REHDA

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The Finance Ministry's report on the property market in 2016 shows a worsening situation. In sharp contrast, developers are signalling more optimism and confidence moving forward.

Residential property transactions fell for the second straight year in both volume and value last year. What catches the eye is a sharp increase in overhang and a record low in sales performance for new launches last year (see tables).

Compared with 2015, developers launched 9.8% fewer homes at 52,713 units, mostly priced between RM500,000 and RM1 million, according to the ministry's *Property Market Report 2016*. Only 31.4% of the new launches were sold, the weakest sales performance on record since at least 2010.

Unsold units under construction and those that have not been built also increased 29.3% and 44.7% respectively year on year.

Meanwhile, residential overhang — defined as completed homes already certified fit to occupy but which remain unsold nine months after being put on the market — surged 43.8% in volume and 70.7% in value to 14,792 units worth RM8.56 billion last year.

In its overview, the National Information Property Centre attributed this surge in overhang to slow market absorption in the primary market. It said 42% of the overhang units are priced at RM500,000 and above.

It is known that a big chunk of demand appears to be for houses priced at RM300,000 instead. This matches the definition by the National Housing Council of affordable homes being priced at that level or below.

A property consultant says the mismatch is more prevalent in urban centres such as Kuala Lumpur, Selangor and Johor Baru.

The historical signs do not augur well for developers, moving forward. Valuation and Property Services Department director-general Dr Rahah Ismail expects the soft market to continue in the near term.

"The 2016 conundrums are expected to reverberate into this year. The property market is expected to take a breather in the next couple of years before it can make a comeback," Rahah said on April 18.

Despite the softness, the Real Estate and Housing Developers Association (Rehda) noted that there is increased optimism among its members, who are eyeing even more launches this year, citing its latest twice-yearly survey conducted in the second half of 2016 (2H2016).

Presenting the findings a day after the ministry's statistics were released, Rehda president Datuk Seri FD Iskandar Mohamed Mansor said 55% of 165 respondents said they are planning launches in the first half of this year, the biggest percentage in years.

A total of 21,596 units are reportedly in the pipeline for 1H2017— nearly all residential — according to the survey conducted in 2H1016. That is the highest six-month expected launch volume since at least 1H2014, a sharp increase from 7,172 units launched in 1H2016 and 13,276 units in 2H2016.

Adapting to new normal

There is sense that developers in general have started to figure out the new market landscape following a painful adjustment period due to tighter lending curbs beginning in 2013.

One developer opines that the higher optimism indicates property players are now more confident of tweaking launches to fit demand these days.

The latest statistics indicate that there remains a mismatch in supply and demand. Industry consultants and analysts tell *The Edge* that the market is in a deadlock as listing prices are unlikely to fall significantly, whereas earning power is also unlikely to surge in the near term due to the rising cost of living.

According to the latest Rehda survey, most developers planning new launches will retain or lower their prices compared with 2H2016 levels.

However, some analysts believe the gap is slowly being closed as developers are adjusting prices through rebates and other value-add deals for buyers.

Additionally, there are signs that developers are beginning to accept the new normal. One industry observer believes that listing prices in less desired locations may eventually falter.

"The market has been in a standoff, but I expect the smaller developers to break ranks and lower their prices at some point," the market observer says.

Some developers with less financial stamina may opt to cut their losses to clear their existing stocks. It is a natural correction process albeit at a very slow pace, as there is a limit to how much developers can adjust prices depending on their individual cost structures.

However, this is unlikely to happen with future launches as no sensible developer will want to undertake developments without profit, says a research official.

"You need a certain margin because otherwise, a project may not be worth pursuing. And some cost components are beyond your influence such as land costs," the official tells *The Edge*.

From Rehda's perspective, developers need to keep up supply due to ongoing migration into urban hotspots such as the Klang Valley.

While acknowledging that there is a pricing mismatch in some locations, Rehda president FD Iskandar says some developers are already cutting prices by reducing unit sizes, but this is as far they can go.

"At the end of the day, there are some fixed costs. Meanwhile, labour and material costs keep going up. And developers are already being squeezed in the margins," he says.

Government Intervention?

From the affordable housing perspective, the supply-demand mismatch represents a dead-end in the near future. The supply correction is too slow and limited, while it is unlikely that affordability levels will pick up soon.

If the objective is to promote more home ownership among the lower income group, one way forward is for the government and government-linked companies to intervene more strongly in the supply side.

This can be done by providing cheap land for affordable housing, says a senior consultant, adding that existing intervention measures, such as PR1MA housing projects, are not enough.

"They [federal and state governments] own the bulk of plantation and development land, so to some extent they can play a crucial role here," the consultant says.

For a success story along these lines, Malaysia needs only to look to Singapore's public housing authority, the Housing and Development Board (HDB).

Established in 1960 amid a housing crisis, HDB plans and develops Singapore's housing estates. Today, its flats are home to over 80% of Singapore's population.

But government intervention will distort the market and complicate the current adjustment process. At present, market forces are seen as exerting their influence by pushing supply towards demand, albeit at a glacial pace due to cost hurdles from the developers' side.

"These days, suddenly everyone [developers] can do affordable housing," notes the research official in jest.

Ultimately, it depends on the direction the government wants to take on the property market. It is difficult to see what else the government can really do in addition to existing affordable housing initiatives.

The easier path forward may be to let market forces continue working to bridge the supply-demand gap, pushing developers to keep adjusting their offerings. This will eventually address the pent-up demand for affordable housing, albeit at its own pace.

SOURCE: NAPIC

Residential market performance

	2010	2011	2012	2013	2014	2015	2016
Transactions volume (units)	226,874	269,789	272,669	246,225	247,251	235,967	203,064
Change (%)	7.2	18.9	1.1	-9.7	0.4	-4.6	-13.9
Transactions value (RM bil)	50,654	61,832	67,762	72,060	82,060	73,470	65,574
Change (%)	21.0	22.1	9.6	6.3	13.9	-10.5	-10.7

New launches and sales performance

	2010	2011	2012	2013	2014	2015	2016
Units launched	34,997	68,388	57,162	48,617	86,997	58,411	52,713
Units sold	11,882	27,737	27,264	21,904	39,491	24,588	16,532
Sales performance (%)	33.95	40.56	47.70	45.05	45.39	42.09	31.36

Developers are eyeing more launches this year despite the soft property market