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# Is this the MOTHER of ALL CRISES?

Will the Malaysian economy and the property sector survive the onslaught of the Covid-19 pandemic? How? Read Pages 6 to 8.

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# How is this crisis DIFFERENT?

BY **EDGEPROP.MY**

**T**he ongoing Covid-19 outbreak has put a large dent on the global economy. The question is, can the country's property sector weather this unprecedented storm? Could the lessons from previous economic crises provide us some navigation through this, although it must be said that we are sailing in uncharted waters?

At the EdgeProp.my Facebook Live Fireside Chat on April 17 titled "Will the Malaysian Property Sector Survive This Mother of All Crises?", three industry veterans provided some clarity on what property buyers and investors should expect as they discussed the current pains plaguing the industry.

The live event attracted some 23,000 views with a deluge of questions posed to the panel which consisted of Perbadanan PRIMA (PRIMA) Malaysia chairman Tan Sri Eddy Chen, Real Estate and Housing Developers' Association (Rehda) Malaysia president Datuk Soam Heng Choon and Rehda Institute chairman Datuk Jeffrey Ng, with EdgeProp Malaysia managing director and editor-in-chief Au Foong Yee serving as the moderator.

"This is not the time for business as usual. For the first time in six decades, Asia's economic growth this year will grind to a halt with zero expansion. Such was the prediction of the International Monetary Fund (IMF) and Asia is not alone in this. These are highly challenging times for the global economy as well," said Au as she kicked off the Fireside Chat.

"The only certainty, if there is any at all, is that there are a whole lot of uncertainties. The world we know is changing. Malaysia has emerged from crises before. This time around, will the property sector survive the mother of all crises?" she said as she set off the discussion.

## But... is this the mother of all crises?

"We don't know yet (whether this is the mother of all crises). Back then, in the 1997 Asian Financial Crisis, we thought it was going to be very severe but within two years, there was a rebound," offered Chen, who was Rehda president from 1998 to 2002.

"To me, this is just another crisis we have to weather through. We could perhaps see signs of a rebound maybe from late next year," said Chen, who is also MKH Bhd group managing director.

Meanwhile, Rehda's Soam said this is the worst crisis he had ever seen to date mainly because of the Covid-19 pandemic which has resulted in a Movement Control Order (MCO), putting a majority of businesses to a halt for more than a month since March 18.

**EdgeProp.my**

### Fireside Chat

**WILL THE MALAYSIAN PROPERTY SECTOR SURVIVE THIS MOTHER OF ALL CRISES?**



**Missed the live session? CLICK HERE to view the video.**



**Also CLICK HERE to view the EdgeProp.my FB Live Fireside Chat on Undervalued Properties – Opportunities or Risk?**



*"To me, this is just another crisis we have to weather through. We could perhaps see signs of a rebound maybe from late next year." — Chen*

"For people my age, it can be called the mother of all crises. But for a 30-year-old listening to this, there could be a bigger crisis in future — we'll never know. But to me, each crisis is different.

"This time around it is different given that there is no ongoing work for a period of time and looking at the way the exit strategy is derived," said Soam, adding that it will be a while before a light can be seen at the end of the tunnel.

Rehda Institute's Ng concurred with Soam that this is indeed the mother of all crises as the country has never seen all businesses and social activities completely shut down due to movement restrictions and lockdowns, not just in Malaysia but on a global scale.

"Nevertheless, the good thing is that the governments and the central banks [of each country] are reacting to inject as much liquidity into the market as possible. As a result, there is a compensating stimulus to keep the economy floating, so to speak.

"But during this MCO period in Malaysia, seeing literally sharp drops in revenues and sharp drops in cash flow is something I personally have never experienced before. If we can all get through this [with a lot of support from the authorities], it will be quite an experience," said Ng.

## "Higher than the last high"

As a property developer who has survived previous economic crises including in 1997 and 2008, Chen holds an optimistic view on market recovery.

"Based on history, I believe the market could recover after the next two to three years of slowdown. While some developers are looking to cut overhead cost and defer new project launches, I believe all these are temporary because the next high is always higher than the last high, based on history."

However, he added, a recovery will depend on how the world solves the pandemic and how long it takes for confidence to be restored.

Soam, on the other hand, said recovery may not be as quick this time around.

"We are having a different situation from the 1997 crisis

in that the property market today has more high-rise projects. I am confident that landed homes in good locations will not have problems, it has always been the fastest property segment to recover, but high-rises will face some resistance. Otherwise, I'm optimistic about the market although it may take a bit long," he said.

## The new normal in doing business

Rehda Institute's Ng, who is also the Malaysian REIT Managers Association (MRMA) chairman, urged property stakeholders to embrace the change in the way business is done for now and the future.

### The new normal...

- Embrace change in business operations
- Expect to rely on technology: virtual seminars/forums/ virtual tours
- Be more innovative and creative

"Moving forward, we need to live with the new normal, for example, expect more virtual fireside chats like this and more requests for virtual show unit tours... We need to be innovative and embrace the change," Ng shared.

He also urged the public to not be too anxious about the current movement in property prices but instead, focus on how to boost the economy in terms of productivity and overall income.

"We don't have to be over-worried about property prices coming down. The property market is cyclical, hence it's normal for the prices to fluctuate. When the price comes down, it will go up next. Instead, our biggest concern should be on how to increase the country's productivity and adjust the mismatch between cost of doing business and homebuyer's ability in purchasing property," he commented.

Hence, he hopes the government could roll out more stimulus packages specific for certain sectors such as the property sector, to drive the market forward and to restore market confidence.

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## EdgeProp.my Fireside Chat

### Will developers reduce property prices?

Whether property developers will lower the prices of their products in light of the current economic downturn and the Covid-19 pandemic would depend on how desperate the developers are, but Soam believes property prices in general will drop although it would be difficult to put a figure on the quantum. "How big a drop depends on supply and demand, the property type, the location and other factors," he offered.

Meanwhile, Chen said this could be an opportunity to reduce the overhang in the property market, as developers would not be so resistant to lowering their property prices this time round.

"If you are looking at cash flow and survival, then you may be less resistant to lowering prices," he said, adding that in the 1997/1998 Asian Financial Crisis, some developers had to reduce their prices by as much as 30% to 40%.

Both Soam and Chen agreed that the secondary market may be harder hit although it will not see a surge in fire sales, if any, for at least six months — thanks to the loan moratorium offered by Bank Negara. But things are uncertain after the moratorium period.

Go to [www.EdgeProp.my](http://www.EdgeProp.my) for more reports from the **FIRESIDE CHAT**.

*"This time around it is different given that there is no ongoing work for a period of time and looking at the way the exit strategy is derived." — Soam*



## Measures that could prop up the property sector

At the **EdgeProp.my Facebook Live Fireside Chat** on April 17 titled "Will the Malaysian Property Sector Survive this Mother of All Crises?", Perbadanan PRIMA (PRIMA) Malaysia chairman Tan Sri Eddy Chen, Real Estate and Housing Developers' Association (Rehda) Malaysia president Datuk Soam Heng Choon and Rehda Institute chairman Datuk Jeffrey Ng shared their thoughts on measures that could get the economy and the property sector, which has been pummelled by the Covid-19 outbreak, on track to recovery.

### Extend HOC incentives



One suggestion was to bring back the nationwide Home Ownership Campaign (HOC) which was initiated in 2019 to increase home ownership among Malaysians and to address the property overhang in the country. Contrary to perceptions that the HOC is akin to a "cheap sale", Rehda's Soam stressed that it is not the campaign per se but the incentives for homebuyers that came with it that are crucial in reducing the burden on homebuyers.

"Everybody thinks it is a cheap sale just because we [the developers] give a 10% discount (from the approved selling price) but you can get that discount even without the HOC as well.

"More importantly, the HOC is about the benefit to homebuyers when the government comes out to help them reduce their financial burden such as giving stamp duty waivers for loan instruments and on the memorandums of transfer," he explained.

The HOC in 2019 consisted of a 10% discount off the property selling price (provided by developers), stamp duty exemption on instruments of transfer (for the first RM1 million) and stamp duty exemptions on instruments of loan agreements (up to RM2.5 million).

"Call it any other name, but we need to come up with things that will reduce the financial burden on the homebuyer and stimulate the market.

"Buyers have to pay for stamp duty, legal fees, etc. There are a lot of outgoings that they have to pay and most homebuyers are first-time buyers. Such incentives will actually help them," Soam concluded, adding that the only thing developers are asking from the government for themselves is to lower the cost of doing business.

### Reduce property cooling measures



Soam also suggested that it is time to call off the cooling measures imposed on the property market since 2014.

"Between 2010 and 2013, when there was a boom in the market, many investors jumped

on the wagon, so cooling measures were implemented. By 2017/2018, the market had already slowed down a lot, but the government has not lifted the cooling measures," he said.

Among the cooling measures introduced then were revisions to the Real Property Gains Tax (RPGT), removal of the Developer Interest Bearing Scheme (DIBS) and strict lending policies by financial institutions.

"Now if the 'medicine' is too strong, it is perhaps better to take it away," he opined, considering the impact the Covid-19 pandemic will have on the economy and the property sector.

### More transparent housing and development data



As the current property sector slowdown is also contributed by the property overhang in the country, Chen who is also

MKH Bhd group managing director said property developers need greater transparency among stakeholders to share information and data that could help the property industry avoid a mismatch of property supply and demand.

According to data from the National Property Information Centre (Npic), the latest data on overhang units in Malaysia as of 3Q2019 stood at 31,092 and 24,820 units for residential and commercial properties respectively.

"We need greater transparency, more information and this information to be centralised somewhere so that developers can know which product can sell and which one cannot in a certain area. It will help us to make investment decisions and avoid an oversupply situation in an area.

"Data centralisation is much needed and I understand it is a work in progress now," Chen said, adding that the data that are needed include those on land conversions, building plans, the number of units being built in an area and the number of projects coming up, among others.

"We have done feasibility studies, but we lack certain data. We may think we are the only developer in an area, but we suddenly find that there are 10 others building in the same place."

Meanwhile, Soam said a few government departments are currently

involved in setting up a centralised data system including the Statistics Department.

"When it is done, it will not only be useful to developers but everyone including purchasers. Hopefully in the next one or two years we will have it up," he added.

### Consider a tax-free year



To wrap up the Fireside Chat, moderator EdgeProp.my editor-in-chief and managing director Au Foong Yee asked each panelist for his one wish arising from this Covid-19 pandemic for the property industry.

"If I could only have one wish from the government, it would be to declare a tax-free year for 2020. This will have a great impact on the macro economy as it will boost market liquidity and create a great multiplier effect," said Chen.

In a soft and uncertain market, he added, people are waiting for fresh leads to make buying or investment decisions, hence any "feel good factor" will create a positive impact on the economy.

Similarly, Soam also believes that reviewing the current tax structure will help speed up economic recovery.

"Certainly, it will help to put money in businesses and for people to spend more money so that the economy will grow.

"For instance, if we take away Sales and Service Tax (SST) and move back to the Goods and Services Tax (GST), there could be a tax-free period like the last time," he suggested.

Although the Covid-19 pandemic has severely impacted all economic sectors, it also offered an opportunity to review certain policies for their relevance, he added.

Ng too was all for a tax holiday but wants the government to apply any stimulus measures it comes up with across the board rather than to limited segments, citing for instance stamp duty waivers for homebuyers which are limited to affordable housing purchasers.

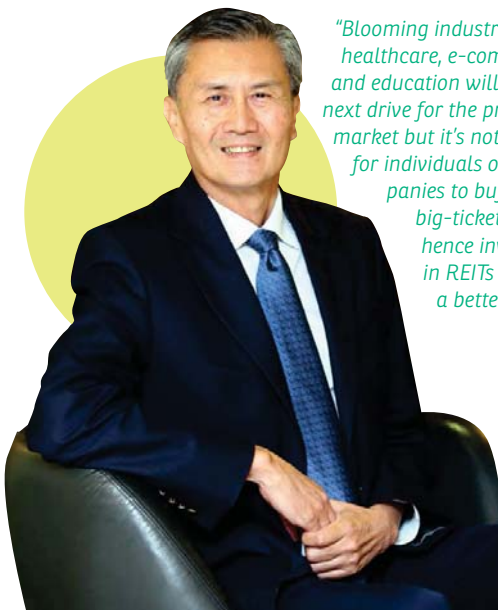
"If they are extended across the board, especially during such a time, it could boost the property industry and the final impact will be filtered down on the economy," he said.

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## Consider REITS as alternative in property investment



*"Blooming industries like healthcare, e-commerce and education will be the next drive for the property market but it's not viable for individuals or companies to buy these big-ticket items, hence investing in REITs will be a better way."*  
— Ng

**A**s work-from-home becomes a new norm, it is expected that demand for physical office spaces will be reduced. However, industry veterans reckoned that commercial properties still have their investment value, depending on their location and pricing.

MKH Bhd group managing director and Perbadanan PR1MA (PR1MA) Malaysia chairman Tan Sri Eddy Chen said while these properties may not be doing well in the near term due to the weak economic conditions and evolving needs, commercial properties continue to serve their purpose in the long term.

"Do expect the market for the commercial segment to remain soft for another one or two years, but people with money and means will still be looking for good bargains in the market," he said.

Real Estate and Housing Developers' Association (Rehda) president Datuk Soam Heng Choon noted that the usage and interest for investment properties, including commercial and industrial will decline in the mid-term as people's immediate priority is to conserve cash and not to channel money into property investment.

Having said so, he added that buyers who are eyeing "a good catch" should take this opportunity to buy from owners who are cashing out, provided that the property is in a good location and the buyer has the risk appetite for it.

Meanwhile, Rehda Institute chairman and president of the Malaysian REIT Managers Association Datuk Jeffrey Ng suggested that investors who are interested in commercial properties but afraid of the high risk should consider investing in real estate investment trusts (REITs).

"Leave the headache to professional REIT managers as they know what they are doing," he said.

"Even with the gloomy market due to the Covid-19 outbreak, there are certain 'sunrise businesses' that investors should look at — healthcare, e-commerce and education.

"These blooming industries will be the next drive for the property market but it's not viable for individuals or companies to buy these big-ticket items, hence investing in REITs will be a better way," Ng added.

The industry veterans shared these views during the EdgeProp.my Facebook Live Fireside Chat titled "Will the Malaysian Property Sector Survive this Mother of All Crises?" on April 17. The session was moderated by EdgeProp Malaysia managing director and editor-in-chief Au Foong Yee.

Au surmised that investing in commercial properties is no different from residential properties. "Be discerning about the location and other attributes of the property. Likewise, for REITs, one must be discerning about the selection as well. A lot of malls are also going through a very hard time right now. Investors must be very, very cautious," she said.