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Real estate market demand poser post-elections

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AFTER months of speculation and uncertainty... the general election (GE) is finally over and the new Pakatan Harapan government has produced a manifesto containing a number of proposals relating to the local property market.

Among the questions to be considered now, is whether the uncertainties are finally over? Will the new government's pledges do the property sector any good? And when will the market glut finally end?

A slight improvement in general sentiment has been observed, says Axis REIT Managers Bhd head of investments and Malaysian Institute of Estate Agents immediate past-president Siva Shanker.

"Few expected Pakatan to win. But win it did and has created a lot of euphoria – a sense of hope," he tells *StarBizWeek*.

"I believe the euphoria will trickle down and we should see some improvements in the local property market come June or July."

Property consultancy Savills Malaysia in a recent statement said it anticipates the market to have a knee-jerk reaction following the elections and the second quarter of 2018 to be relatively quiet for property transactions.

"However, the outlook for Malaysia appears to be promising, as the new government sets to work to address some of the institutional problems that have held back Malaysia's long-term prospects and deterred foreign investment," it says.

Siva says the local property market has been registering negative growth since 2012.

"We saw very little growth in 2014, but it wasn't sustainable and the market has been in a glut in 2015, 2016 and 2017."

Market picking up?

However, it would seem that things have already started picking up this year. Last month, Valuation and Property Services Department's (JPPH) valuation and property services director-general Nordin Daharom revealed that residential property transactions improved by 4% in the first two months of the year compared with the same period a year ago.

"The market is still soft, but things are improving following the strong economic growth in 2017," he said at the launch of the Property Market Report 2017 in April.

Siva says this was a good sign – and with the elections finally out of the way, he believes that the market is poised for growth this year.

"After five years of negative territory, I expect the market to see between 2% and 3% growth this year. It's a small amount, but growth nonetheless."

PPC International managing director Datuk Siders Sittampalam says there is also better transparency in the market post-GE.

"Prior to the elections, people were holding back their investments. Transactions reduced tremendously in the past few months. However, now that the dust has settled, there is better clarity and the property market is bound to see some improvements."

Three-year glut: Siva says the property market has been in a glut in 2015, 2016 and 2017.

Savills Malaysia says it anticipates the renewed confidence in the market will encourage buyers who have been holding back.

"Institutional investors, particularly overseas investors, dislike uncertainty. With elections behind us, we are preparing for a major uplift in domestic and foreign interest in commercial investment properties.

"Malaysia has extremely liberal policies related to foreign investment in commercial property and can offer attractive yields. The prospects of appreciation in the ringgit and strong economic growth will now make Malaysia an outstanding regional investment opportunity."

However, the property consultancy cautions that there will be a period of adjustment and consolidation to clear existing stock before any price increases can be seen.

"Generally, we foresee that prices will firm up in 2019, and it will be early 2020 before developers can respond by stepping up supply. In short, particularly in Greater Kuala Lumpur and Penang, there has never been a better time to buy."

Pakatan Harapan's manifesto

Following its victory, Pakatan Harapan made several pledges to address issues that it feels are negatively impacting the local property market. A key focus of the new Government is to acknowledge the subject of affordable housing.

Among its pledges is to build one million affordable homes within two terms as government.

Some have raised concerns over whether this can be achieved. Under its Perbadanan PR1MA Malaysia programme, the previous administration had said that it would build one million affordable housing units by 2018 for those with a household income of RM2,500 to RM15,000 a month.

As of March 2018, some 140,000 PR1MA homes were under various stages of construction while 15,000 units have been completed nationwide.

Siva says there is a huge demand for affordable housing – but qualifies that the homes must be in the right location where there are readily available or easily accessible amenities and public transportation for the low-income home owners.

"If you build affordable homes

Ongoing demand: Siders concurs that there is demand for affordable homes in Malaysia.

in say, Tanjung Malim... how many people working in Kuala Lumpur will purchase property that far away? For this to work, the state must first get involved."

To make it work, Siva urges the government to engage stakeholders first – before making a final decision.

"The projects need to be inclusive. Before making policy decisions, the government needs to engage the right stakeholders that can provide data and market information. Collectively, an informed decision can be made."

Siders also concurs that there is demand for affordable homes in Malaysia.

"Yes, there is demand – but in places where it is needed. They should not be built at the wrong place or at the wrong time."

To tackle the issue of affordable housing, however, Siva says there needs to be a proper definition of what constitutes as "affordable".

According to Khazanah Research Institute's "Making Housing Affordable" report, as at 2014, overall house prices in Malaysia are 4.4 times the median income. Zeroing in on the states, the price of a house in Kuala Lumpur is 5.4 times the median income.

In Penang, it is 5.2 times, Johor 4.2 times and Selangor 4.

In an interview with *StarBizWeek* last September, Khazanah research director Suraya Ismail said Johor, at 4.2 times, is seriously unaffordable.

Selangor and Negri Sembilan are considered moderately unaffordable, while Melaka is still considered affordable.

Suraya says property developers are definitely capable of offering affordable homes.

"Prior to 2008, the private sector had launched a lot of residential units within the RM250,000 price range.

"But from 2008 onwards, they have instead been focusing too much on units priced over RM500,000. We need to revert to the pre-2008 period."

She says many developers are hesitant of offering affordable homes, as it is a segment with low profit margins, adding however that this should not be a deterrent for local developers to develop affordable homes.

According to the JPPH property market report, the residential property market recorded 194,684

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Better times ahead seen for property market

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transactions worth RM68.47bil in 2017, which were 4.1% lower in volume compared with 2016, but they increased by a marginal 4.4% in value.

By price range, demand continued to be in the RM200,000 and below price points, accounting for nearly 45% of the residential market volume.

Siders is optimistic that the new government's pledges will be met.

"The government has good advisers. I think the market is in for better times," he says.

Zero goods and services tax

With the goods and services tax (GST) being zerorised effective June 1, many are convinced that this will boost buyer confidence and overall sentiment.

Says Mah Sing Group Bhd chief executive officer Datuk Ho Hon Sang: "Previously developers are required to absorb the GST on input costs, so with this new implementation costing will reduced and the savings will eventually be passed on to the buyers."

He says commercial properties would now be cheaper without the 6% GST.

SP Setia Bhd president and chief executive officer Datuk Khor Chap Jen shares a similar sentiment.

"With GST zerorised, we do expect to see a pick-up in commercial properties. We won't be reducing the price of our commercial units. They will now just be tax-free," he said at the company AGM last week, adding that residential units are exempted from GST.

The zero-rating on GST will eventually be replaced by the sales and services tax (SST) – likely within the next two to three months.

Savills Malaysia says the removal of the 6% GST will spur spending and boost the local retail property market.

"We see the likelihood that retail turnover will pick up in areas where GST is lifted from merchandise. We hope that luxury goods will fall into that category, making Malaysia a major tourist shopping destination.

It says groceries, food and beverage, and mass prestige fashion brands will see positive impact from the lifting of the GST.

Malaysian Association for Shopping and High-Rise Complex Management past president Richard Chan concurs, saying that the local retail property market will see "a big boost" over the next few months.

"With now being the fasting month as well, we expect better year-on-year growth in the second quarter of this year. After SST is imposed, we will have to wait and see."

With there being a virtual "tax holiday period over the next three months, Chan expects a jump in big ticket items over the near term.

According to JPPH, the retail sub-segment's performance was stable at 81.3% in 2017 compared with 81.4% in 2016, recording an annual take-up of more than 6.78 million sq ft.

Kuala Lumpur, Selangor, Johor and Penang saw a significant take-up rate as their newly completed shopping complexes secured commendable occupancy.

Johor was leading with nearly 2.82 million sq ft followed by Selangor (1.17 million sq ft), Kuala Lumpur (1.01 million sq ft) and Penang (778,833 sq ft).

Chan says the retail property market "wasn't as bad" as some people made it out to be.

"Paradigm Mall JB was launched last year with over 90% occupancy."

He adds that Southkey Megamall, slated to open by year-end, also in Johor, has already achieved an occupancy rate of 70%.

"At the end of the day, the success of a mall is dependant on whether you've done your homework, who is developing it and how you manage it. With these in place, you shouldn't go wrong."