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TMR looks at the 4 phases of property cycle

The Malaysian Reserve, Malaysia

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The property market follows a predictable cycle just like other types of investments

by FARA AISYAH

WHAT lies ahead for the property market is anybody's guess, particularly given the volume of overhang units is on the rise.

Some industry experts say "we don't have a crystal ball" when asked about the property market's future, while refuting the possibility of the "property bubble bursting" soon.

In reality, the property market follows a predictable cycle, just like other types of investments. However, the duration of one cycle is not necessarily the same as another.

The Malaysian Reserve (TMR) looks at the four phases of a property cycle and compares it to the current situation in the country.

Phase 1: Recovery

The recovery phase is when there is little activity in the market as demand may be slow when the property market is recovering from a recession.

During this period, unemployment is relatively high, hence, there are declining vacancies in the market.

In addition, there would be no new construction underway. Rental rate growth during the recovery period is either negative or flat and at levels that are below the rate of inflation.

Increased frequency of property viewings and stabilised prices are signs that the market is rising.

Buyers will come back because during the recovery period, the economics of buying is better than renting.

Investors will also return to the market to find deals that allow them a high cash-on-cash return.

Pic by Muhd Amin Naharul

The property market has become a 'tenant market' as rates continue to be under pressure in certain types of properties or locations

Phase 2: Expansion

In this phase, markets are faced with growing demand as the economy strengthens and stabilises.

The unemployment rate during this time is low, hence low vacancies in the market while the rent rates grow.

Development activity begins as supply and demand have reached equilibrium at the height of the expansion phase.

New construction jobs are also coming into the market.

Phase 3: Hypersupply

This is the phase where the market 'booms'. Many segments in the property market are becoming over built and supply has exceeded demand.

The supply is a spillover effect during the expansion phase. Due to the rising vacancies, rental starts to decline but still at a positive figure.

Phase 4: Recession

If the market does not recognise or disregards the warning signs of declining demand, the hypersupply situation will move into the recession phase.

The recession period is distinguishable by its heavy supply, high vacancy rates and reductions in rent rates.

Rent during recession could reach the negative level, or below the rate of inflation.

As such, many owners are offering more reduction in rentals to maintain their tenancies.

Where is Malaysia's Property Market Now?

Malaysia's economy has recorded a strong growth of 4.9% for the second quarter of 2019 (2Q19) supported by higher household spending and private investment.

The construction sector showed better growth of 0.5% in 2Q19 largely due to improvements in high-end residential activity.

The country's inflation rate eased to 1.4% in July 2019, from a 13-month high of 1.5% in August.

The figure was also below market expectations of 1.5%. The unemployment rate in Malaysia remained at 3.3% in June 2019.

During the month, the number of unemployed accounted for 521,400 persons, increased 0.3% compared to the previous month.

In addition, the number of overhang units continued to rise according to the latest National Property Information Centre data for 1Q19.

The country recorded 58,078 overhang units worth RM37.23 billion as at 1Q19, an increase of 5.5% by units and 4.1% by value from last year.

Property asking prices in Malaysia had also decreased 1.8% year-on-year, but increased 0.9% quarter-on-quarter, according to the PropertyGuru Market Index for 2Q19.

The Malaysian property market has become a "tenant market" now as rates continue to be under pressure in some types of properties or locations.

Thus, where are we now in the property cycle? Are we in the hypersupply phase moving into recession? Or are we already at the recovery period?

"There is no property bubble in the market right now," Knight Frank Malaysia Sdn Bhd MD Sarkunan Subramaniam said.

"The market has ballooned, and it has been slowly released that it is deflated now. The bubble cannot burst if there is no bubble in the first place," he added.

Sarkunan said Malaysia's property market is already at its lowest point.

CBRE-WTW (CBRE Group Inc and CH Williams Talhar & Wong Sdn Bhd) MD Foo Gee Jen concurred there is no "bubble bursting" situation in the current property market.

"The overall market is stable. But I am not denying properties in some sub-sectors are being overpriced.

"Moving forward, the high-end sector including SOHO, SOVO, stratified office might face more challenges because their occupancy rates are very low right now," he said.

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SUMMARIES

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