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Property overhang seen not critical

Consultancy slams report on sector as 'misleading, sensational'

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PETALING JAYA: Property consultancy firm Zerin Properties said the report card on the property sector by a counterpart was both "misleading" and "sensational."

Zerin founder and CEO Previn Dran Singh is questioning that assessment by CBRE|WTW. Last week, CBRE|WTW managing director Foo Gee Jen was quoted as saying that the overhang was caused mostly by the oversupply of high-rise units, mainly serviced residences and small office, home offices (SoHo) units.

Foo said it could take more than five years for the unsold, high-rise units to be absorbed into the market if prices do not come down.

"We would like to make it clear that this assessment is misleading given the fact that the supply is less than 20% of the total overhang nationwide of the said properties," said Previn.

He said Kuala Lumpur is the main driving force of the recovery of the property market and based on the simple extrapolation of sales of 2,500 units a year, if (there were) no new launches, this would be absorbed in a year.

Referring specifically to Klang Valley's SoHos and serviced apartment overhang, Previn said "although at a considerable RM3bil," it is about 20% of the total SoHo plus the serviced apartment overhang of about RM15bil in the country.

"After tremendous efforts by stakeholders of the property industry in 2019 to address issues plaguing the industry and with the

market gaining momentum, this report came about as quite surprising," he said.

"What we should be focusing and highlighting on - instead of sensationalising statements - should be the need for bolder measures from the government," Previn said.

This would include taxes - reverting back to a reasonable real property gain tax rate, faster Malaysian My Second homes processing, and early announcement or high speed rail re-commencement, among others.

Malaysia has been having a persistently stubborn residential overhang for a number of years.

As at the third quarter of 2019, the residential overhang totalled 31,092 units, or RM18.77bil. The last couple of years, the completion of serviced apartments and SoHos, which are built on commercial land, have risen considerably.

Commercial land have a higher value than residential land. Developers, in an attempt to lock in sales during an era of escalating prices, reduced the built-up areas of the units to give a veneer of affordability.

These units are usually studio units of about 500 sq ft although the built-up area may rise to 800 sq ft. So, if serviced apartments and small offices home offices (SoHos) are added to the residential overhang, the figures swell to 50,008 units, valued at RM33.77bil.

He said he is a strong believer of laize faire but "in an economy that is imperfect, balancing policies are also required." Therefore, bumiputra quotas, reducing the minimum price for foreign purchases (currently RM2mil in some parts of Selangor) and ramping up discount policies will help the industry.

Overhang status by type (Q3 '19)

| Price range | SoHo | Serviced apartments |
|------------------|--------------|---------------------|
| Below RM200k | - | 287 |
| RM200K - RM300k | 518 | 1,550 |
| RM300K - RM500k | 628 | 1,399 |
| RM500K - RM700k | 21 | 3,253 |
| RM700K - RM1 mil | 227 | 6,107 ¹ |
| Above RM1 mil | 63 | 4,863 ² |
| Total | 1,457 | 17,459 |

Majority comes from Johor ¹4,825 and ²4,136



Total overhang

| | Units | Value (RM mil) |
|---------------------|---------------|------------------|
| Serviced apartments | 17,459 | 18,770.47 |
| Residential | 31,092 | 14,297.17 |
| SoHos | 1,457 | 699.57 |
| Total | 50,008 | 33,767.21 |

Source: Napic