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A slow road to recovery in 2017 and 2018

BY **HANNAH RAFEE**

Affordability remains a major issue in the local property market. "There is demand, but the big issue today is affordability. If you look at properties in Kuala Lumpur and the Klang Valley, the smaller units with the right pricing (between RM300,000 and RM500,000) are the kinds of homes that are selling. We have granted a lot of loans for these types of houses," said Malayan Banking Bhd (Maybank) head of consumer and finance Abdul Razak Mohd Nordin.

"Of course, there are still homes that are affordable [located away from the city centre]."

Abdul Razak was speaking at the "Real Estate and Housing Developers' Association Malaysia (Rehda) Property Forum 2017: Status Quo or Road to Recovery?" held in Kelana Jaya on April 19.

The other panellists were Malaysian Industrial Development Finance Bhd chief economist Dr Kamaruddin Mohd Nor, Jones Lang Wootton executive director Malathi Thevendran and property investor and consultant Ahyat Ishak. Rehda deputy president Datuk Soam Heng Choon moderated the discussion.

"Personally, my radar is on the western corridor of the Klang Valley. Investors should look at the fundamentals [and factors] such as the population and transport-oriented developments. It is a buyer's market, and there is a lot of opportunities," said Ahyat.

"One should purchase based on his or her centre of gravity — be it the place you are living in or brought up in, or your workplace, because you are familiar with these areas. He or she needs to find out which location works best for him or her."

The consensus was that the property market is likely to see moderate recovery this year.

"Generally, the local property market's weak sentiment in 2015 and last year [which was due to various challenges] may persist, even beyond 2017," remarked Soam.

"Issues such as the high rejection of loan applications or the inability of potential purchasers to get financing, affordability, the rising cost of living and slower income growth continue to linger, albeit there are some signs of economic recovery."

Abdul Razak said there are still some gaps in the market, especially with regard to connectivity. "Although we are seeing more modes of public transport such as the mass rapid transit and light rail transit, a lot more still needs to be done [to achieve greater efficiency]. If this improves in the near future, it will draw more investors to the areas that are further away from the city centre."

"Moving forward, especially for the commercial sector, we do not foresee much improvement [due to the massive oversupply]. The office segment [especially the prime buildings in Kuala Lumpur and the Klang Valley] is expected to see tenants from other buildings moving in [due to more attractive rates and flexibility offered by owners]," said Malathi.

"As for the retail segment, new malls are diluting the market. As for hotels, our achieved room rates are below the standard rates in the region."

According to Malathi, landed properties will still be the preferred choice this year. "There are still opportunities for landed properties. The only issue is, the prices are beyond the reach of many potential homebuyers and investors. Thus, they have no choice but to go for strata-type developments. One of our concerns is that many strata developments have come up. Knowing the mentality of Malaysians, we predict that there will be a slump in this segment because management and maintenance are not our forte."

High inflation rates and sentiment

It was highlighted that the rising inflation rate will reduce consumers' disposable income. As a result, potential homebuyers may shift their focus from buying big-ticket items to meeting their daily expenditure.

"Last year, the average inflation rate was 2.5%. This year, Bank Negara [Malaysia] expects it to go up to 3% to 4%," said Kamaruddin.

"But if you look at the core inflation, then the rate is at a manageable level of between 2.3% and 2.5%. Because all these are cost-driven, it will affect the overall consumer sentiment [in the property market]. Nonetheless, we still maintain a positive outlook and do not foresee this as a deterrent."

He said wages are expected to rise at a faster pace this year. "We foresee wage growth of between 5.2% and 5.5%, which is above [the inflation rate]. Although the inflation rate is at elevated levels, wage growth helps and consumers will be better off this year.

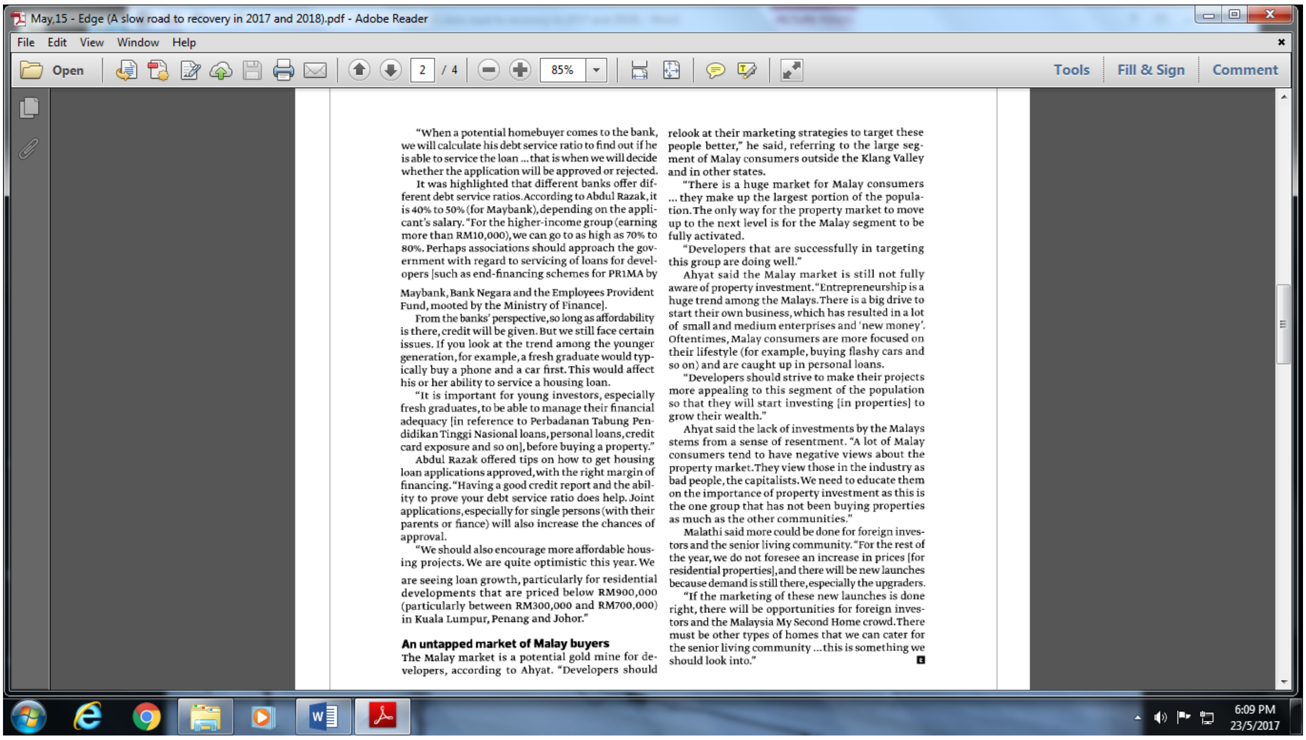
"We have seen double-digit growth for most sectors, including export, agricultural, manufacturing, mining and quarrying, hence our forecast for the country's gross domestic product growth of 4.9% this year.

"Nonetheless, the property market was soft in the past two years and we predict the trend will continue this year. In turn, this may be a positive thing because we see stakeholders, homebuyers, investors and the government re-evaluating their expectations ... and we still see a lot of new launches. This will help match demand and supply.

"As for loan application rejections, it boils down to the quality of the applicants."

Loan rejections

Said Abdul Razak, "As a bank, we will consider all loan applications. However, we'll reject incomplete ones. Due to the new lending guidelines, our sale staff have been told to reduce our debt service ratio.



"When a potential homebuyer comes to the bank, we will calculate his debt service ratio to find out if he is able to service the loan ... that is when we will decide whether the application will be approved or rejected.

It was highlighted that different banks offer different debt service ratios. According to Abdul Razak, it is 40% to 50% (for Maybank), depending on the applicant's salary. "For the higher-income group (earning more than RM10,000), we can go to as high as 70% to 80%. Perhaps associations should approach the government with regard to servicing of loans for developers [such as end-financing schemes for PR1MA by Maybank, Bank Negara and the Employees Provident Fund, mooted by the Ministry of Finance].

From the banks' perspective, so long as affordability is there, credit will be given. But we still face certain issues. If you look at the trend among the younger generation, for example, a fresh graduate would typically buy a phone and a car first. This would affect his or her ability to service a housing loan.

"It is important for young investors, especially fresh graduates, to be able to manage their financial adequacy [in reference to Perbadanan Tabung Pendidikan Tinggi Nasional loans, personal loans, credit card exposure and so on], before buying a property."

Abdul Razak offered tips on how to get housing loan applications approved, with the right margin of financing. "Having a good credit report and the ability to prove your debt service ratio does help. Joint applications, especially for single persons (with their parents or fiance) will also increase the chances of approval.

"We should also encourage more affordable housing projects. We are quite optimistic this year. We are seeing loan growth, particularly for residential developments that are priced below RM900,000 (particularly between RM300,000 and RM700,000) in Kuala Lumpur, Penang and Johor."

An untapped market of Malay buyers

The Malay market is a potential gold mine for developers, according to Ahyat. "Developers should relook at their marketing strategies to target these people better," he said, referring to the large segment of Malay consumers outside the Klang Valley and in other states.

"There is a huge market for Malay consumers ... they make up the largest portion of the population. The only way for the property market to move up to the next level is for the Malay segment to be fully activated.

"Developers that are successfully in targeting this group are doing well."

Ahyat said the Malay market is still not fully aware of property investment. "Entrepreneurship is a huge trend among the Malays. There is a big drive to start their own business, which has resulted in a lot of small and medium enterprises and 'new money'. Oftentimes, Malay consumers are more focused on their lifestyle (for example, buying flashy cars and so on) and are caught up in personal loans.

"Developers should strive to make their projects more appealing to this segment of the population so that they will start investing [in properties] to grow their wealth."

Ahyat said the lack of investments by the Malays stems from a sense of resentment. "A lot of Malay consumers tend to have negative views about the property market. They view those in the industry as bad people, the capitalists. We need to educate them on the importance of property investment as this is the one group that has not been buying properties as much as the other communities."

Malathi said more could be done for foreign investors and the senior living community. "For the rest of the year, we do not foresee an increase in prices [for residential properties], and there will be new launches because demand is still there, especially the upgraders.

"If the marketing of these new launches is done right, there will be opportunities for foreign investors and the Malaysia My Second Home crowd. There must be other types of homes that we can cater for the senior living community ... this is something we should look into."