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Local property market to remain `flattish` next year

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Local property market to remain 'flattish' next year

Consultants say it is a good thing, developers to tweak projects

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Siders: I believe next year will be a challenging and unexciting year for the property market.

THE local property market is set for a "flattish" year in 2020, as the wait-and-see attitude, cautious sentiment and less-than-stellar outlook that were initially forecast for 2019, will unfortunately continue into next year.

But that, according to property consultants, is not a bad thing.

CBRE|WTW managing director Foo Gee Jen says the momentum that was seen this year will carry into 2020.

"Developers will continue to tweak their projects. Gone are the days when they will launch super-linked terraces and super condominiums. No longer will we see huge numbers of double or triple-storey residential units," he tells *StarBizWeek*.

"Developers will stick to the basics. The small office, home office (Soho) units will not see many launches, maybe except in the transit-oriented development (TOD) areas. For 2020, we believe the market will be flattish and that is a bonus."

A TOD is often defined as a mixed development project typically within a 400m radius of a transit station or any public transport network.

Foo says having a flat market is, any day, better than one with negative growth.

This sentiment is echoed by Rahim & Co International Sdn Bhd real estate agency chief executive officer Siva Shanker.

"On average, 2019 should record between 3% and 5% growth over 2018, which is good. We need to stop expecting between 7% and 9% growth like we did in the past, which was largely led by speculators and it caused problems! Better to have small, stable growth.

"For 2020, we should see some small increments but I think it will be a little better than 2019," he says.

PPC International managing director Datuk Siders Sittampalam, however, feels that 2020 will be a "challenging year" for the local property market.

"This is especially in light of the global economic slowdown and while the US-China trade war has mellowed down, it could still affect Malaysia as a trading partner.

"Budget 2020, in spite of the few initiatives announced, did not provide any catalyst for growth. Therefore, I believe next year will be a challenging and unexciting year for the property market."

In November, Knight Frank Malaysia managing director Sarkunan Subramaniam, while citing a survey on housing developers, said just 8% of respondents expect the property sector in 2020 to perform better than this year.

He said about 25% expected the market in 2020 to perform worse than 2019, while the remaining 67% anticipated the sector to be the same as 2019.

Sarkunan added that more township developments will incorporate neighbourhood satellites, co-working spaces and Grab car stands.

He noted many developers would build according to need, rather than "ego".

"Developers will be more cautious with their launches. Many will have small launches in phases," he was quoted as saying in a presentation paper titled "Peering into 2020: Market Outlook".

Heading into 2020, Foo says the overhang situation in the country is still a critical issue.

"To undo it will require a collective effort. It's not just the government that needs to put on its thinking cap on how to resolve the problem. Various parties have to get involved. Town-planning, the legal aspects, sharing of big data between the public and private sectors... everyone has a part to play."

According to the National Property Information Centre's figures in property overhang as at the second quarter of 2019, the ringgit value of unsold completed housing, including serviced apartments and SoHos is RM35.1bil.

Sarkunan, meanwhile in November, said the biggest cause for the overhang in the country to subsist was affordability and mismatch.

He said the bulk of the overhang units (or 26%) comprised units between RM500,000 and RM700,000 as at September 2019. This was followed by units between RM700,000 and RM1mil at 22%.

Sarkunan added that the percentage of overhang units ranging between RM300,000 and RM500,000 stood at 20%.

In terms of property type, landed residential comprised the highest number of overhang units at 41%, followed be condominiums (28%), serviced apartments (21%) and small office home office (Soho) units (10%).

According to Sarkunan, the other factors that contribute to the property overhang in the country are (in descending order) end financing, less-than desirable locations, oversupply of residential units, bumiputra quota and product mismatch.

Home Ownership Campaign

To address the overhang conundrum in the country, the government kicked off the Home Ownership Campaign (HOC) in January of this year, a six-month initiative that eventually got extended until year-end.

A number of initiatives were announced during the period to encourage home-ownership, such as the exemption of stamp duties on residential units priced between RM300,000 and RM1mil.

All the properties at the HOC also came with a minimum 10% discount and stamp duty waivers on the instrument of transfer and the instrument on loan agreement, as well as additional incentives from participating developers.

According to Real Estate and Housing Developers' Association president Datuk Soam Heng Choon, total sales under the HOC hit RM21bil as at early November. During the 11-month period, about 28,000 units have been sold, comprising a mixture of landed and high-rise properties.

According to Siders, the level of overhang in the country has however decreased this year, thanks in part to the HOC.

Nevertheless, the state with the highest level of overhang this year is Johor, he adds.

"Johor saw a major chunk of serviced apartments being introduced into the market," he says, adding that the other states with the highest level of overhang (in descending order) are Perak, Selangor and Penang.

Siva believes extending the HOC for another six months in 2020 would be a welcome move to boost the local property market.

"The HOC certainly helped contribute to the growth of the property market in 2019 and it certainly showed that there is still a lot of demand for homes. But there is a big disconnect between what is being offered and what buyers want.

"If the HOC is continued, instead of throwing in freebies with the units, why not throw away the frills and offer the units at lower or more affordable prices? That way, I think you'll be able to attract more buyers."

Meanwhile, Foo is of the opinion that the HOC has already been given its chance to run its course and should not be extended.

"I think there has to be a point where the incentives need to stop and you need to let the market adjust.

"You can't keep having the same type of drive to force the market. After all the initiatives, you need to let demand and supply take its natural course."

The HOC was conducted twice for three months each time in 1998 and 1999. The campaigns included waivers for stamp duty on properties priced at RM250,000 and below as well as some processing fees such as the memorandum of transfer, to lessen the burden on home-buyers and to encourage home ownership.

It should be noted that the previous campaign took place after the 1997/98 Asian financial crisis, where income was on the decline and there was poor market sentiment and job uncertainties – just like today.

However, house prices and the level of oversupply of condominiums and high-rise units back then were nowhere near as high as that of today.

Separately, Siva says the political scenario in the country is also having an impact on the local property market.

"The property market is definitely linked to the political situation in the country. Until and unless our politicians can get things right, things will not pick up."

Malaysian Association for Shopping and High-Rise Complex Management past president Richard Chan concurs.

"The political situation in the country is causing many people to remain cautious and adopt a wait-and-see approach. Our politicians can do whatever they want in their private lives but they need to focus more on the economy rather than just politics," he says.

Office, retail and industrial sectors

It is no surprise that the office and retail segments are facing a supply glut - a situation that will continue into 2020.

Unless justified, Foo feels that a moratorium should be implemented to freeze the development of new office and retail space.

"There should be a stop until the market recovers. Meanwhile, incentives should be provided to upgrade older buildings, rather than to build new ones."

Siva believes that the office market will get worse as newer and bigger buildings come into the market.

"Yet, when these big new buildings are introduced into the market, they do get filled up. While that is well and good, it means that the older buildings are coming up empty. So what this means is that people are willing to pay for looks and branding.

"This also means that you can't keep developing an office building and milk it for the next 20 years. You need to keep improving, upgrading, refurbishing and renovating it so that you can continuously attract good quality tenants. Some buildings are so poorly run that when you enter it, you can just feel the oldness... the dinginess."

He adds that some "older" buildings are capable of maintaining a high (if not full) occupancy rate because they are constantly being renewed in some way or another.

This is a factor that also affects the local retail market, says Siva.

"It's true that the larger malls in the city will continue to thrive. However, some suburban ones also continue to do well. If you keep it relevant and breezy, I think you should have no problem securing tenants."

Chan says 2019, overall, was "not a great year" for the local retail market, but adds however that certain sub-segments still continued to do well.

"Higher-end outlets like fashion were affected but food and beverage (F&B) outlets still continued to do well."

However, in light of this, he says many malls have gone a little "overboard" with their tenant mix by having far too many F&B-related tenants on their premises.

"Some malls have between 30% and 40% of their tenant mix comprising F&B outlets, which is not good. When it's that high, you end up canabalising your own outlets that are of similar nature."

Chan says many malls have also gone so far as to reduce or completely exclude the rental rates of their tenants, just to maintain the occupancy levels.

"Many landlords accept a gross turnover (GTO) structure, whereby a percentage of the tenant's monthly sales goes towards rent.

"This is bad as it spoils the tenant, not help them. Many tenants also take advantage of this GTO by being lazy, instead of being more competitive and working to improve themselves."

Chan expects slight growth for the retail sector in 2019.

"Despite it not being a great year for the retail sector, our occupancy levels have still remained steady at around 80%. Going forward, we expect small growth for 2020."

As for the industrial property market, Foo says the various government initiatives to boost infrastructure, transport and logistics will boost the sector.

"The liberation of the rail services will improve the country as a logistics hub and spur manufacturing activities," he says.