A period of consolidation for 2019

- **New** and soon-to-be implemented policies and initiatives require time to be absorbed by the market to produce more significant results
- **Many** likely to look around during the first six months before making a purchase decision later in the year

by **Joseph Wong**

The phrase "winter is coming" from the *Game of Thrones* novel and television series perhaps best describes the property market as it undergoes a period of consolidation.

The situation is further compounded by uncertainties following the change in government after the 14th general election on May 9, which saw the introduction of a number of new property-related policies and an expected lower gross domestic product (GDP) growth this year.

"With a slower GDP growth expected at between 4.5 and 4.8% for 2018, property market transactions were also slower (as of the first half) by 2.4% year-on-year but was better than the previous year's decline of 6.1% ,indicating a trough-ing off," says Rahim & Co Research Sdn Bhd.

"On the whole, the property market in 2018 had mixed results which showed the market to be adjusting itself to the current political and economic climate.

"Looking to 2019, we foresee the next 12 months to also be a consolidating period where newly and soon-to-be implemented policies and initiatives require the time and space to be absorbed by the market and produce more significant results.

"The continued wait-and-see attitude, plus the plight of buyers securing sufficient loans for their desired purchases, collectively contributed not only to the market stagnation but also to rising inventory levels," says the research arm of the international real estate consultancy.

Online property portal PropertyGuru Malaysia is of similar mind. Despite improving consumer sentiment and proactive government policies announced in Budget 2019, the property sector is likely to see a continued price downtrend for at least the first half of the year, it projects.

The PropertyGuru Market Index (an analysis of over 250,000 property listings aggregated and indexed) shows the asking prices of homes continue to drop nationwide as well as in the key property epicentres of Kuala Lumpur, Selangor, Johor and Penang.

The downward trend is reflected in both quarterly and annual price movements despite improved consumer sentiment of 42% and 53% of Malaysians, respectively, wishing to buy a home by the end of 2018.

But in 3Q2018, the PropertyGuru Market Index showed that asking prices by real estate developers and individual owners nationwide had dipped by 2.1% from the preceding quarter. Year-on-year, prices showed a 2.3% drop.

"Against the expectation of many that 2018, especially in the second half, would have been the period we can see some positive movements in the property market, it turned out to be yet another flat year," concurs Rahim & Co Research.

"Many anticipated significant changes to occur and a turnabout to happen post-GE14. But the reality is that (with) the new government running our country, more time is needed to not only establish themselves as the new ruling party, but also to consolidate and execute new policies and initiatives for the market. (They require) more time than we may have predicted.

We still see many positives, says Fernandez

The subsales market in Sabah is expected to remain healthy, says Khoo

"Consumer sentiments peaked in the second quarter, but settled slightly lower in the third – but it is still higher than in the previous year," it says.

Declining figures

Malaysia's property market has been in decline since 2012. Even if prices still appreciate, the percentage increase has fallen from double digits to single digit. In 2017, prices increased by 5% on average, while for full year 2018, the increase is expected to hit 4%.

Sarawak and Sabah optimistic

With the change in government, the general public in East Malaysia is optimistic of the property sector outlook for 2019.

"The property outlook for Sarawak in 2019 is expected to be fair. I am quietly optimistic that it wouldn't perform worse than in 2018.

"The new federal government would still take time to stabilise and so its impact in the long run remains unknown, but I expect any changes to be positive, with improved confidence on the part of home buyers and investors," says property investment speaker and author Charles Liew.

One thing to note is that new developments have been slower in Sarawak in the last couple of years with a lot of projects maturing to completion, and come 2019 there could be more new properties coming into the subsale market, he tells *FocusM*.

"Overall, however, I think 2019 should be a year of 'much of the same', with any changes expected to be positive rather than negative," says Liew, who is also Shine Pharmacy Sdn Bhd founder and CEO.

According to the National Property Information Centre's Property Sales Report 1Q2018, Sabah registered 2,258 property transactions with a corresponding value of RM1.25 bil in the first quarter of 2018, says Enoch Khoo, director for Propertyhub (Sabah) Sdn Bhd.

The volume and value of property transactions registered increments of 28.1% and 60.5% respectively when measured against 1Q2017.

The residential segment remains the dominant subsector in Sabah followed by the agriculture subsector. The commercial subsector ranked third while development land and industrial land ranked 4th and 5th.

"We foresee the subsales market to remain healthy in 2019 as proven through all these years in Sabah. Urbanisation is a continuing trend especially for Kota Kinabalu (KK) as more and more Sabahans from other towns come here to seek jobs.

"Demand for good quality office space is surging as proven by the quick take-up rate of commercial offices such as T1@Bundusan where it is 80% tenanted within six months of [receiving the] OC (Occupancy Certificate)," Khoo tells *FocusM*.

He notes that there is strong interest in beachfront land and hotels in Sabah stemming from the robust tourism industry in the state.

"There has been some notable transactions of hotels and resorts in KK and a huge interest to develop beachfront resorts both in the west coast of Sabah and also in Semporna.

"[However] project launches have slowed down due to the overhang of apartments or condominiums from previous launches. We foresee project launches to be affected in 2019 as bank regulations and the launching prices of some projects are beyond the income level of genuine home buyers.

"However, launches of properties by reputable developers at great locations still attract investors," Khoo says.

In the residential sector, affordable homes continue to be at the forefront of everyone's concern

The present market conditions have compelled developers and private sellers to be more competitive in terms of quality, design ideas, ownership packages as well as pricing

Below is a yearly comparison by the Valuation and Property Services Department, showing the approximate price increases in real estate since 2013.

- 2013 – 13%
- 2014 – 11%
- 2015 – 9%
- 2016 – 7%
- 2017 – 5%
- 2018 1H – 4%

Kuala Lumpur, Selangor, Negeri Sembilan, and Sabah showed more positive results in 2017 and during the first half of 2018, with prices remaining above or around the national average. Pahang, Perak and Terengganu also experienced slight increases but they were below the national average.

Slow start expected to 2019

Given that budgets are tight and there is plenty of supply, many may choose to look around for the first six months in 2019 before making a purchase decision later in the year.

"Expect the downward trend to persist in the first half, but there is a chance of a market recovery – post third or fourth quarter. The initial optimism expressed post the general eelection is beginning to wear off as buyers are adopting a more cautious approach," shares PropertyGuru Malaysia country manager Sheldon Fernandez.

He says a continued but stable price downtrend is not necessarily a negative development as shown over the past two to three years.

He adds that present market conditions have compelled developers and private sellers to be more competitive in terms of quality, design ideas, ownership packages as well as pricing.

"It's a healthy situation. There is plenty of supply for both purchase and rental to choose from and the sluggish conditions are also encouraging greater innovation and ideas to come to the fore, especially with regards to build and design, spatial use, technology and more," says Fernandez.

"We still see many positives and hope the prevailing issue of unaffordability and lack of financing can be overcome.

"In fact, we think that this is the best time for Malaysians to consider owning their own homes. At PropertyGuru, we take home ownership very seriously. Case in point, the PropertyGuru 'Own Your Home' programme was recently launched to empower Malaysians to become home owners,

"A key component is the PropertyGuru Mortgage Pre-Qualifier. It enables Malaysians to find out for sure how much of a bank loan they are eligible for, accurate by 99.5%," claims Fernandez, pointing out that buyers would know what they can or can't afford, thus saving time and effort.

Sarawak's property outlook is expected to be fair, says Liew

"This improves the chances of securing a home loan tremendously as would-be buyers would be able to make more confident property decisions," Fernandez adds.

Affordable homes to remain the focus

In the residential sector, affordable homes continue to be at the forefront of everyone's concern with the new government, financial institutions and private developers actively on the move to provide means to owning a home; be it financially or supply wise, says Rahim & Co Research.

"While transactions as of 1H2018 showed that 56% of residential transactions are for properties priced at RM250,000 and below, only 29% of new launches are priced within that range – giving rise to the unsold and overhang situation.

"If this were to continue further, unmanageable inventories would force more creative packages by developers or ultimately adjusting the selling prices - which is a tricky task as they have to balance various factors and stakeholders' interest, including past and existing buyers as well as financiers," it says.

In the secondary residential market, there are signs of price reduction in recent sales, even within choice locations. Interestingly, capital appreciation continues for some properties.

"Nevertheless, these price movements are mixed, moving northwards and southwards, but are within a 5% range underlying market adjustments as opposed to a market crash or surge," says Rahim & Co Research.

For the office sector, the incoming supply of 18 to 20 million sq ft is expected to aggravate the oversupply and result in an even slower absorption rate, says the agency.

"With the entry of newer, better-equipped office buildings into the market, relocations are expected by corporations which are taking advantage of competitive rates and better package deals.

"The expansion of railway lines and highways has also encouraged decentralisation, making relocation a more enticing option. Older, outdated office buildings will face greater pressure of maintaining occupancy rate by either reducing rental rates or opt for refurbishment to increase marketability," it says.

For the retail sector, the incoming supply of malls in the near future will push operators to be creative in attracting both tenants and mall visitors to maintain healthy occupancy rate and traffic flow.

Though e-commerce may be a threat to physical malls, they still hold the advantage of providing experience via physical engagement and face-to-face services.

"As the number of malls continues to rise year after year, it is vital for each to differentiate itself from the others by means of amenities, facilities and public access," says Rahim & Co Research. "In short, we anticipate 2019 to be another flat year with adjustments happening along the way as new and improved elements are introduced to the market.

"Following the establishment of a new government, we expect new policies and initiatives announced to better shape the direction of the property market and reaffirm our foundation as we move forward," it says.

Poor performance

But why has Malaysia's property market performed badly? There are a number of reasons for this negative trend. They range from inadequate latest market data, the previous government's decision to apply brakes in order to slow down the property market, a slower economic growth and tougher minimum foreign investment requirements,

According to reports, new unsold residential units were 40% more during the first half of 2017 compared to the first half of 2016. The number increased to 29,227 units, valued at RM17.24 bil as of June 30, 2018, according to the National Property Information Centre's (Napic) Property Overhang Report for the 2Q2018. A year ago, it was 20,876 units, valued at RM12.26 bil.

In short, the oversupply of property has naturally resulted in a price decline.

The slower economy also affected the median income as well as purchasing power to push the higher costing properties out of reach.

In addition, foreigners are subject to minimum investment requirements, leaving affordable properties to locals.

Until 2010, foreigners could buy property priced at as low as RM250,000 but the government subsequently raised the floor price to RM500,000 and to RM1 mil in 2014, which naturally discouraged foreign buyers to invest in real estate.

All these factors culminated in the current property scenario but moving ahead, 2019 does offer hope of a recovery. FocusM

For the office sector, an incoming supply of 18 to 20 million sq ft of space is expected to hit the market