TheStar

A long-term overhang?

JUST about a week ago, the National Property Information Centre (Napic) released statistics on the performance of the property market for the first half (H1) of 2021.

While headline numbers look good, especially in terms of growth in both volume and value on a year-on-year (y-o-y) basis, a detailed analysis is always required to understand the underlying reason for the double-digit growth that was achieved.

Similar to the nation's first-half gross domestic product (GDP) data, where the economy expanded 11% y-o-y in nominal terms, we also observed that the property sector saw a strong rebound in both transaction volume and value, with a 21% and 32.1% jump y-o-y respectively.

However, closer scrutiny of the data shows that the level of property market activity for H1 of 2021 was the lowest in five years and at just 87.3% of the intensity of the market in H1 of 2019 in terms of volume.

Similarly, the picture is the same when one looks at the transaction value of the market as the data for H1 of 2021 valued at RM62.01bil is only at 90.5% of the market transacted value two years ago.

Diving into residential data, the picture is slightly better as the transaction volume of 92,017 worth some RM34.51bil, was, although also lowest in five years, about 92.1% of the level achieved in H1 of 2019 and almost equivalent to RM34.66bil transacted in the same period.

In fact, the H1 of 2021 nominal GDP of RM743.1bil is higher by 1.2% when measured against the size of the economy for the same period in 2019.

Hence, the property market activity for H1 of 2021 is still below the intensity of the market that was observed in H1 of 2019.

In essence, the economic recovery that we have observed in the first half of this year has not propelled the property market to pick up its momentum as much, just yet. What could be the reasons for this?

Lower household income

As the nation is still battling with the pandemic, Malaysians suffered income contraction in 2020 due to a cut in wages and for some, reduced working hours due to the lockdown measures.

According to the Department of Statistics (DoS), both the mean and median Malaysian household income for last year fell by 10.3% and 11.3% to RM7,089 and RM5,209

respectively. This naturally has reduced the affordability level of Malaysians to purchase a home.

The DoS further added that Malaysians also suffered a downward shift in income classification as many households from higher-income groups fell to lower-income groups.

For example, 20% of households from the M40 group moved to the B40 group while at the top end, some 12.8% of the T20 group downgraded themselves to the M40 group.

Property overhang to stay

For property overhang, while Napic statistics look at the overall market and dissect the main property segments into residential, commercial, and industrial, this column aggregates the supply in the residential segment and takes the data from both service apartments and SoHo sub-segment to gauge the market's overall residential overhang status.

After all, it is the combination of the three that is the real market supply in the residential market segment as shown in Figure 1. In total, the residential overhang is now at a new peak with 57,154 units remained unsold worth some RM41.54bil.

For the residential segment, the key overhang is in Johor and Kuala Lumpur as they account for 68.9% and 18.8% in terms of total overhang units and 70.8% and 20.5% in terms of the total overhang value.

More worrying is looking at the overhang data for Kuala Lumpur, which has increased by 80.3% y-o-y to 4,535 units, and in terms of value, the overhang data shows that the market has seen a significant jump of 87.9% to RM4.18bil.

The data for Johor on a y-o-y basis is rather mixed as the number of overhangs rose by 3.7% but the value was lower by 1.5%.

RM109bil unsold properties

Six months ago, the total number of units that remained unsold and under construction was 111,804 units, worth about RM60.6bil, bringing the total overhang and those under this category to 167,104 units worth some RM101.4bil.

Statistics for H1 of 2021 revealed that the total number of units that remained unsold and under construction has jumped by 11.2% to 124,306 units. As Napic did not provide data on the value of these segments in its H1 2021 report, a relative value was assigned to the data based on the Q4 2020 information. Hence, as the number of units rose by 11.2%, it was also assumed that the value of the units unsold and under construction rose by the same quantum.

As seen in figure 2 (below), the overall overhang which includes those unsold and under construction has increased by 7.4% as at end of H1 2021 to RM108.9il or almost RM109bil in the space of just six months. In essence, the total overhang in the market in terms of the number of units increased by 8.6% to 181,460 units.

Malaysia's HPI contracted in the first half of 2021

Napic statistics also showed that the Malaysian House Price Index (HPI) stood at 197.9 pts, down by 1.6% q-o-q, which is the steepest quarterly drop since the index was re-based in 2010, while on a y-o-y basis, the index suffered a first annual drop of 1.2% as seen in Figure 3. Except for terrace homes, which grew by 0.9%, all other sub-segment fell with declines of between 1.2% and 6.1% y-o-y.

In terms of location, properties in Kuala Lumpur fell the most, down by 5.2% y-o-y, mainly dragged by a 19.5% and 15.5% y-o-y decline in semi-detached and detached homes respectively.

However, the data for terrace homes and high rise were rather mixed as the former grew by 0.3% y-o-y while the latter declined by 1% y-o-y.

The state of Selangor and Penang too saw a decline in the respective states' HPI as it dropped 1.6% and 1.5% y-o-y respectively, while Johor, saw a rebound, rising by 2% y-o-y.

What's next for the property sector?

Judging by the past trends, the market is ignorant of the fact that it has a huge overhang and this data continues to show an upward trend, both in completed units as well as those under construction.

In Kuala Lumpur, the overhang is more severe as we saw a significant jump in both the number of units and value for properties that are completed but remained unsold.

As we are now in October and Budget 2022 will be tabled later this month, there have been numerous calls to address several issues related to the sector and the top of the list is to extend the Home Ownership Campaign (HOC) for another year.

As it is, the campaign has been a successful one with most developers seeing robust sales due to the extension that was given up to the end of this year and it is hoped that this will be continued in 2022.

The HOC helps buyers to reduce their upfront commitment cost when purchasing a property, especially the 10% reduction in home prices and the stamp duty exemption for properties worth up to RM1mil.

Should HOC be extended, it will likely see the momentum gained from the current campaign continue into 2022. However, should the campaign end, there will likely be some sort of rush to purchase properties between now and the end of the year to enable prospective buyers to enjoy the benefits of the campaign.

This would also mean the market will lack one catalyst for next year and hence the market will likely take a breather, especially in terms of recorded transactions in the primary market. However, the secondary market is rather indifferent as that market does not enjoy the benefit of the HOC at all, and hence it is dependent on the market forces itself.

It’s a buyers and renters market

The property market today comprises two distinct groups of buyers and other than those purchasing to have a roof over their head, the other group is the property investors’ group. This group buys property not only due to the diversification benefit but also as a hedge against inflation.

However, as the market is soft and prices are weak due to the abundance of overhang properties plus a tough rental market, this group of investors is largely absent these days. Ask anyone who is trying to rent out their residential or high-rise properties.

First, it is a question of whether a property held for investment purposes could find a tenant, and second is the rent itself.

Chances are the rent transacted today will be a lot lower than it was during the pre-pandemic period while the sheer number of newly completed and handover units in the market has shifted the bargaining power in the property market to renters.

As capital values are tied towards property income generated, capital values too have been on a downtrend. Hence, the market today is a buyers’ market.

Given the above data, it will be rather perplexing to assume that the market is headed for recovery anytime soon.

As authorities continue to dish out development orders and with most developers continue to launch new projects, whether affordable or otherwise, the market is not ripe for recovery just yet, be it in the form of transaction volume, value or prices.

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