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Affordable residential segment to see steady demand this year

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The property market is expected to see marginal growth this year with steady demand in the residential, industrial, retail, office and hotel segments.

Rahim & Co International Sdn Bhd takes a closer look at some of the factors that will influence the sector this year in its Property Market Review 2019/2020.

"The focus remains strongly on the affordable residential segment," says Rahim & Co director of research Sulaiman Akhmady Mohd Saheh in presenting the report. "The developers' response to this is reflected in the number of [more affordable] units launched in the past 12 to 24 months. Also, more units were launched in the RM200,000 to RM300,000 price range [across the country].

"In line with the demand in the affordable residential segment, secondary market sales [especially of higher-range products] are also higher while price correction continues."

As for the office segment, concerns remain about an incoming wave of new supply. "Rents and occupancy rates are under pressure, influenced primarily by relocation activities rather than brand new tenancies among multinational corporations and foreign entities," Sulaiman adds. "Older buildings will go through asset enhancement and be repurposed while co-working spaces continue to expand, especially in transit-oriented developments (TODs)."

In terms of the retail segment, he sees continuous growth in online shopping, especially among the millennials. "Nonetheless, we have also seen some of those establishments going back to the bricks-and-mortar format, helping boost their offline markets. Retail players will continue to restrategise to offer better value and experiential options. A cashless society is also emerging with e-wallet companies."

Sulaiman expects logistics to keep driving the industrial segment. Due to lower incoming supply, there is more demand for industrial products, thus improving overall yields of investment assets, he says.

"Things also look good for large-scale properties in logistics, especially large warehousing facilities with built-to-suit arrangements. The advancement of technology through the Fourth Industrial Revolution is shaping new forms of industrial parks," Sulaiman points out. "Managed industrial parks equipped with shared facilities appear to be the preferred choice."

PICTURES BY SAM FONG/THE EDGE

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Abdul Rahim: The property market is maintaining its momentum, albeit at a moderate pace, but this does not mean it is not challenging anymore

Unaffordability still an issue

"The property market is maintaining its momentum, albeit at a moderate pace. The market is still finding its equilibrium in an ever-changing economic environment," says Rahim & Co executive chairman Tan Sri Abdul Rahim Abdul Rahman.

"Sentiments among the country's business community and general consumers at large are mixed because of concerns about the global economy, rising cost of living, slow income growth and low access to home loans.

"Last year, the Malaysian economy grew at 4.6% in the first nine months. Much to the delight of the public, work resumed on several major projects, including the East Coast Rail Link and LRT3, that were put on hold for cost revision. There was an improvement in transactions [across the board]."

Abdul Rahim adds that after a sluggish few years, transactions grew 6.4% year on year to 243,358 in the first nine months of 2019 while total value grew 2.1% to RM102.9 billion.

"Nevertheless, the unaffordability and oversupply situation persists. We still see an overhang of 50,008 units [from serviced apartments and SoHos to pure residences] worth RM34 billion across the property market in Malaysia," he says.

Meanwhile, the overhang of pure residential units totalled 31,092 worth RM18.96 billion.

As at 3Q2019, Johor accounted for most of the overhang with 18,517 units, followed by Selangor (7,226) and Kuala Lumpur (5,170).

According to Rahim & Co, there was an existing residential supply of 5.69 million units in Malaysia as at 3Q2019, an increase of 142,000 units year on year.

"In an effort to spur the property market, the Home Ownership Campaign 2019 ran for the whole year, resulting in the sale of 31,415 units worth RM23.3 billion, according to the Ministry of Housing and Local Government. The sales included units from new launches, units [in various stages of construction] and unsold units. We hope a similar measure will be implemented this year on top of the proposed incentives announced in Budget 2020 to boost the market," says Sulaiman.

"One of the strategies announced in Budget 2020 was to promote access to housing with key propositions being rent-to-own collaborations with financial institutions, lowering the threshold price of unsold high-rise units for foreign buyers and the extension of Bank Simpanan Nasional's Youth Housing Scheme until the end of 2021. As for the unpopular move in Budget 2019 to raise the RPGT, the base year for asset acquisition has been revised to January 2013."

According to Abdul Rahim, the market is expected to post a moderate recovery, although it will remain challenging. Buyers began to bargain-hunt as property prices consolidated, he says, adding that the property sector is likely to become more segmented according to asset classes."

Mixed results in 2019

Acccording to Rahim & Co, the numbers were stronger last year than in the previous years with more robust growth in market activity in all major sectors.

"Essentially, the country's economic fundamentals are stable. Economic growth in 2019 is expected to be 4.7%, little changed from 2018. According to the World Bank Forecast, Malaysia's GDP is expected to grow 4.5% in 2020 and 2021," says Sulaiman.

"All in all, property market transactions increased in the first nine months of 2019, both in terms of transactions (up 6.4% year on year to 243,358) and value (up 2.1% to RM102.9 billion).

"The residential segment stabilised with a positive trend in the first nine months of 2019. Across the major states in Malaysia, the number of residential transactions rose 6.3% during the period in review. There were increases in KL [7.3%], Selangor [6.8%], Penang [0.7%] and Johor [6.1%]."

Rahim & Co's study of capital cities' average benchmark shows mixed growth in 2019: stable to 4.6% growth. "Overall residential price growth moderated while some consolidated. In general, the established and owner-occupied markets showed better capital appreciation," says Sulaiman.

"In the commercial segment, the total supply of office space in Malaysia currently stands at 237.9 million sq ft while the occupancy rate is maintained at 82.4%, as at 1H2019. The total cumulative of office supply in Klang Valley (including government and privately owned properties) is about 140 million sq ft with Selangor taking up almost 40 million sq ft and Kuala Lumpur, 100 million sq ft.

"In 2019, the total occupancy rate dropped 1.8% [across the country] but between KL and Selangor, it fell almost 1.2% and 0.4% respectively. Other states also witnessed a drop in office occupancy rate with Penang posting a 1.4% decline and Johor, 10.4%."

According to Rahim & Co, as the next wave of office buildings comes onstream, there have been relocations and tougher competition, with old and new tenants having the advantage of competitive rates and attractive package deals.

"With more office space injected into the market, rents are under pressure with landlords offering longer rent-free periods. The wider train network and TOD formations have also paved the way to decentralisation, thus distributing the concentration of business hubs across different parts of the Klang Valley," says Sulaiman.

The retail segment of the property market was also at a risk of oversupply in 2019 with new malls still entering the market. "In 2018, the Malaysian retail occupancy rate averaged 81.2% but as at 3Q2019, this had dropped to 79.5%. In the Klang Valley, the occupancy rate of retail space dipped from 84.3% in 2018 to 83.2% in 3Q2019," says Sulaiman. Retail malls continue to re-engineer themselves to maintain their relevance to a growing e-commerce market.

According to Rahim & Co, an oversupply situation looms with another six to nine million sq ft of retail space in the pipeline with TRX Lifestyle Quarter offering 1.2 million sq ft, Pavilion Bukit Jalil, 1.8 million sq ft, Merdeka 118, one million sq ft and Empire City Mall, 2.3 million sq ft.

Retail malls have become places for physical socialisation and experiential interaction with emphasis on services and consumable goods such as food and beverage, leisure entertainment and "instagrammable" décor, says Rahim & Co.

It is worth noting that there was increased interest in the industrial segment last year with total transactions growing 15.3% year on year to 4,706 and total value hitting RM10.2 billion as at 3Q2019. ■

The market is expected to post a moderate recovery, although it will remain challenging