

Revitalising Malaysia's property sector

MALAYSIA'S property industry, like most capital-intensive industries, has been badly affected by the Covid-19 pandemic.

With disruptive restrictions put in place sporadically since March last year, the industry's performance has slowed down significantly.

Property buyers have postponed their purchases or investments due to uncertainties revolving around the pandemic, while some developers find it hard to meet deadlines as their supply chains have been interrupted or unhinged by the ever-changing regulations and restrictions.

According to PropertyGuru's latest Malaysia Property Market Index (MPMI) report, the overall property supply in the market spiked by 34.53 per cent y-o-y and 11.94 per cent q-o-q in the second quarter of 2021 (2Q21).

It saw that the surge in property supply in the country in 2Q21 is likely driven by an increase of homes being put up for sale in the secondary market under the current economic climate.

PropertyGuru Malaysia country manager Sheldon Fernandez shared that the pandemic has caused many Malaysians to lose income whether it's due to pay cuts, furloughs, or layoffs.

"While the introduction of a six-month moratorium on bank loan repayments will offer some measure of relief to some, those who are cash-strapped may still resort to selling their properties," he said in a statement accompanying the report release.

"As such, we may see more residential supply making its way into the secondary market, resulting from those who wish to cash out on their property investments to alleviate current financial burdens."

Lockdowns unhinge supply chains, ops

THE property supply volume from the primary market might be affected in 3Q due to the recent implementation of a total lockdown nationwide in June 2021, which has disrupted the construction and property development sectors' operations.

Data from the National Property Information Centre (NAPIC) revealed that the number of newly launched residential units had already dropped significantly from 14,865 units in 4Q20 to 5,919 units in 1Q21.

However, while the property sector's performance remains lacklustre, there were bright spots seeing some improvement this year, as compared with last year when the nation went under a more stringent movement restriction order.

iProperty.com.my recently noted that there has been an increase in monthly loan application for home loans in 1H21.

Based on Bank Negara Malaysia's (BNM) monthly loan application data, the value of home loan applications grew 86 per cent y-o-y from RM96.4 billion in 1H20 to RM179.4 billion in 1H21. With the Overnight Policy Rate (OPR) at a record low of 1.75 per cent, it noted that many consumers are searching for property bargains in a low interest rate environment.

"The upward trend of approved home loan applications is promising. It shows that financially abled Malaysians are still interested in purchasing homes either for their own stay or for investment purposes," iProperty.com.my Customer Data Solutions & Quality general manager Premendran Pathmanathan commented.

Aside from that, former Housing and Local Government Minister and current Minister of Plantation Industries and Commodities Datuk Zuraida Kamaruddin have also pointed out that to stay competitive in the market as well as to withstand the economic challenges and uncertainties, developers have adjusted their business strategies to suit the market recession.

In delivering her keynote address at the 2021 Malaysian Housing and Property Summit organised by KSI Strategic Institute for Asia Pacific and co-organised by the International Real Estate Federation (Fiabci) Malaysia, Zuraida said developers are believed to be prepared enough to cope with the impact of the pandemic and have even adapt to the new norm in the post Covid-19 business environment.

"For the real estate sector to thrive again, there are key trends that will impact the sector in the months ahead. The monetary policy committee of BNM kept the overnight policy rate at 1.75 per cent in its most recent review in November, citing significant improvement in economy activity during 3Q20.

"The MPC also believes the current monetary policy stance is appropriate and accommodating, adding that this year's cumulative 125 basis point reduction will continue to provide stimulus for the economy. This is good news for property seekers as continuous low interest rates means low barriers to financing and owning the property.

"Lower overnight policy rate allows buyers to lock in lower interest rates favourable to current financial standings, especially those finding it difficult to forecast higher monthly loan repayments. Another trend is the need to continue with the mega projects to create the multiplier effects under Budget 2021 and RM 15 billion allocation to revive and ensure the continuity of several mega projects is expected to provide a positive boost to the real estate industry.

“Indirectly these mega projects will complement upcoming residential and commercial developments within the vicinity and spur for the development of rural areas resulting in a huge economy lift mega projects such as MRT3 in Klang Valley, the Pan Borneo highway across Sabah and Sarawak represents substantial multiplier effects on the property market.”

She also pointed out that the reintroduction of the HOC is expected to keep the industry buoyed for the rest of 2021 while there has also been an increase in innovation and greater focus on digital solutions targetting the now larger, tech-savvy young market.

Pandemic shifts consumer sentiments for houses

ASIDE from the impact on major economic sectors, the Covid-19 pandemic has also had a significant impact on Malaysia’s overall spending habits due to changes in the overall household income.

According to the Department of Statistics Malaysia (DOSM), in 2020, paid employment and self employment which were the main sources of income recorded a decrease of negative 16.1 per cent and negative 9.7 per cent respectively.

It explained that the mean of monthly household gross income decreased by negative 10.3 per cent to record RM7,089 as compared to RM7,901 in 2019 and the decline was contributed by households or individuals who experienced loss or reduction of income particularly those with the status of employee, self-employed and others.

Furthermore, this reduction of income was not only caused by job loss but also contributed by the reduction of working hours and increase in skill-related underemployment.

On top of uncertainties in the job market brought on by the current Covid-19 movement restrictions, the nation is also still currently undergoing another political shift.

With all these uncertainties, sentiments remain low and most consumers are expected to postpone purchases or investments on big ticket items such as properties and others despite the numerous incentives announced by the government under the Budget 2021.

In a survey released recently, the Malaysian Institute of Economic Research (MIER) announced that Malaysia consumer sentiment index (CSI) was down 34.6 points quarter-on-quarter to 64.3 in 2Q21 on the back of the current deteriorating finances and lacklustre income and job outlook.

It also noted of growing over rising prices and as such, consumers are likely to tighten purse strings for now.

According to a recent survey by PropertyGuru, while many Malaysians would like to own a home, 67 per cent of its surveyed participants have chosen to defer their property buying

decision to one to five years due to Covid-19 as they continue to face challenges in their home ownership journey during this time.

The study found that compared to 1H21, more Malaysians are now uncertain about property prices (56 per cent; up from 52 per cent), experiencing delays in property transactions (51 per cent; up from 42 per cent), and facing difficulties in securing home loans (46 per cent; up from 43 per cent) in H2 2021 due to the pandemic.

Malaysian home seekers also cited an inability to afford down payment and unstable job or salary as their top two barriers to taking a home loan in 2H21.

Changing times, changing minds

THERE is perhaps light at the end of the tunnel as Malaysia's Covid-19 vaccination rate has been rising rapidly recently, with the aim to get most of qualified Malaysian adults vaccinated by September or October.

More optimistically, PropertyGuru noted that despite the pandemic, there is opportunity in the sector as there has been a shift in consumer sentiments towards their property purchasing decisions.

In its biannual Consumer Sentiment Study for 2H21, it found that 73 per cent of Malaysians are looking to change their home situation after spending more time indoors due to Covid-19.

Of those surveyed, it saw that 38 per cent want to renovate or repurpose certain areas of their home, while 35 per cent are starting to think more about owning a home or moving out of their current location.

The pandemic has also impacted Malaysians' perception of space at home, as more than three in four people (77 per cent) now consider it important for new properties to have an additional room at home that can be used as a home office.

The increasing desire to own a home or move into a property that can meet their needs is especially high among renters (74 per cent), individuals who live with their parents (63 per cent), and those in the low-income group (50 per cent).

PropertyGuru Malaysia country manager Sheldon Fernandez commented, "Malaysia has undergone various forms of lockdowns in the last 17 months, and this extended time at home has made more people realise the importance and benefits of having a space of their own, especially in the age of remote working.

"The pandemic's effect on the way in which people plan their home life is more prominent among young Malaysians, low-income earners, and those currently living with their parents,

who cited 'needing more personal space' as one of the top reasons of wanting to purchase a new home."

Overall, it noted that the favourable interest rates and price outlook, as well as the high current real estate satisfaction have increased the study's overall Sentiment Index by three points from 42 in 1H21 to 45 in 2H21.

On the other hand, it pointed out that Malaysians' sentiment on the current real estate climate has declined by three points from 35 in 1H21 to 32 in 2H21.

Those who are satisfied with the current real estate climate in Malaysia mentioned that good long-term prospects for capital appreciation as the top reason for them feeling this way. Meanwhile, those who are dissatisfied cited inability to find a property within their budget as their top reason.

"From the findings of our study, it is clear that the Covid-19 pandemic has created both opportunities and hardships for many Malaysians who are looking to purchase a home.

"Nonetheless, the desire to own a home remains strong among Malaysians as more than four in five intend to buy a property in Malaysia in the future," said Sheldon.

Big shift towards property technology

THE pandemic has also made a significant change for the property industry by pushing developers to rethink their strategies in terms of engaging with potential buyers remotely with the usage of digital technology.

Former Housing and Local Government Minister and current Minister of Plantation Industries and Commodities Datuk Zuraida Kamaruddin pointed out that 2020 saw a marked rise in digitalisation initiatives by key property players who have accelerated the capacity to market products and engage the buyers via online platforms.

"Interaction with sales representatives to facilitate the transaction with enhanced convenience is also going to pave the future on how developers market and sell their units moving forward.

"This is a timely evolution given that millennials who are accustomed to ecommerce habits are now in their mid 20s to mid to late 30s and represent a larger segment of the house buying market locally.

"This trend is expected to grow in 2021 and beyond as developers and real estate agents begin to understand and embrace the advantage of a strong digital presence as a long term strategy."

iProperty.com.my Customer Data Solutions & Quality general manager Premendran Pathmanathan also noted that demand has improved as property seekers are starting to accept the concept of buying property online.

“One of the critical factors which supported demand recovery in 1H21 is that property seekers have warmed up to the idea of conducting their property search journey online – besides online property browsing, following up with property agents virtually is being accepted as the new normal.”

At the 2021 Malaysian Housing and Property Summit, Veritas Design Group founder and group president David Mizan Hashim also pointed out that the more creative developers have begun to embrace alternative digital means to reach customers.

“Buyers are increasingly open to this idea of purchasing property online. There are a few cases where properties are being sold without even going to see the site.

“Interactive experiences of property launches and sales materials are increasingly common. Using online video or augmented virtual reality. And also it can be done by targeted digital marketing through push technology where you send potential buyers.

“With BIM, it is possible to create truly lifelike representations of buildings and interiors as well, even before construction begins. And so I really encourage developers to embrace virtual marketing.”

He also highlighted that smart developers have embraced the significance of a social media presence.

“In this hyper connected world where audiences are constantly bombarded by marketing property developers must be authentic.

“You must come across as being real and unique and projecting personal brands of personal integrity and only then the buyers will sit up and take notice.”

Outlook for 2021: Another stagnant year

WITH the implementation of MCO 3.0 and the full movement control order (FMCO) in the early half of this year as well as the current political shift, analysts are generally still cautious about the prospects of the property sector in Malaysia.

In a recent report, the research team at AmInvestment Bank Bhd (AmInvestment) noted that the local property sector has been languishing over the last five to six years, since hitting an upswing in mid-2013 when the House Price Index (HPI) showed double-digit growth.

“We believe the most encouraging signs this year were developers’ 1Q21 sales growth rate of five to 10 per cent y-o-y via online booking platforms amid the pandemic, willingness to sacrifice margin by focusing on affordable residential segments in line with market demand, and landbanking activities in prime areas with good public infrastructure and connectivity to KL city centre.

“However, we are cautious on the 2H property outlook due to the various movement and economic restrictions which can cause a slower-than-expected recovery in the sector,” it said.

Recall in March last year when the first MCO lasted 1.5 months (from March 18 to May 3, 2020), housing sales fell 11 per cent q-o-q in 2Q2020 and thereafter rebounded by 121 per cent q-o-q in 3Q20.

“However, we do not expect the same pace of recovery in 2H21 as economic activities are only allowed to resume in phase three (targeted in September) under the National Recovery Plan.

“Hence, we do not anticipate positive earnings surprises over the next six to 12 months,” it added.

Aside from that, it also noted that based on Bank Negara’s 2H20 Financial Stability Review, the average LTV ratio of outstanding housing loans remained below 60 per cent (compared with 59 per cent and 57 per cent in 2018 and 2019 respectively).

“Banks remain prudent in residential property lending to mitigate the risk of more borrowers falling into negative equity and limit the increase in loan loss provisions,” it said.

Even though loans applied for residential properties reached an all-time historical high in April 2021, it pointed out that banks’ average approval rate slid to only 34.2 per cent from 37.4 per cent a year ago.

“We believe this is likely due to house buyers’ inability to qualify for a home mortgage given high debt service ratios (DSR) for newly-approved loans at 43 per cent while the household debt-to-GDP ratio has risen to 93.3 per cent as at December 2020 from 82.9 per cent at December 2019,” it said.

It noted that potential house buyers might have little room left to take on a home mortgage due to their existing debt service commitments (arising from outstanding study, car or personal loans) while their incomes have not grown sufficiently during the pandemic.

“This was exacerbated by the softer job market as reflected in the still elevated unemployment rate of 4.7 per cent in January to May 2021 (compared with 4.1 per cent y-o-y),” it added.

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