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THE government and developers need to seriously consider how to resolve the rising number of unsold completed units, particularly serviced apartments, which keeps ballooning annually.

As they are built on commercial land, they are categorised as commercial property, like small office home offices (Sohos). However, these units are used as houses, so they form part of the residential overhang, under the commercial category. Serviced apartments form 72% of total commercial overhang in unit terms, say property professionals.

From 2010 to the first half of 2020, serviced apartment overhang grew from a mere 380 to 21,683 units, or 5,692%.

The rising base of serviced apartments has been brought up numerous times by property consultants.

It is more profitable to build serviced apartments, on commercial land, than condominiums, which are built on residential land. This may explain the exponential growth of more than 5,500% over a span of 10 years. Imagine, if these were stocks.

Serviced apartment units are generally "cur" small, usually 400 sq ft to 800 sq ft built-up, to ensure the absolute price is "affordable" although that adjective is relative, City Valuers director CY Lim says.

A serviced apartment is subject to a plot ratio as a development control. A condominium with a residential title, however, is based on density. There is a difference between a project based on plot ratio and one based on density, he says.

If a developer buys an acre of commercial land, or 43,560 sq ft, and gets a plot ratio of 10 from local authorities, he can build 10 times of that, that is, 435,600 sq ft. After deducting space for drainage and sidewalks, which may be up to 20% of the 435,600 sq ft, he is left with 348,480 sq ft, rounded to 350,000 sq ft.

If he decides to build serviced apartments of 600 sq ft each, he can build up to 580 units.

A condominium, on the other hand, is built according to density, that is, how many people there are in one acre.

In Malaysia, a household of four is the assumed norm. City Hall has set the limit for density at up to

# An unwanted problem of unsold units

Property consultants, economist and government in despair over overhang



**No takers:** The Kuala Lumpur city skyline at dusk. Serviced apartments form 72% of total commercial overhang in unit terms, according to property professionals.

400 people per acre.

In a household of four, that means 100 units. This means on one acre of residential land, a developer can build only a maximum of 100 units of condominium versus 580 units of serviced apartments, Lim explains.

But this story is not only about serviced apartments, although at government levels, they too are throwing up their hands in frustration with this type of development.

Johor and Selangor took steps to temporarily freeze their development in 2016, not because of the voluminous supply but because they wanted to regulate their use as they

were built on commercial land.

In the broad residential overview by Rahim & Co head of research Sulaiman Saheh in his Overview of Malaysian Residential Property Market, at the Property Market Outlook for 2020 - Beyond Covid-19 on Oct 13, he took a microscopic view of unsold units:

1. Those certified fit for occupation but unsold. In property parlance, an overhang
2. Those under construction, waiting for a buyer
3. Yet-to-be built/sold units. In a high-rise project, lower units may be under construction, those above

are not built/sold.

Sulaiman's research period is 2016 to June 30, 2020.

He says the last two categories are easing but category 1 continues to rise unabated.

"These are ready-to-move-in units, sold on an as-is-where-is basis, which means buyers are able to see the condition of the house. And yet they remain unsold. Why?"

Calling them "hardcore overhang", Sulaiman said they are not marketable for various reasons:

- > too far from public transport
- > price is too high
- > quality issues

> some units already sold, and developer is unable to reduce prices.

He says government measures to bring down the overhang have failed because the numbers are ever-rising.

"Maybe the whole block has to be redesigned. Or turn them into rental schemes at lower rental rates," he says.

At the same event, Nagic director Aina Edayu Ahmad says publicising details, pricing, project, location and developers involved, including bumiputra quota units, may help to reduce their numbers.

However, Aina says Nagic's proposal did not go well with developers.

"There were some issues in terms of data-sharing and confidentiality of information," Aina says. She feels transparency would help.

Because housing is a big-ticket item and property development involves financing, Nagic would also like to get the support of Bank Negara, Aina says.

The central bank, by virtue of its position to oversee financial issues, has the higher authority and mandate to bring up to the higher authorities the growing overhang and its resolutions.

A source says Bank Negara has not received formal communication as to the form of support and cooperation needed but acknowledges the symbiotic relationship between property and financing.

In 2017, Bank Negara suggested a five-pronged approach to heal the broken housing market in a paper "Affordable Housing: Challenges and the way Forward".

1. Centralisation of affordable housing initiatives.
2. Establish an integrated housing database and registry for affordable housing allocation
3. Reduce the cost of housing
4. Enhance financial literacy among households
5. Improve the rental market by strengthening framework.

They remain as work-in-progress.