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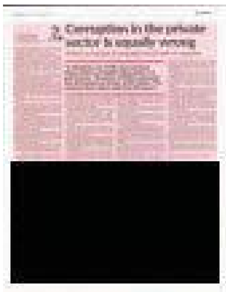

Future property supplies remain elevated

Comment
PANKAJ C. KUMAR

THERE have been numerous commentaries on the state of the Malaysian housing market following the release of the 3Q 2019 property market issued by the National Property Information Centre (Napic) last month.

It is not the intention of this column to repeat whatever has already been commented but more to provide an insight into the some of the data that have not been commented on.

First, the big picture. The Malaysian House Price Index (HPI) as at 3Q 2019 stood at 195.7 pts and this is, although still higher by just 0.2% on a y-o-y basis, it actually fell by 1% on a q-o-q basis.

Chart 1 shows the growth trend of the HPI and the 3Q 2019's performance is in actual fact the weakest since 1Q of 2010, which incidentally is the base year for the current index. Hence, the 3Q 2019 HPI is not only growing at its slowest pave but its q-o-q contraction shows that the prices, on average, are falling. Good news for buyers, not so good news for property owners, especially investors.

Second, the incidence of overhang has improved. Based on Napic data, total number of overhang properties stood at 31,092 units worth some RM18.77bil. Although this is still higher by 3.2% y-o-y, it is lower than what we had seen in the past three quarters as number of overhang units peaked at 32,936 units in 1Q 2019.

In terms of value, the total overhang units remained elevated at RM18.77bil, although this is lower by 3.9% y-o-y and its lowest total value in five quarters. Perhaps the Home Ownership Campaign launched last year has indeed helped to clear the stock level, to a certain extent. The drop in overall value also means that the average home that is in the overhang category is now valued at about RM604,000 – relatively flat the last three quarters.

Where are these overhang units located? Johor, Perak and Selangor are the top three locations with the highest number of overhang units and they account for 17.6%, 16.5% and 15.7% of the total number of units. In terms of price range, properties below RM500,000 remain the biggest chunk and it accounts for about 62% of the overhang while properties priced RM1mil and above account for just 12.6% in terms of number of units.

Interestingly, based on Napic statistics, the market has done relatively well as it showed that these 31,092 units, which represent the ugly statistics of the market, are in actual fact 25.7% that were not sold from the 120,909 units that were launched up to 3Q 2019. The sales statistics of sold properties remain strong with high rise, which makes up about 54% of total launches, seeingw sales of 77.9%, while terrace homes, which make up about 32% of total launches, achieving sales volume of 72%.

The statistics on overhang in the high rise segment basically suggest that in terms of price range, Selangor has a large overhang in the RM200,000 and below price category and accounted for 31% of the total overhang in the segment, while 61% of the high rise overhang in the RM200,000-RM300,000 price range are in Perak.

In the RM300,000-RM500,000 category, Selangor again has the lion's share at 28% of the total, while 30% of the overhang units in the RM500,00-RM700,000 price category are located in KL.

In the single and two-three terraced segment, Perak and Kedah have the lion's share in the properties priced below RM300k with the two states and accounting for 38% and 23% respectively.

Kedah has also the majority share in the RM300,000-RM500,000 category at almost 42%. The overhang situation in Selangor is also at the higher price range of landed properties with a share of 62% in the RM700,000-RM1mil priced properties while Johor leads overhang units in the RM1mil and above category with 61% of the total in the market.

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Table 1: Planned & Future Supply of the Malaysian Property Market

Malaysian Property Market - Current & Future Supplies

Type of Properties	Current In-Stock	Incoming Supply	% of Total In-Stock	Planned Supply	% of Total In-Stock	Total Future Supply	% of Total In-Stock
Residential	5,692,656	456,886	8.00%	442,468	7.80%	899,354	15.80%
Service Apartments	240,319	116,211	48.40%	181,609	75.60%	297,820	123.90%
SoHo	38,134	26,998	70.80%	17,480	45.80%	44,478	116.60%
Hotel (rooms)	257,195	23,152	9.00%	11,678	4.50%	34,830	13.50%
Shopping Complex (sqm)	16,425,184	1,524,807	9.30%	1,035,255	6.30%	2,560,062	15.60%
Purpose Built Office (sqm)	22,414,280	1,878,726	8.40%	642,853	2.90%	2,521,579	11.20%
Industry	116,451	4,722	4.10%	7,154	6.10%	11,876	10.20%
Shop house	524,555	38,286	7.30%	34,479	6.60%	72,765	13.90%

Source: Napic

Chart 1: Growth of Malaysian House Price Index

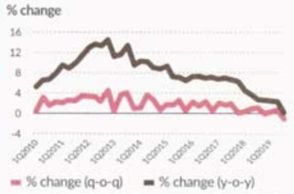
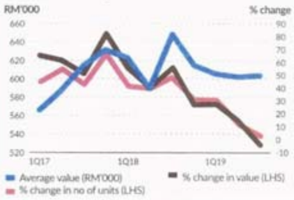


Chart 2: Malaysia – Unsold Home Trend (YoY) & Average Value of Unsold Homes



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We need to stop building unwanted properties

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However, while the overhang category gives some hope that all is not too bad, further analysis into properties that were launched but are still under construction gives us goose bumps as the incoming overhang can be significant if not cleared when they are ready for vacant possession or at least within the nine-month period of delivery. Napic statistics showed that as at 3Q 2019, there were 179,027 number of properties that were launched, but sales were only 56.3%, leaving behind 78,191 units or 43.7% unsold.

Third, enough said about the residential market. What about the commercial market, which includes SoHo and service apartments?

As these are defined as commercial properties and not residential and not surprising that these two types of properties alone make up 82.5% of the commercial market that were launched.

Here, the statistics are worrying. As at end of 3Q 2019, total overhang units in the market leapt 39.7% in terms of number of units to 24,820 units against end 2018 figure of 17,769 units while in terms of value, these units had a total worth of about RM19.81bil, up 42.4% in just nine months as at the end of 2018, the total value was worth RM13.91bil.

While sales have been good for these two sub-segments with SoHo at 79.3% and serviced apartments at 76.9%, the significant increase in supply is making it more difficult to clear new supplies, let alone the old supplies. As a matter of fact, the statistics shows that Johor is where much of the problem resides.

The southern state alone has 57.3% of the national overhang of the commercial property market, mainly led by the oversupply in the service apartment and SoHo units.

Going forward, developers are not pulling in the brakes yet as we see some 105,306 commercial units launched and under construction as at end of 3Q 2019, of which 94,004 are SoHo and service apartments, accounting 89% of total commercial supply. To-date, some 59% of these are sold while some 43,066 units remains unsold. Close to 30% of these units are in Johor, while Selangor and KL accounts for almost half of the total.

While statistics show that residential overhang as at end of 3Q 2019 stood at 31,092 units worth some RM18.77bil, this excludes the commercial component overhang.

Hence, if we were to add the SoHo and service apartment overhang of 18,916 units, which is captured in the commercial overhang category, we in actual fact are sitting on just slightly above 50,000 units of unsold completed properties worth some RM34bil.

Fourth, our property developers are still not being prudent neither are they are cognisant of the market situation. Napic statistics clearly shows that the market cannot absorb the planned and future supplies but these developers remain greedy and are adamant in pursuing their commercial objective. Table 1 summaries the future scenario.

It is hoped that some of this may not even take-off as any further launches especially in the service apartments and SoHo category will likely dampen the market.

Even in the residential segment, while as percentage of existing stock they don't look to be alarming but in absolute terms, the numbers are huge. Close to 0.9mil units of total future supply is more than four times the total market transactions in the secondary market in a given year!

The SoHo and service segment's total future supply of 0.34mil units suggest that we have 1.7 years of secondary market transactions waiting in the pipeline!

We really need to stop building these unwanted properties before they become a bigger problem not only for the property market but for the economy as a whole.

For a start, the authorities, especially the local councils, should take heed of the market situation and halt the granting of new development orders to property companies while for developers, the above statistics are real and they should be mindful of the challenging market, especially in the high rise commercial and residential segments.

The views expressed here are the writer's own.