



Will 2020 be a recovery year for the property sector?



The Malaysian property industry outlook seems rather uncertain going into 2020



Sharina Ahmad

The current sluggish housing market does not appear to pick up anytime soon. In fact, the outlook seems rather uncertain for the Malaysian property industry.

Siam Darbin Property Bhd analyst group CEO Datarik Wan Hashimi Alhaki Wan Ahmad Amin Jaffri says the local property market is still consolidating but there are indications to suggest that the market is responding well to supporting measures introduced by the government in 2019.

"We will see several property-related measures to improve the current supply and demand mismatch in the sector next year (year 2020) with the National Housing Policy, adjustments to the Real Property Gains Tax (RPGT), lowering of the threshold for foreign buyers and government financing schemes like the first-in-four (FIT) scheme for first-time homebuyers.

"With the help of the Home Ownership Campaign (HOC), property developers were able to open to a higher group of

- **Most property experts and players expect the soft market conditions to continue into 2020 with affordability and a property overhang remaining as the major issues**
- **Johor is an attractive destination for investment, with the caveat that prices there have seen marked volatility in recent years due to supply and policy shocks**

first-time homebuyers and upgraders, which in turn helped to reduce inventories," he tells *FocusU*.

Young working adults of low- and middle-income brackets would have options to buy or rent their own home with supporting schemes like the Youth Housing Scheme administered by Bank Simpanan Nasional.

In fact, the federal government provides the HCO scheme for those who are unable to afford the initial 10% deposit and access financing to buy their first home, Wan Hashimi says.

"The initiative to assist youths and first-time homebuyers will leave a positive impact on affordable housing projects in Malaysia.

"It will also help to reduce

inventories for projects and encourage developers to shift their part in providing housing for low- to medium-income earners in the country," he notes.

Stimulating the property market

Most property experts and players expect the soft market conditions to continue into 2020 with affordability and a property overhang remaining as the major issues. However, opportunities still exist for the discerning buyer and investor.

There are 8% of housing loan rejections as of June 2019, mainly due to houses being priced more than three times the applicant's annual income ratio, according to Bank Negara Malaysia.

This was also due to the lack of awareness of the home loan

application process prevalent among prospective Malaysian homebuyers, especially those who are buying for the first time.

Other reasons for housing loan rejections include lack of repayment capabilities, unfavourable credit score, banks' diverse risk appetite and other financial commitments that may affect the success rate of the loan application.

iProperty.com Malaysia Sdn Bhd general manager David Maser says one of the main issues faced by many Malaysians is an fully understanding how to successfully secure a home loan.

"We have a lot of young people who are just starting out their careers, and even for those aged 20 and above, there seems to be little awareness and education on the home loan application process, which ultimately means that it's a challenge for a lot of Malaysians to purchase a home," he says.

Based on the property portal's findings, only 4% of iProperty users are familiar with debt servicing ratio (DSR) and how it affects their home loans.

Earlier last year, iProperty had conducted a survey concerning the subject of home loans. The two biggest consumer demographics in Malaysia, the B40 and M40 groups, revealed that their biggest home purchasing challenge is to successfully

secure a home loan.

The B40 group found the loan application process to be the most important and difficult whereas the M40 group indicated that it is the most difficult task.

"The concept of DSR is new to many people. Often, they don't understand that each bank has its own DSR benchmarks. The DSR shows how much of a person's income is used to service debt instalments and is represented as a percentage," says Maser.

The downside of not understanding it, he says, is when people enter the market without the education, their home loan applications may get rejected by banks. This might delay or discourage them from purchasing a home.

Macroeconomic factors and the road ahead

Property Guru International (Malaysia) Sdn Bhd country manager Sheldon Fernandez says mixed macroeconomic indicators also point towards a lacklustre year ahead for the property.

"The US Federal Reserve cut interest rates three times in 2019, with Bank Negara following suit in May and analysts projecting another potential cut mid-2020.

"These moves have the effect of creating positive interest

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Wan Hashimi says the market is responding well to supporting measures introduced by the government in 2019

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rate environments at home and abroad. This is conducive to home purchases in the short term, with prospects for capital appreciation in the long run, as cheaper loans drive property prices up," he says.

In addition, an influx of interest from regional purchasers may cause an upswing in sentiment for the near future, driven by unrest in other markets such as Hong Kong, as well as relaxed foreign ownership guidelines laid out in Budget 2020.

However, these positive factors are balanced by the ongoing US-China trade tensions and their consequences for global economic expansion.

In particular, slowing growth in China and escalating trade tariffs may dampen global value chains, with spillover effects for markets with high exposure such as Malaysia.

According to Kenanga Research, the ringgit remains volatile as well to-date, trading at an average of RM4.18 to the US dollar as of Dec 4, with a target of RM4.20 to the dollar by end-2019.

It says this volatility, along with socio-political uncertainty



The property market performance recorded a marginal increase in 1H19 compared to 1H18

as the euphoria of Malaysia's 14th general election fades against a backdrop of increasing dissatisfaction, would have a negative impact on investor appetites – again, with the exception of Johor, which has seen optimal investment numbers to date.

"Moving forward, we anticipate proptech and fintech to play larger roles as international trends find their way to local shores and industry stakeholders seek to differentiate themselves in a heated market.

"Deloitte, for example, has reported in its 2020 Commercial Real Estate Outlook that it's no longer about 'location, location, location', but 'location, experience and analytics,'" says Fernandez.

Marginal uptick

According to the Valuation and Property Services Department

Malaysia (JPPH), the property market performance recorded a marginal increase in the first half of 2019 (1H19) compared to the same period last year.

The property sector recorded 160,372 transactions worth RM68.3 bil in 1H19, an increase of 6.9% in volume and 0.8% in value compared to 1H18 which recorded 149,862 transactions worth RM67.74 bil.

The residential property continued to support the overall property sector with 62.4% market share, followed by agriculture property with 21.6% share.

CCO & Associates (Selangor) Sdn Bhd CEO Chan Wai Seen says the country's gross domestic product (GDP) is expected to grow at 4.7% in 2019 and 4.8% in 2020. The growth rates are about the same as the 4.7% growth rate in 2018.

"At these growth rates, the general property market sentiments are expected to remain stable in 2020. Uncertainties in the economy, namely high household debts, inflation (due to the impending withdrawal in the fuel subsidies) and the decline in exports (trade war) will prevent any significant improvement in the property market.

"Overall, the property market in 2020 is expected to remain steady," he opines.

Chan adds that most of the existing RTO scheme is planned based on certain assumptions. For instance, when the tenant/buyer's income increases, the property prices will increase simultaneously in the future.

"However, the RTO may fail if these assumptions do not materialise and may create more financial hardship to the participants."

Demand starts picking up for affordable house

Mah Sing Group Bhd founder and group managing director Tan Sri Leong Hoy Kim says as affordability remains the key focus in homeownership today, there is a rising demand from buyers for affordably priced products of good quality in the city centre.

Projects within the affordable segment in the city centre are highly sought after in view of its prime location as it provides home-seekers with the prospect of having easy access to ready amenities and infrastructure, coupled with strategic access to highway connectivity and transportation hubs, he tells *FocusM*.

"The growing interest seen in the market, especially in the affordable segment, has returned buyers' purchasing confidence,

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"We are still positive on the property outlook as Malaysia has a large young population with 69% of its population being below 40 years old," he says.

According to Leong, these people have a higher demand to buy property, especially those who are starting a family.

He says the medium- to long-term outlook will continue to be strong for property buyers who are buying to own or for long-term investment.

Property has always been one of the preferred investment options for Malaysians as it is among the most secure forms of

capital outlay and a good hedge against inflation, adds Leong.

The incentives from the HOC stamp duty exemption and waivers, which were extended until Dec 31, 2019, are also an impetus to assist and encourage homeownership.

"We hope that the property market will continue to be resilient and we welcome any other new initiatives that can encourage homeownership and address the demand for affordable homes.

"We believe that properties in the affordable range and at good locations are still seeing



Lim announced during the tabling of Budget 2020 that the government will help reduce the bulk of RM8.3 bil worth of unsold condominium and apartment units

good demand. Hence, we will continue to roll out affordably priced quality projects in strategic locations to meet the market expectations."

In a recent JPPH report, it says the property market is expected to remain resilient moving forward.

The report said the growth is underpinned by the strong GDP growth of 4.0% in the second quarter of 2019 and several government-driven initiatives to further support the market

activities in the housing sector.

It said affordable housing and finding the right solutions to property overhang continue to be the government's main agenda of the government. The launching of the National Housing Policy 2.0 (2018-2025) and the incentives introduced in HOC 2019 are expected to help improve homeownership among Malaysians and the residential overhang situation in the coming half-year.

The expected strong GDP

growth, lower borrowing cost, HOC and other housing incentives for first-time house buyers, the new rate for RPFIT on the disposal of properties after five years and the increase in stamp duty rates from 3% to 4% for transfers of properties valued above RM1 mil are anticipated to have a direct and indirect impact on the property sector.

Given time, the property sector will undergo market adjustments and corrections accordingly, it adds. **REHDA**