PROPENOMICS

Understanding How to Get It Right in Property Investment – Part 1

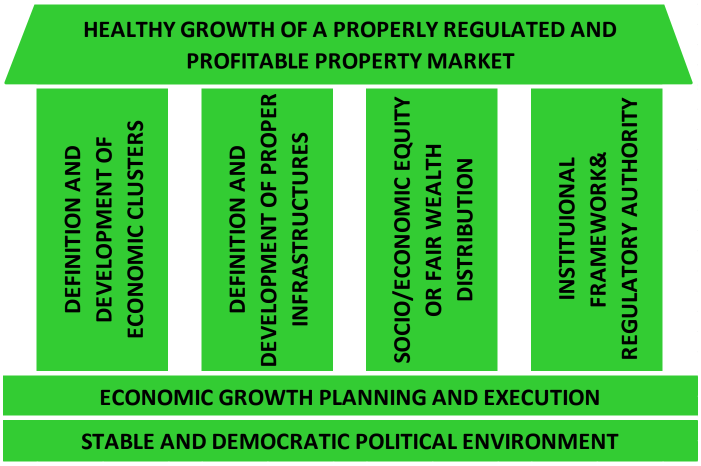
The Whole Idea

When did the ***Propenomics*** idea pop up into my mind? I think I cannot reply to this question as it has been there for long and has been growing and getting shape through the day by day practical experience plus all the studies and researches I've done in a 30 years long business life in Real Estate. I've been studying and working in the Real Estate industry in several countries around the world, from US and Canada down to Mexico, Brazil and Argentina. Then back to Europe in Italy, Spain and Austria till when in 1988 I discovered a "magic" part of the world: South East Asia.

I'm saying Magic because at those times opportunities where everywhere and one had to simply decide the where and when and then move forward. Since then Malaysia has been a fast growing Country with a decently performing economy and I'm not regretting my decision to elect it to my first home. Going back to the main topic here, the meaning of Propenomics, let me say that I've coined this new "word" (in my knowledge has never been used before applied to properties) as it comes from the matching of two very powerful terms: Property Investment and Economic Performance. How do they relate to each other and how they are boosted through each other's boosting effect is the deep meaning of Propenomics or "How to Get It Right in Property Investment".

The basic fundamentals, getting started

Property or Real Estate is not an Economic Driver but the logic and natural consequence of a properly Planned and Executed Economic Growth. In other words Property Market is not something that can stay, grown and develop on its own but is normally caused by the industrial, agricultural and services development in a certain area of a certain country. All these growth developments are part of a much bigger plan that is called Country's Economic Development, we need to look at the very big picture first to see and understand 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 the lesser opportunities that a Fully Developed one can offer. For sure there is a higher risk to be carefully evaluated and considered as growth can be delayed or even stopped by external and internal factors but these negative facts can be partially forecasted and normally avoided provided the Country one chooses for his investment is within safe parameters and fundamentals as shown in the "house of sustainable growth" table.



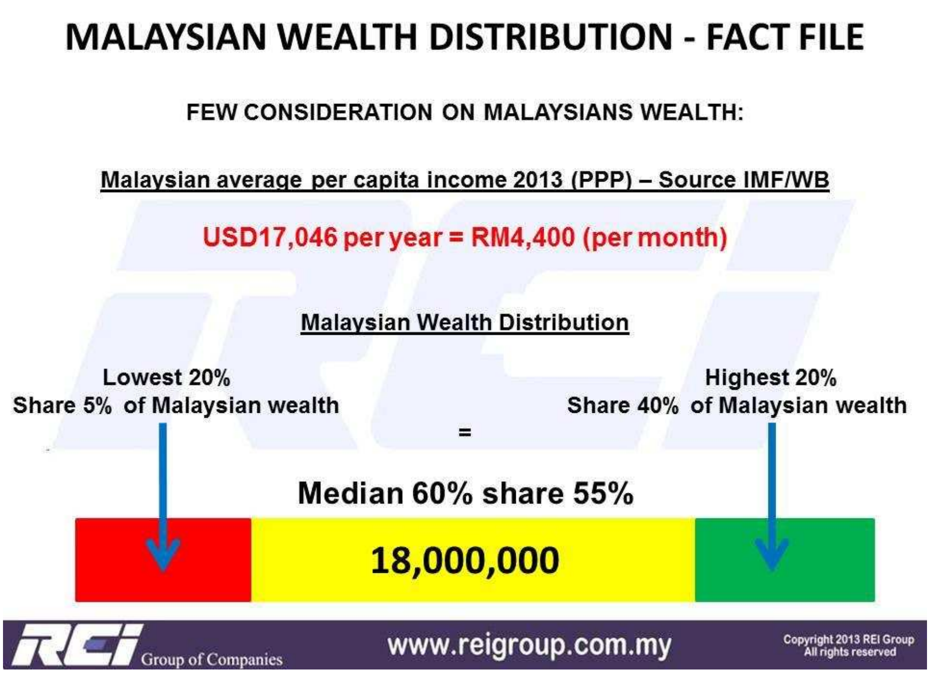
A good example of sustainable growth with all the parameters almost at the right place is given by Malaysia. Someone might be saying that Malaysia is not performing well in some areas but this fact joint to the overall decent performance and by adding in the big room for improvement that some negative indexes are showing allows a quite positive medium long term outlook. I always say that there are more opportunities in being within the top 10 compared to be the first as this last one must defend its standing while the others are "attacking" through better performance. As these statements are showing we have been talking about economic performance long before start looking into the Property Market and if we want to end up there we must walk through a "Macro to Micro" analysis which starts from the Country's growth planning and goes down to state performance first and ends within smaller areas economic development. From here it will be possible to understand the current and future performances, 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 have comparison scales and parameters, in an Economic Analysis over a defined Country growth we can also use a comparison between the Country and better performing ones. This will allow us to see the strong and weak points of Malaysian current performance and possibly help us in better understanding the path for future growth and improvement. The table below shows the basic indexes of the 2013 performance of several fully developed Countries from around the world and Malaysia's ones. Briefly we can say that a country MUST have positive growth as the GDP (Gross Domestic Product) growth we can derive the raise or decline of per-capita income and consequently the spending capacity of its population. Malaysian performance is not up to expectations as the outlook was for a 5.2 to 5.5% but still is performing much better and stably if compared to the

	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%

others in the chart. Government debt which has been recently totally recalculated by Bank Negara as 65.2% for the Q1 2014 is a parameter to measure the efficiency of a Country's Government. Theoretical guidelines are setting a healthy and manageable limit at 65% and we just hit it. We'll need to see which measures the Government will introduce to ensure that we will not increase and possibly reduce it. Again from a general comparison we can again say the even though Malaysia is not a top performer when compared to others supposed to do better is decently scoring. Government deficit as percentage of GDP is another tool to evaluate the efficient performance of the Government spending as is showing the over or under spending compared to the budget and inland tax revenue. The poor result is leaving plenty of room for improvement and the Malaysian PM has been committing his Government in reducing this index below or par to 3.5% by this year end. We need to wait and see if they'll be able to achieve it. The Balance of the current account is showing how much a Country is capitalizing on internal resources and how strong is its trading appeal. Malaysia is surely a Country rich of natural resources such as oil, gas, minerals, palm oil and rubber. The Malaysian SMEs have been able to leverage on this natural gift and through an appropriate use of it keep the balance of the current account in positive waters. The outlook for this index should be quite positive as with a weak Malaysian Ringgit, as we have at the moment, Malaysian products will be much more attractive in general if compare to the last year. Inflation is on a growing trend and it will possibly become worst during the next 12 months as GST is going to be implemented next year in April 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 at unfortunately higher level. Hopefully the Government will be enough fast and efficient to control and regulate as much as possible indiscriminate raise of the basic products. In this way there will be a rational control over an index which might be badly affecting future trend of growth for our Economy. Last but not least unemployment index shows an extremely healthy labor market with logically growing wages and very low impact on the Government debt due to an almost 100% employment in the Country. In the table everyone can see the devastating effect of higher unemployment on the Government debt for countries like US, Europe or UK.



A positive sign of growth of the Malaysian Economy is surely given 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 the table below showing a not yet up to the best result but surely an improving one.

How does Propenomics applies

There is still a lot to be said before entering in detail into an analysis of the current Property Market performance and its possible outlook but since now, looking at what I've said above and, above all, considering the last table showed we can already define that the Property Market supply related to residential properties should be following the wealth distribution fact file and offering at least 20% of houses as low and medium low cost apartment, 20% as high end products and at least 60% as affordable housing schemes. It might be appearing as a too simplistic categorization and for sure, with the introduction to Propenomics given above it is too simplified. 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 together 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 this 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.

Sources: Napic Property market Report 2013, CIMB, RAM, Malaysian Department of Statistics, REI Archives

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