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By Chris Prasad

KUALA LUMPUR — Bank Negara Malaysia (BNM) has come up with its strongest statement yet about the volatility of the property market, highlighting that there is currently a hazardous mismatch across its various sub-segments.

In its annual report, the central bank was particularly critical about demand outstripping supply in the housing market, while on the opposite end of the scale, the office and retail markets are experiencing an oversupply situation.

BNM attributed the rapid increase of house prices to the shortfall of supply, saying, "The shortage [of residential units] is particularly evident in the supply of affordable housing. This has increasingly priced out more urban Malaysian households from the housing market."

"By contrast, the increase in the construction of office buildings and retail malls, particularly in major cities, has raised the potential of overbuilding of commercial properties that could households increased by about 117,250. This implied a surplus of approximately 49,626 units annually. However, the last five years saw the annual completion of houses decline to 80,089 units per annum, which is far below the average nett increase in the number of households, leaving us with a shortfall of some 85,911 units a year between 2011 and 2015 *(see chart)*.

Also, in 2014, about half of Malaysian households earned a monthly income of RM4,585 and below, and according to the "Median Multiple" methodology to evaluate urban housing markets recommended by the World Bank and the United Nations, a house is deemed affordable if it can be financed with less than three times the annual household income.

This suggests that units priced up to RM165,060 would fall into the affordable bracket for Malaysians, however, only 21 per cent of the new launches in the country were priced below RM250,000 in 2014.

adversely impact the real estate market."

BNM said that its study focused on housing, retail and office properties within key states – namely the Federal Territories, Selangor, Johor and Penang – as these are the major employment centres of the country.

It said despite a 35 per cent increase in stock, the shortage of housing supply at the national level has persisted. In fact, the gap between the housing stock and the number of households widened to 2.5 million in 2015 from 2.1 million units in 2005. The worsening shortfall in housing supply highlights a mismatch in the pace of growth of new housing supply and the nett increase of the number of households, particularly in the last five years.

Between 2005 and 2008, completed housing stock averaged 166,876 units annually, while the number of

BNM's data also points to an oversupply of higher-priced properties that are being marketed over the RM500,000 mark. Although it can be argued that residential units priced in this category account for just 36 per cent of all new launches, these are only within the reach of 5.4 per cent of the population.

"Between 2009 and 2014, average house prices in Malaysia rose by 7.9 per cent in CAGR (compound annual growth rate) terms, exceeding the growth in average household income of 7.3 per cent in the same period. This is in sharp contrast against the 2004-2007 period when incomes were rising faster than house prices," BNM said.

Interestingly, BNM pointed out that while Federal and State Government initiatives to build affordable houses have gathered some momentum, the

current supply of such units is far from sufficient to satisfy existing demand.

"The gap between actual house price and levels considered to be affordable to the majority of Malaysian households requires comprehensive resolution," the central bank added.

BNM said that an estimated 202,571 new houses will be required annually between 2016 and 2020 to match the estimated growth in households during this period – approximately 2.5 times the number of houses built annually in the previous five years.

Aggravating the already volatile market is the threat of oversupply in the commercial sector.

In 2015, The Klang Valley recorded a vacancy rate of 20.4 per cent for its office space. This is higher than the regional average of 6.6 per cent and the national level of 16.3 per cent.

In tandem with the high levels of vacancy, monthly rentals of prime office space in KL is currently the lowest amongst regional cities, at just US$2.60psf. Despite low monthly rentals, Savills Research found that several Grade A offices in KL, which were completed between 2011 and 2014, have only managed to record

occupancy rates of 50 per cent to 75 per cent.

Additionally, the high vacancy rate at retail centres (12.4 per cent in the Klang Valley and 28.2 per cent in Penang) is symptomatic of a mismatch of demand and supply for shopping malls in the country.

As an illustration, BNM pointed out that major cities such as KL, JB and Penang have among the lowest household incomes and population when compared against other regional cities in Asia. However, the prime retail space per capita in these Malaysian cities is notably higher than more populous and higher income cities such as Beijing, Shanghai, Singapore and Hong Kong.

Out of the 55 shopping malls currently under construction in the country, 35 are located in the Klang Valley, contributing an additional 30.9 million square feet of retail space. By 2018, prime retail space per capita in Johor Bahru is expected to increase by 119 per cent.

"The emergence of new shopping malls is likely to increase competition for tenants, resulting in higher vacancy rates, lower rentals and increased risk of dilapidation," warned BNM.