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## Banks urged to defer foreclosure proceedings at least for 2020

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It is too early to gauge the economic fallout in all its entirety on the housing sector as a result of Covid-19 pandemic.

It is affecting almost every country, every sector, leaving a trail of economic and financial hardship along its path in a sector that already had its share of the vulnerabilities.

As long as the pandemic continues its infections around the world, the uncertainty and volatility will continue, not just the house owners but the landlords and the property consultants themselves.

The fallout in the global stock markets since Monday, has given way to yo-yo-like trading sessions since then. Nobody knows where the bottom is.

The property market lags behind the stock market by around six months to a year traditionally, in an economic crisis.

This is a health crisis with huge economic and financial consequences. This time, everything – the capital markets, the industries and the property markets – have converged in a downward spiral. There is nowhere safe to hide, literally. And the destruction it leaves behind is expected to be more severe compared to previous financial crises.

PPC International managing director Datuk Siders of Sittampalam says: "Any property will not attractive at this current stage, at least in the short to medium term.

"One factor remains. Although we in Malaysia are seeing a collapse in prices in oil and commodities, the pandemic is the overarching concern now.

"However, on a general basis, property has always been a pillar of the economy. It cannot run away nor operate in isolation from the economy, so be it commercial, industrial, or whatever sub-segment it may belong to."

Leaving aside previous issues like the overhang which goes into billions of ringgit and affordability issues, Siders prefers to focus on the pandemic at hand.

"There will be massive lay-offs, which will create problems. Those with mortgages may not be able to pay their loans," Siders says.

"The government projects that the economy will be on a steadier footing after six months and borrowers will be able to pay.

"Assuming pre-Covid-19, the borrower was already two months in arrears. He may defer payment for six months, but on the seventh month, he still has to clear the two months of arrears."

Siders says the borrower may have other commitments, like credit card and other loans and may be unable to pay his mortgage.

He is concerned that if the banks were to go for foreclosures in a big way, this will crack the property market, which will further impact the already weak sentiment.

If a person is jobless, or his business has been affected or gone bust, he may default on rental. If landlords were to reduce rental, yields will go further down, rendering owning a house for a rental income as an unattractive proposition, Siders says.

He is of the view that banks should defer foreclosures proceedings, at least for 2020 so that it will not affect market sentiment, which will have the effect of dragging the market down further.

On the fundamentals of the housing market, Siders said it is pointless talking about fundamentals at the moment because there are a lot of unsold properties, which are affordably priced.

*"We have put forward about 10 proposals but the key ones are a 100% wage subsidy for March and April, and 50% for May, June and July."*

*Michael Kong*

### Economic shock

"The pandemic and the oil collapse – oil price hit below US$20 per barrel and went up a bit after that – have actually induced an economic shock and ensuing uncertainty. Timing of recovery is difficult to gauge at this stage."

Among the various press reports and views from economists around the world, the view is that the current pandemic-inducted shock has no parallel against the 2008/9 Global Financial Crisis or the 1997/98 Asian Financial Crisis.

Some likened its effects to the 1929/30 Great Depression which lasted for 10 years.

The Association of Valuers, Property Managers, Estate Agents and Property Consultants in the Private Sector Malaysia (PEPS) says: "If this crisis is likened to the Great Depression in 1929, it would probably take 10 years for a full recovery."

Its president Michael Kong says: "Booms and busts are normal cycles of the property market. Property markets follows closely the economic cycles, albeit lagging behind.

"We should be concerned at this particular moment when both the economic and property market experienced bust at the same time. Hence, the impact, both from the pandemic and the subsequent movement control order (MCO) will be huge and far reaching."

Kong says the government stimulus package did not address the most important engine of the economy, the Small and medium-sized Industries (SMIs) and Small and medium-sized enterprises (SMEs).

"We are under SMEs, providing services. If they do not have an income for the duration of the MCO, but have to pay for overheads and no pay cuts, or use the annual leave, that effectively means 'you settle your own problem'."

In an appeal to the Finance Minister Tengku Datuk Seri Zafrul Aziz, PEPS says the core business of their firms are to value properties for banks who use their valuation reports as a benchmark to issue loans to borrowers.

The MCO from March 18-April 14 had severely impacted on the their professional practice. The firms are left with no income against a looming economic crisis.

Says Kong: "We were informed that commercial banks will be tightening loan eligibility requirements after the MCO, resulting in less valuation, which leads to less revenue for our member valuation firms."

He says the majority of valuation firms are sole proprietors and small partnerships, with limited cash reserves. Gross salaries and wages constitute between 40% to 60% of the overall overheads and cash reserves will not last more than three months.

"Without government assistance, many of our member firms will have to cease business." PEPS has put forward about 10 proposals but the key ones are a 100% wage subsidy for March and April, and 50% for May, June and July," he says.

PEPS is also seeking unsecured loans at 2% interest loan amounts between RM100,000 and RM500,000 depending on the firms' turnover, among other proposals.

In view of the precarious nature of the property sector and existing vulnerabilities in nearly all categories – housing, retail and commercial – the association says it will strive to revive the sector as it has a significant role in the overall economy.

There is a chain effect to all this, just as there is a chain effect when house owners are unable to pay their mortgages, PEPS says.

Kong says the broad property market is at standstill.

"In the residential sector, developers cannot sell and buyers do not want to buy.

Even after the MCO is over, there will not be a rush to buy," he says.

Stratified housing may face immense downward pressure because of an over supply. Secondary location in the greater Klang Valley area and outskirt areas will be affected more.

Developers who have already launched but have not achieved optimum sales may need to manage their cash flows very well.

It is still unfolding and it depends on how the government address the situation. If they create a welfare kind of package, without looking at the SMEs and industries, it means they are sacrificing the goose that lays the egg, says Kong.

CBREWTW managing director Foo Gee Jen says rising concerns of economic slowdown and job insecurity are hurting the consumption confidence. The demand for housing would be restricted. Appreciation of residential property is expected to be flattish.

"Those in the mid and lower range housing, which are targeted at the vulnerable segment of B40, or even certain portion of the M40, especially those who are self-employed or daily wage earners may face foreclosures, which were already on the rise before the pandemic," Foo says.

Foreigners including the expatriates would not want to be in other parts of the world except their homeland so this will also impact the government's plans to encourage them to buy properties priced at RM600,000.

(Note: the government lowered cap price that foreigners can buy from RM1mil to RM600,000 starting Jan 1, 2020)

The market was on the bear run pre-Covid-19.

In the short-run, compared to conventional housing eg. landed, owner-occupied, the pressure is expected to be felt first-hand by stratified properties that cater to tourism (short stay, serviced apartments) and accommodation for expatriates. People will become more mindful and sharing a communal space could be perceived as a risk at this sensitive time.

"The long-term outlook is dependent on the development at the macro level," Foo says.