PROPENOMICS

How to get it right in property investment – **Part 1**

by **DR DANIELE GAMBERO**

THE GENERAL IDEA

When did the "propenomics" concept pop up? It is hard to pinpoint an exact date as it has been around for a long time, growing and taking shape through the day-by-day practical experiences plus all the studies and researches I've done within my 30 years in the real estate business.

I've been studying and working in the real estate industry in several countries around the world, from USA and Canada to Mexico, Brazil and Argentina. Then it was back to Europe in Italy, Spain and Austria. Thereon in 1998, I discovered a "magical" part of the world: South East Asia.

I term it magical because then, opportunities abounded everywhere and one simply had to decide where and when and then move forward. Malaysia itself has been growing rapidly with a decently performing economy and I'm not regretting my decision to elect it as my first home.

Going back to the meaning of propenomics, I have coined this new word (which, as far as I know, has never been used in the subject of property) from two very powerful terms: property investment and

economic performance. How they relate to each other and how they affect each other is the underlying meaning of propenomics or "how to get it right in property investment".

THE BASIC FUNDAMENTALS AND GETTING STARTED

Property or real estate is not an economic driver but the logical and natural consequence of a properly-planned and executed economic growth. In other words, the property market is not something that can stay, grow and develop on its own but is normally prompted by the industrial, agricultural and services development in a certain area. All these growth developments are part of a much bigger plan known as the country's economic development.

We need to look at the big picture first to see the current and future areas of growth. We need to understand that there are much higher chances of profit (either capital gain or ROI – return on investment) in a country that is moving towards the fully-developed economy status compared to a fully-developed one.

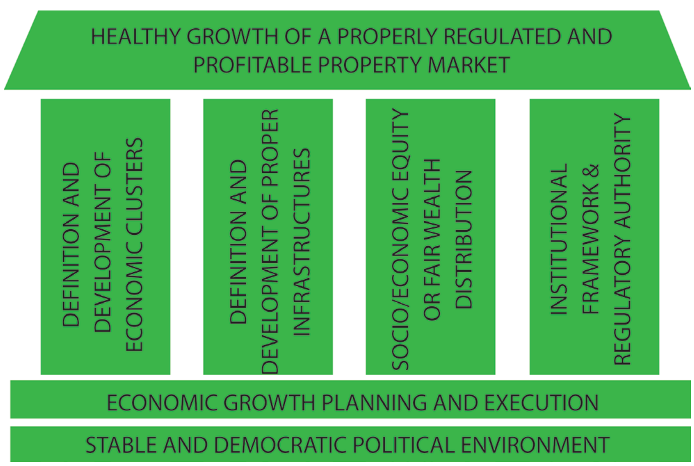

Table 1

Certainly there is a higher risk involved as growth can be delayed or even stopped by external and internal factors but these negative factors can be partially forecasted and avoided, provided the country one chooses for his/her investment is within safe parameters and fundamentals as shown in the "house of sustainable growth" table *(Table 1)*.

Malaysia is a good example of sustainable growth with all the parameters almost properly placed.

Some may say that Malaysia is not performing well in certain areas. However, based on the overall decent performance and considering the big room for improvement from some negative indexes, it does allow a rather positive medium-to-long term outlook. I always say that there are more opportunities in being within the top 10 compared to being the first as the latter must defend its position while the others "attack" through better performance.

As shown above, we have been talking about economic performance long before looking into the property market. To step into the property market, we must walk through a "macro to micro" analysis which starts from the country's growth planning and goes down to state performance first, ending within smaller areas of economic development. Thereon it will be possible to understand the current and future performances and population growth together with per capita income and its distribution which will lead us to a proper forecast of the property market performance.

MALAYSIA PRESENT AND FUTURE

How can we define if a country's performance is good or bad? In science laboratories, we have comparison scales and parameters. In an

	USA	EU	UK	JAPAN	AUSTRALIA	MALAYSIA
GDP Growth	2.52%	0.12%	0.65%	0.65%	0.65%	4.70%
Gov. Debt as % of GDP	101.60%	90.60%	91.10%	226.1%	20.7%	53.10%
Gov. Deficit as % of GDP	-4.10%	-3.7%	-7.40%	-9.6%	-3.00%	-4.50%
Balance of Current Acc in USD Billion	-360.7	-34.5	-93.6	56.6	-44.9	16.6
Inflation	1.5%	1.5%	2.7%	0.2%	2.4%	3.2%
Unemployment	7.3%	10.8%	7.7%	4.1%	5.7%	3%

Table 2

economic analysis of a country's growth, we can make comparisons against better performing countries. This will allow us to see the strong and weak points of Malaysia's current performance and possibly help us to better understand the path for future growth and improvement.

Table 2 shows the basic indexes of the 2013 performance of several fully developed countries from around the world against Malaysia. Briefly we can say that a country *must* have positive growth as the GDP (gross domestic product) growth determines the rise or decline of per-capita income and consequently the spending capacity of its population.

Malaysia's performance is not up to expectation as the outlook was for a 5.2% to 5.5% growth, but it is still performing much better and stably compared to the others in the chart.

Government debt, which has been recently recalculated by Bank Negara at 65.2% for the first quarter of 2014, is a parameter to measure the efficiency of a country's government. Theoretical guidelines set 65% as a healthy and manageable limit and we just hit it. We'll need to see what measures the government will introduce to ensure that the debt level remains in the pink.

From a general comparison, we can again say that even though Malaysia is not a top performer when compared to others, it is decently scoring.

Government deficit against percentage of GDP is another tool to evaluate the efficiency of government spending as it shows the over- or under-spending compared to the budget and inland tax revenue. The unfavourable result is leaving plenty of room for improvement and the Malaysian Prime Minister has been committing his government to reduce this index to 3.5% or below by this year-end. We need to wait and see if they'll be able to achieve it.

The balance of the current account shows how much a country is capitalising on internal resources and how strong is its trading appeal.

Malaysia is undeniably a country rich in natural resources such as oil, gas, minerals, palm oil and rubber. The Malaysian SMEs have been able to leverage on this natural abundance and through appropriate usage, keep the balance of the current account in positive waters. The outlook for this index should be quite positive as the current weak Malaysian Ringgit makes Malaysian products much more attractive in general compared to the previous year.

Inflation is on the rise and it will possibly become worse during the next 12 months as GST is going to be implemented in April next year and, based on what I've seen in other countries around the world during the past decades, will surely push up the consumer price index to an unfavourably higher level.

Let's hope the Government will be fast and efficient enough to control and regulate as much as possible indiscriminate overpricing of basic products. In this way, there will be a rational control over an index which might badly affect future trend of growth for our economy.

Last but not least, unemployment index shows a very healthy labour market with logical growing wages and very low impact on the government debt due to an almost 100% employment in the country. *Table 2* shows the devastating effect of high unemployment on the government debt for countries like USA, Europe and UK.

A positive sign of growth of the Malaysian economy is demonstrated clearly by the steady up-going trend of per-capita income during the past decade. On a Malaysian basis, we have today an average monthly gross income per capita of RM4,400 with a wealth distribution (as per *Table 3*) showing a not-yet-up to the best result but certainly an improving one.

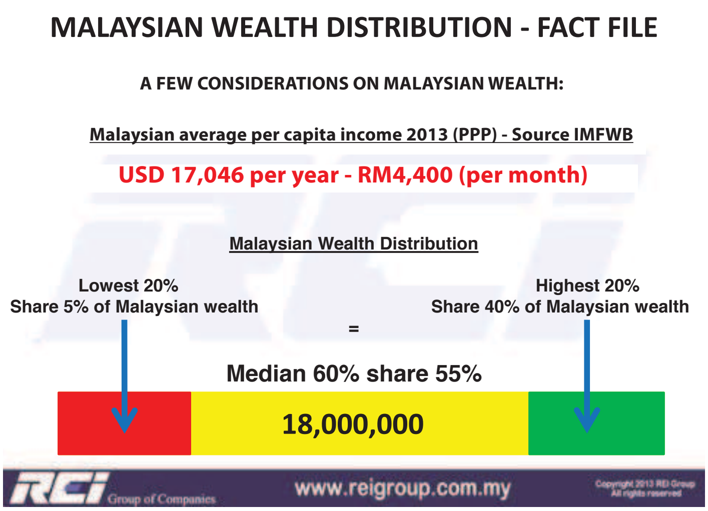

Table 3

HOW DOES PROPENOMICS APPLY

There is still a lot to be said before entering into a detailed analysis of the current property market performance and its possible outlook. However, looking at what has been said, and especially in consideration of what *Table 3* shows, we can already define that the property market supply related to residential properties should be following the wealth distribution fact file and cater at least 20% of housing as low-cost apartments for the low and medium class, 20% as high-end products and at least 60% as affordable housing schemes.

This might appear as too simplistic a categorisation. However, its full explanation will require at least another couple of pages and I'm going to prepare it for the next issue where we will see how propenomics can show you on a state-by-state basis the precise subdivision of the current market demand and we will compare it to the current offer of residential properties.

All these of course will come after the completion of the economic growth performance analysis broken down to a state level as this will permit a better understanding of sustainable or unsustainable areas of property development.

Dr. Daniele Gambero, CEO and co-founder of REI Group of Companies, gives presentations on the property market and welcomes feedback at: Daniele.g@reigroup.com.my