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RAM retains 'negative' outlook on sluggish property sector

Credit profiles of RAM Ratings' rated developers seen as stable, supported by robust locked-in sales

by ANNA CHIDAMBAR

THE property sector is undergoing another sluggish year as demand remains lacklustre on the back of a decelerating economy, softer consumer and business sentiments, and tighter lending conditions, says RAM Rating Services Bhd (RAM Ratings) rating specialist Karin Koh.

"We have retained a 'negative' outlook on the residential property sector as well as the commercial sub-segments in Kuala Lumpur (KL) and Selangor this year. Consumer and business sentiments are expected to remain subdued amid the slowing economy while lending conditions are seen to stay tight," Koh said in RAM Ratings' sector-based commentary.

According to her, the aggregate sales of eight leading developers fell 15% year-on-year (YoY) in 2015, due to the downbeat market and cautious sentiment. Their aggregate unbilled sales also slipped, although by 4% YoY.

"Their collective sales target for 2016 is a mere 1% higher, as some developers such as UEM Sunrise Bhd, SP Setia Bhd and Tropicana Corp Bhd expect weaker sales this year. Others such as Sunway Bhd, Eco World Development Group Bhd and IOI Properties Group Bhd are aiming for robust sales after a slow year in 2015," she said.

She noted that the imbalance within the commercial sub-sectors would be a lingering issue, particularly given the cautious sentiment on the finance and oil and gas sectors, traditionally the key take-out sources for office space in the Klang Valley.

As a result of the continuing sluggish demand, residential property transactions contracted 5% YoY in 2015, with a steeper decline of 21% for the primary market. The corresponding transaction value also retreated 10% last year, the first drop since 2005, she said.

The Malaysian House Price Index though rising, had tapered to a low 5.8% growth by end-2015 against the double-digit rates recorded during the preceding years. Residential property overhang has also been creeping up in the last two quarters," she added.

According to the Global Property Guide, Malaysia's average house price stood at RM312,050 in the third-quarter of 2015 (3Q15), up by 5.41% (2.72% inflation-adjusted) from a year earlier.

In terms of office and retail space, Koh said the commercial sub-sectors in KL and Selangor weakened last year with occupancy rates retreating one to three percentage points YoY in 4Q15 as supply continued outpacing demand.

Koh said the residential property markets of four key states (KL, Selangor, Penang and Johor) that drive half of the Malaysian property sector also shrank at different rates. Transaction volumes in KL and Selangor were trending downwards since 2012, dipping 8% and 5% respectively YoY last year.

"The declines in Johor and Penang are more severe, at a respective 20% and 17%. Although Johor recorded the largest contraction last year, it was considered a natural adjustment following the state's still-strong transaction volume growth in both 2013 and 2014, when other markets were already starting to slow down, she added.

Meanwhile, the credit metrics of RAM Ratings-rated property players are expected to remain stable as a majority of its rated entities have raised debt facilities guaranteed by financial institutions.

The standalone credit profiles of RAM Ratings-rated developers are stable, supported by robust locked-in sales, a focus on more affordably priced homes and the flexibility arising from cheap landbanks, said Koh.

According to her, the standalone credit strength of rated real estate investment trusts and mall owners was also largely stable, underpinned by long leases, assets of good quality and the sturdy market positions of their malls.