



Are buyers using the right variables in deciding where or when to buy a property?

'Psychonomics' approach to buying property

In deciding when and where to buy, consider using both emotion and economics as variables



by Sonia Ramachandran

FOR most people, buying a property is one of the biggest financial decisions they would make in their lifetime and naturally, making that decision is not to be taken lightly.

The question is whether purchasers are using the right variables in deciding when and where to buy a property, especially in the current uncertain economic conditions.

Global advisory company IQI Group Holdings chief economist Shan Saeed and financial education vice-president Alexander Woo point out that buyers need to take a step further using "psychonomics".

The coined term used by Shan and Woo describes the use of both emotion and economics as variables.

While many Malaysians buy property on the basis of peer and friends' recommendations as well as general sentiments, this decision should also be based on economics, Shan tells *FocusM*.

Research and sentiments

Shan says the "psychonomics stress test" in choosing when and where to buy a property is based on two fundamental rules. Rule number one is "you have to do your research", and rule number two is "understanding the sentiments".

"For sentiments, you have to look at the economy from the macro perspective. For the layman, it is very easy to

understand the economy in just a few variables," says Shan.

"Is the government strong? Does the government have cash? For this, look at its reserves. What is the balance sheet of the government, that is, is the budget deficit too high or too low? What is the inflation rate?"

He says the economy is doing positively when the country's gross domestic product (GDP) is higher than the budget deficit, the discount rate and inflation rate.

"What is budget deficit? That's the performance of the government. What is discount rate? That's the cost of doing business. What is inflation rate? That's the cost of living. So if your income level is higher than all these variables, the economy is doing positively."

Shan also debunks talk of an oversupply of property and that prices are going down.

"If I were to say Malaysia's real estate prices are going down and there is oversupply, it is not true. There are movements but in a structured manner because there are lots of exogenous factors. The global economy is going down," he says.

"The economy is doing about average and the fundamentals are strong. The economy has resilience to take on exogenous factors which are working against it."

Shan says there has been a lot of news about a property market bubble. "But you tell me a single place in Malaysia where land prices are crashing? In fact,



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The order of importance of the variables in buying a property has changed, says Tunku Fauzi



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they are going up. There are some areas where land prices are slowing down which is understandable. But prices are not crashing.

"So we still feel that real estate in Malaysia will remain on investors' radar not only locally but also internationally. Anytime is a good time to buy. In turbulent times, the only fixed asset that goes up is land," says Shan.

Right factors

Strategic marketing consultancy firm REI International Holding Sdn Bhd CEO Daniele Gambero agrees that peer recommendations and popular sentiment play a part in property purchase decisions.

"Most property buyers, besides a few seasoned investors, are continuously 'affected' by peer recommendations and 'independent advice' from highly interested property gurus," he tells *FocusM*.

He also warns that there are some unscrupulous "property experts" who are recommending a project only because of a commission paid to them by the developer.

"Very often, unprepared buyers are making their choice based on emotional factors more than practical ones. Very few that I know are actually looking at accessibility, developer's track record, location, actual demand in the area and last, but not least, current market values," Gambero adds.

Firdaus and Associates Property Professionals Sdn Bhd director Tunku Datuk Fauzi Abdul Malek says the factors most people would obviously look at when buying property are "good properties in good locations".

"Why? Because they get the best of

both worlds. They get their choice location and the property they want. Makes sense right? But the majority of us can't have it both ways.

"Many of us have to choose either choice location or choice property. So in compromising, we look for the best package. Most developers would come up with very good packages via discounts, rebates, low deposits and so on to entice potential buyers, especially in new areas.

"I would not call it a dangerous trend but more of a redistribution of population to new areas," he says.

In terms of factors, Tunku Fauzi says affordability and loans are the most crucial ones at present.

"Currently, only about 30% of loan applications are being approved on average through our financial institutions. Once you get the loan, you have to ensure that you can meet the monthly instalments.

"As loans are not easily approved nowadays, this would be a major factor in deciding which property to buy. So I would not call it wrong factors but the order of importance has changed. Choice location used to be number one but affordability is now the order of the day," he says.

Seek professional advice

Tunku Fauzi adds that there are no strict rules on the "right approach" to buying property but advises seeking professional help when one is unsure.

"If you are unsure or need assurance on how, what and when to buy property, see a few professional property consultants. Get a few opinions and go with the one you are comfortable with.

"Most professionals will have the relevant experience, comparable properties and sales evidence to help you.

"They would also be familiar with the history of the property and developer. They can also assist in getting bank loans and legal advice. These professionals should help point you in the direction you want to go," he says.

Gambero agrees that proper advice should be sought when unsure. "The best advice I can give to future buyers is, please educate yourselves and listen to at least three different opinions from different people.

"Only a small minority carry out due diligence before buying a property. Understand the current and possibly future demand, leave aside the emotional factors and look into facts and numbers."

Key strategies

Gambero says the popular mantra of "location, location, location" as one of the most important factors in buying a property may no longer be effective.

"The market has changed and matured compared to 10 years ago and I strongly believe in property development and investment based on economic growth.

"This means that buyers should at least analyse where the demand for a certain real estate product comes from and how sustainable it might be in the short- or medium-term," says Gambero, who is the author of *Malaysian Property - Why, What and When in Property Investment*.

He adds that transformation (economic, infrastructure, purchasing power and all the mega projects related to economic growth); timing (being able to choose the right entry and exit strategy) and demand (being able to read the current and future demand), should be looked at as future key strategies by smart property investors. *FocusM*