projected gross domestic product (GDP) to grow between 4% and 5% this year. The economy expanded 5.6% in the first quarter.

The second-quarter GDP performance is expected to be released next month.

The International Monetary Fund has raised Malaysia's GDP growth projection for this year to 4.8% from 4.5%, on the back of savvy economic management and commendable monetary policies.

Axis REIT Managers Bhd head of investments and Malaysian Institute of Estate Agents immediate past-president Siva Shanker said the luxury condominium sector will improve over the near term.

"There has been overwhelming supply for units between the RM700,000 and RM1.5mil range and over the past two years, developers have either slowed down or held back launches of these units.

"With fewer of these launches and less supply, the oversupply is slowly correcting and the sector will be close to an equilibrium."

Siva added that the level of supply and demand is nearly on par.

Foo concurred that there had not been many launches of high-end condominiums over the past couple of years.

"The last was 8 Conlay which was in late 2016. We don't see many launches coming in, but there are exceptions, such as Eco World Development Group Bhd's Bukit Bintang City Centre (BBCC), which will have a high-end component."

According to reports, BBCC's phase 1, comprising an entertainment hub, a four-star hotel, a strata office and two blocks of serviced apartments, is expected to be completed by December 2020.

Foo also said a high-end condominium development is being planned within the Tun Razak Exchange.

"This is slated for launch either next year or in 2019," he said.

Foo said there had been an oversupply of small office home office or SoHo units within the market, adding that recovery within this segment would "take a while."

"These are units within the 350 sq ft to 500 sq ft range and there are a lot of these in the market. Occupancy rates for these units are below 40% and this segment will take longer to recover," he said.

According to CBRE|WTW's 2017 real estate market outlook report, the total number of luxury condominiums in Kuala Lumpur stood at 38,064 units as of end 2016, an increase of 3,004 units compared with 2015.

It said the total number of luxury condominium units is expected to increase by 14,408 units in the next two years, to a total of 52,112 units by 2018.

"The transaction activityin the luxury condominiums market was less active in 2016, but average transacted prices still rose at a slower pace.

"Luxury condominiums in the Golden Triangle were transacted at RM1,280 per sq ft on average, whereas in secondary areas there was price appreciation of around 5%, to RM945 per sq ft on average."

In terms of price structure, the report said 86% of existing condominiums are in the RM700 per sq ft to RM1,000 per sq ft range which could decline to 64% by 2019.

"Upscale condominiums (RM1,001 per sq ft to RM1,500 per sq ft) are expected to see the greatest growth averaging 4,000 units per year sharing 23% of total condominiums by 2019."

The report said this sector would continue to attract demand as residential land becomes scarce in the city.