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Patterns in Number of Property Transactions of Pre-War Shophouse Case Study: Penang, Malacca and Kelantan

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ABSTRACT

Objective - Economic sustainability of heritage property can be measured through an active property transaction of a pre-war shophouse in the study areas. This paper investigates the breakdown of a number of pre-war shophouse transactions in Penang, Malacca, and Kelantan.

Methodology/Technique – The documentary method notably the Annual Property Market Report was collected and analysed.

Finding – The results demonstrated that in Penang, the pre-war shophouse sub-sector saw mixed movements in the number of transactions while the commercial property-like pre-war shophouse sub-market was generally stable in Malacca and in Kelantan's commercial sub-sector, the pre-war shophouse performed moderately in the review period.

Novelty – These patterns of a number of property transactions of a pre-war shophouse in three study areas proved that the heritage property has a sustainable market value.

Type of Paper: Review

JEL Classification: D23, D29.

Keywords: Economic Thought; Heritage; Market Value; Property Transaction; Real Estate; Sustainable

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1. Introduction

In real estate market, the availability of transaction data is a vital aspect in the process of valuation based on the comparison approach. There are three factors considered in identifying the determinants of thin market namely low transaction volume, market factors, and types of property (Anderson et al., 2007) ; (Arnott, 1989); (Hayenga et al., 1978) ; (McMillen & Weber, 2008) ; (Mohamad, 2012); (Tomek & Robinson, 1990). These factors explain the way that the market becomes thin and their relation to macro factors affecting the property value. The first determinant of thin real estate market is low transaction volume does not only refer to the number of transactions involved at that time but includes the marginal transactions or the representative transaction of the market (Anderson et al., 2007). The second determinant namely market factors are comprised of demography, population, income level, and economic-based factors. For instance, in urban areas, property transactions are more active compared to rural areas particularly the sales and purchase of property.

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This will lead to thin market condition caused by lack of similar transacted properties in a particular area. The third determinant, types of property can be divided into three items such as multidimensional heterogeneity of product, indivisibility (household cannot purchase fractions of different units and combine these fractions to obtain their ideal products), and multidimensional heterogeneity of household tastes (Zin et al., 2019).

2. Literature Review

(Rostek & Weretka, 2009) defined thin markets as markets in which individual trades are large relative to the average daily volume and have impact on prices in financial market. The term ‘thin market’ has been a catchphrase in financial and agriculture market studies for the past fourty years (Hayenga et al., 1978). Nonetheless, the practice is solely limited to stocks market and residential property value. There is no rigorous study on heritage property valuation based on property market analysis.

Nonetheless, thin market has many implications that affect the accuracy of property value which in turn, lead to price bias, market manipulation, price instability, price volatility, inconsistent assessment, difficult to gather market information, slow to incorporate data (Anderson et al., 2007); (Mohamad, 2012); (Peterson, 2005) ; (McMillen & Weber, 2008) ; (Rossini & Kershaw, 2008) ; (Arnott, 1989); (Nelson & Turner, 1995), and difficult to assess market performance (Adjemian, 2016). The frequent issue arising from price bias is under or over-valuation whereby the current market price is not reflecting the current market conditions (McMillen & Weber, 2008). Therefore, it is very important to address the thin market issues because sometimes, certain market has low transaction volume but it is not considered thin like special properties. The number of special properties is limited and they are being used for certain purposes only, hence, the market is not considered thin (Mohamad, 2012). In the case of heritage property, it is categorized under special property but, the market may be thick or thin based on further analysis on the annual property market report.

3. Methodology

A detailed analysis on the patterns or trends of the property transactions of the pre-war shophouses were collected in digital form for a period of thirteen and a half (13 ½) years from year 2004 to Half (H) 1 2017 with special reference to Annual Property Market Report that was provided by the Malaysian Valuation and Property Services Department. The documentary method involves a consistently comparative analysis (Bohnsack et al., 2010). It was conducted to investigate which market is appropriate for the heritage property in the state of Kelantan, Malacca and Penang either thick or thin market for measuring the heritage property valuation.

4. Results and Discussion

As depicted in Table 1, the secondary data were obtained from the Valuation and Property Services Department (VPSD).

Table 1: Breakdown of Number of Property Transactions of Pre-war Shophouses According to Year and State/ District

No.	State	District	Total Transaction by Year														Total
			2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**H1 2017**	
1.	Penang	Timur Laut	191	173	191	210	241	302	333	339	242	292	176	160	108	46	3004
		Barat Daya	3	0	0	1	4	4	3	1	0	6	0	6	2	1	31
		Seberang Perai Utara	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Seberang Perai Tengah	0	0	0	0	0	0	0	0	0	2	6	2	6	0	16
		Seberang Perai Selatan	0	4	20	6	2	4	5	5	0	4	2	5	4	1	62
	Total Transaction by State		**194**	**177**	**211**	**217**	**247**	**310**	**341**	**345**	**242**	**304**	**184**	**173**	**120**	**48**	**3113**
2.	Malacca	Melaka Tengah	39	35	15	38	40	66	76	79	65	60	51	40	56	21	681
		Alor Gajah	6	10	8	7	11	4	2	2	1	2	3	3	4	2	65
		Jasin	0	0	4	5	1	2	5	6	9	4	4	6	0	0	46
	Total Transaction by State		**45**	**45**	**27**	**50**	**52**	**72**	**83**	**87**	**75**	**66**	**58**	**49**	**60**	**23**	**792**
3.	Kelantan	Kota Bharu	5	4	2	2	0	2	3	2	0	4	3	0	3	3	33
		Pasir Mas	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Pasir Puteh	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Bachok	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Tumpat	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Gua Musang	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Kuala Krai	0	0	2	0	0	0	0	0	0	0	0	0	0	0	2
		Machang	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Tanah Merah	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Jeli	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total Transaction by State		**5**	**4**	**4**	**2**	**0**	**2**	**3**	**2**	**0**	**4**	**3**	**0**	**3**	**3**	**35**

Table 1 shows the breakdown of number of property transactions of pre-war shophouses according to year (2004-2017) and state (Penang, Malacca, and Kelantan). Based on Table 1 and Figure 2, the pre-war shophouses sub-sector in Penang recorded 3,113 (79.07%) transactions from year 2004 to H1 2017. In Malacca, 792 (20.12%) transactions whilst, Kelantan 35 (0.81%) transactions for a period of thirteen and a half years. These figures have shown that the transaction volume of pre-war shophouses in Kelantan was the lowest if compared to Penang and Malacca under the commercial property sub-sector.

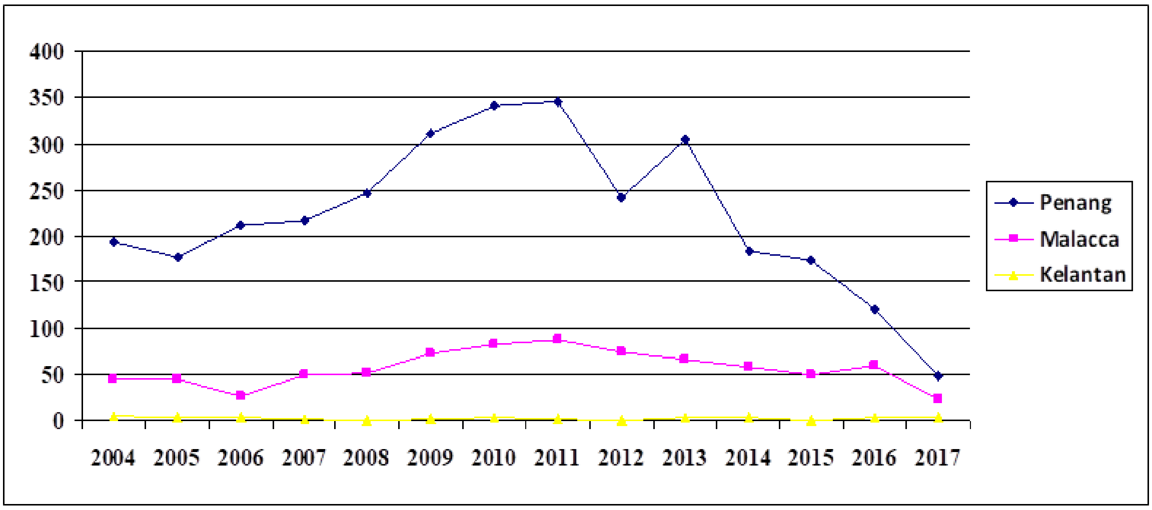

Figure 2: Trend Patterns of Number of Property Transactions of Pre-war Shophouse According to Year and State.

Table 1 and Figure 2 illustrate that the pre-war shophouses sub-sector saw mixed movements in the number of transactions. Starting from year 2004, Penang districts covering Timur Laut, Barat Daya, Seberang Perai Utara, Seberang Perai Tengah, and Seberang Perai Selatan recorded 194 transactions, but declined by 177 transactions in year 2005. It started to increase in year 2006 with 211 transactions, and further increased until year 2011 (217 transactions in year 2007, 247 transactions in year 2008, 310 transactions in year 2009, 341 transactions in year 2010, and 345 transactions in year 2011). On the contrary, it declined in year 2012 with 242 transactions. There were 304 transactions in year 2013 but then decreased significantly in year 2014 until H1 2017 (184 transactions in year 2014, 173 transactions in year 2015, 120 transactions in year 2016, and followed by 48 transactions in year H1 2017).

Pursuant to Property Market Report 2014, in the shophouses sub-sector of the state of Penang, prices and rentals were stable across the board. Several increases were noted in prominent schemes with good accessibility particularly in central town prime and secondary areas such as heritage buildings in Core Zone George Town World Heritage Site. The opening of Penang Second Bridge provided a substantial impact on the prices of shops and boosted the property market in the vicinity, evidenced by double digit growth recorded in several schemes. On a better note, Property Market Report 2015 addressed that shops prices were largely stable with increases recorded in strategically located areas. In sub-urban prime area, pre-war shophouses in Timur Laut depicted double-digit growth due to its good location and neighborhood attractions. For instance, pre-war shophouses at Jalan Gurdwara, Timur Laut district or George Town mukim were transacted at a premium price of RM 315,000 to RM 38.5 million per unit.

The commercial property like pre-war shophouses sub-market was generally stable with static movements recorded in year 2004 to 2005 (45 transactions) in the district of Malacca namely Melaka Tengah, Alor Gajah, and Jasin. It started to decrease to 27 transactions in year 2006 but it showed upward movements in year 2007 till 2011 (50 transactions in year 2007, 52 transactions in year 2008, 72 transaction in year 2009, 83 transactions in year 2010, and 87 transactions in year 2011). The year 2012 indicated a significant decline of 75 transactions in volume and decreased in year 2013 with 66 transactions. Again, the number of pre-war shophouses transactions showed a remarkable decline of 58 transactions in year 2014, followed by 49 transactions in year 2015 but started to increase to 60 transactions in year 2016. In the first half of year 2017, it recorded 23 transactions only.

Likewise, prices of shophouses sub-sector were generally stable across the state of Malacca with upward movements in certain locations. Pre-war shophouses at Jalan Hang Jebat, Melaka Tengah were transacted at a premium price of RM 1 million to RM 5.1 million per unit, particularly due to its location being next to central business district (CBD) in accordance to Property Market Report 2014. Nevertheless, the shophouse segment charted lower market activity in the review period based on Property Market Report 2015.

Kelantan consists of ten districts namely Kota Bharu, Pasir Mas, Pasir Puteh, Bachok, Tumpat, Gua Musang, Kuala Krai, Machang, Tanah Merah, and Jeli. However, only two districts like Kota Bharu and Kuala Krai are actively involved in the market activity of the pre-war shops transactions from year 2004 until H1 2017. This market was slightly unstable with downward movements recorded in year 2004 with 5 transactions, followed by 4 transactions in year 2005 and 2006. Further, in year 2007 shows 2 transactions and declined by 0 transaction in year 2008. It started to increase in year 2009 with 2 transactions and showed upward movements in volume with 3 transactions in year 2010 but reduced in year 2011 with 2 transactions and declined again by 0 transaction in year 2012. On the contrary, the year 2013 indicated upward movements whereby 4 transactions were recorded. However, it decreased into 3 transactions in year 2014, declined by 0 transaction in year 2015, and saw a moderate increase of 3 transactions in year 2016 and H1 2017.

In Kelantan's commercial sub-sector, prices of pre-war shophouses were generally stable. Rentals of ground floor shops depicted a similar stable trend. Universiti Malaysia Kelantan (Pengkalan Chepa and Jeli Branch) are believed to have pushed up the rentals in neighboring areas. Jeli district is the neighborhood of Kuala Krai district, thus, the value of the heritage property is slightly increased. For instance, the pre-war shophouses at

Jalan Ah Sang, Kuala Krai were transacted at a premium price of RM 200, 000 to RM 950, 000 per unit although it is located further away from the central business district (CBD). On a lighter note, the pre-war shophouses in Kota Bharu are located at CBD area, therefore, this sub-sector performed moderately in the review period because of good favorable business and consumer's sentiment. The second examples, the pre-war shops at Jalan Che Su, Kota Bharu were transacted at a premium price of RM 324,324 to RM 1.5 million per unit.

5. Conclusion

In a conclusion, this paper has analysed the patterns in a number of property transactions of pre-war shophouses in three study areas namely Penang, Malacca, and Kelantan whereby the pre-war shophouses sub-sector are stable and sustainable. Hence, based on the comparative analysis shown in the abovementioned section, has contributed to the importance of the economic sustainability of heritage property in the respective states. These findings suggest that pre-war shophouses have unique potential in terms of aesthetic value which eventually, may attract investment, business activities, and the tourism sector for the economic development and betterment of life.

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