Headline	Malaysian property market: Wake up and smell the coffee		
MediaTitle	The Star		
Date	11 May 2019	Color	Full Color
Section	Star BizWeek	Circulation	175,986
Page No	7	Readership	527,958
Language	English	ArticleSize	549 cm²
Journalist	PANKAJ C. KUMAR	AdValue	RM 27,735
Frequency	Daily	PR Value	RM 83,206

Malaysian property market: Wake up and smell the coffee

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Lower prices: A file picture showing an aerial view of Mont'Kiara where the majority of Klang Valley's high-rise residentials are located. Prices of high-rise homes declined by 1.2% last year.

MUCH has been commented about the housing market overhang as well as oversupply the past week, mostly coming from the recently released Property Market Report 2018 by National Property Information Center (Napic).

This week's article is more about revealing what was not widely reported and some commentary on the state of the Malaysian property market. Based on Napic data, despite the perceived glut faced by the market, the overall Malaysian House Price Index continued to climb in 2018, rising by 3.1% y-o-y to 193.3 pts and on average, a home in Malaysia now cost RM416,993 compared with RM404,643 a year ago. Key driver of price growth in 2018 was from terrace homes sub-segment, which rose by 6.4% y-o-y to RM387,474 while high-rise and detached homes declined by 1.2% and 1.8% y-o-y respectively. Semi detached homes too saw a rise in price, rising by 2% y-o-y. However, measured based on median prices, house prices in actual fact fell by 2% to 296,944 from RM303,000 in 2017.

Also, what was interesting is that after three consecutive years of annual drops in both total value and transaction volume, the Malaysian property market finally saw some light at the end of the tunnel with a rise of both in value and volume, although it was just a modest increase of 0.3% and 0.6% respectively.

As for inventory level, property developers don't seem to learn or understand what's happening in the market as the most overhang sub-sector, which is the service apartments sub-sector, saw a 101.4% increase in completion last year to 31,162 units while new planned supply rose by 42% y-o-y to 54,506 units in 2018.

Although the starts in this sub-sector declined by 20.4% in 2018 to 25,730 units, the planned supply seems to be worrying as it represents some 27.6% of the current existing stock level of 197,348 units as at end of 2018. Even the residential sub-sector, which is the largest sub-sector within the property market, saw a decline across the inventory levels as completion fell by 0.7% to 93,547 units while starts and new planned supply declined by 8.6% and 19.9% y-o-y to 122,065 units and 106,345 units respectively.

The release of the 2018 Property Market Report basically has given all stakeholders a snapshot of the current market condition in terms of price trends, locality and types of properties that are in excess of supply.

> **What are key takeaways?**

To the developer – It's time to go back to the drawing board and re-focus the efforts in providing homes that are affordable to the mass market and more importantly, those that can sell. Stop planning homes that are not on the right location or homes that nobody wants and end up as part of national statistics as unsold inventory – be it completed, under construction or not constructed. Also, in certain location, it is understandable that a developer has no choice but to built high-rise due to land cost and or city centred location. However, looking at the Napic statistics, developers should move away from building service residences as there is just too much supply, not only from existing stock level, but also from planned supply. It will be for a while before we see some normality in this sub-sector.

In the office and retail sub-sector, despite a 30.8% and 62.2% decline y-o-y in total starts for 2018, what was alarming from Napic's statistics too was the planned supply for these two categories where the expected total planned supply was at 340,861sq m and 532,731 sq m, an increase of 66.7% and 109.6% y-o-y respectively! Developers – do we still need more malls? As it is, based on latest count, some 40 malls are expected to be ready between now and 2020 in Greater Kuala Lumpur alone! How much can the market absorb? Do we need to built for the sake of building or are there really genuine demand? Judging from market's feedback, developers really need to re-think their strategies going forward.

To the homebuyers – There are plenty of opportunity to pick the right bargains mainly due to the current market situation, more so, if the purchase is for own use and located at the right spot. With the incentives scheme thrown by the government under the Home Ownership Campaign, there is no better time to sign on the dotted line and get the roof over your head at a good price. Avoid developers who are stubborn in reducing prices as they will just remain part of inventory statistics or developers who are selling unwanted products like service apartments for reasons mentioned in previous paragraphs. With the recent cut in Overnight Policy Rate by 25bps, affordability too has been boosted and hence it is an opportune time to get out there and become a homeowner.

To the bankers – The Finance Minister has encouraged the banking sector to provide more funding and financing to home buyers and to ensure that qualified buyers are not bypassed by stringent criteria. However, the banks must be aware that certain market segment can have serious repercussion to the banking industry if lending to the sector is not controlled, especially in the office and retail sub-sector, which is seeing continuous rise in supply. A careful analysis, even after financing is approved is necessary as should we face deterioration in demand for spaces that the market is planning today, it can have serious repercussion to the banking sector and to the economy as a whole.

To the government – Statistics are speaking for themselves. Its important for the government to take heed of the current market situation and to ensure the market remains healthy for all stakeholders. The government, knowing that certain market segments are presently imbalance, need to ensure that supply is curtailed by playing the role of gatekeeper and not allowing developers to undertake projects which are deemed to be in excess supply or in wrong location. Until and unless these excesses are reduced, the Government has a duty to ensure the housing market remains healthy.

All in, the Napic report is not only another quarterly update on the state of property market in Malaysia but an important report card for all stakeholders to wake up and smell the coffee.