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What lies ahead for the property market?

The Covid-19 outbreak, political uncertainty and plunge in oil prices have thrown the domestic economy into turmoil. What is the outlook for the real estate sector and are there still investment opportunities in it? **Ethel Khoo** and **Chung Ying Yi** ask the experts in our story on Page 4.

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PATRICK GOH/THE EDGE

Property market outlook and opportunities in times of uncertainty

BY ETHEL KHOO AND CHUNG YING YI
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This year has not been a good one for Malaysia. Not only are we dealing with the deadly Covid-19 outbreak, we are also going through a period of political instability with the recent change of government.

Apart from that, other factors such as the plunge in crude oil prices have caused the domestic economy to tumble, in tandem with the global economy.

Amid all this turmoil and uncertainty, however, there are still investment opportunities in the property market.

City & Country speaks to property experts about the challenges the sector is facing, investor sentiment, opportunities available and the incentives the government should consider providing.

KGV INTERNATIONAL

KGV International Property Consultants Sdn Bhd executive director Samuel Tan

Singapore's first-quarter gross domestic product shrank by 2.2% and its full-year forecast has been slashed to a range of -4% to -1%, from an earlier estimate of -0.5% to 1.5%. Due to the proximity and interdependency between Singapore and Johor, any decline in the republic will advertently affect Johor's GDP.

Malaysia's GDP growth is expected to shrink to 2.5% from 4.2% as the demand outlook worsens more than expected. This gloomy scenario is likely to see a similar trend in the property market. Purchasers will adopt a wait-and-see attitude.

Bank Negara Malaysia's moratorium on the payment of interest and principal for credit facilities will temporarily relieve some pressure, preventing an immediate fallout in the property market.

Some businesses have closed down in a number of retail malls. Operating expenses such as wages and rental greatly reduce business viability. Hence, many businesses may choose to close down instead of suffering reduced revenue and cash flow difficulty.

Foreign buyers have not been forthcoming in the last few years except in selected locations. This pandemic and political instability will simply prolong their disinterest.

However, there may be some interest from buyers who have experienced a bigger impact from the pandemic in their own country. They will opt to invest in countries that have better-managed healthcare. Hopefully, our government can raise our healthcare standards and attract these investors to our country.

To ease cash flow and stimulate private consumption, the government should look at a moratorium on, or reduction of, personal and corporate taxes for a specific number of months as well as a reduction in employers' and contributors' contributions to the Employees Provident Fund (EPF).

A reduction in or suspension of stamp duty and Real Property Gains Tax (RGPT) would be welcomed to encourage property purchases. It would be a splendid idea to hold another Home Ownership Campaign (HOC) to clear unsold stocks this year.

There will be opportunities in the auction market where some properties are more than 50% lower than their original reserve prices. Developers will also be more willing to give more discounts and freebies, as they need to manage their cash flow well.

Henry Butcher (M) Sdn Bhd chief operating officer Tang Chee Meng

The Covid-19 pandemic has forced businesses to close temporarily (some permanently) while all industries, with the worst hit being the tourism-related ones, have experienced supply disruptions, production cuts and termination of orders. This will lead to companies adopting pay cuts and retrenchments to stay afloat.

HARIS HASSAN/THE EDGE

Property developers will be hard put to come up with the right strategies to address the significant changes in market conditions. This may lead to developers holding back on new launches while dropping prices to push sales.

Some small and medium enterprises (SMEs) will find it hard to sustain their businesses and may have to resort to pay cuts or even retrenchments.

This will have some impact on the residential property market in the form of reduced demand and increase in loan defaults, although the moratorium announced by Bank Negara will be of some help.

It is hoped that the government will be

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able to come up with a comprehensive plan and effective strategies to nurse the economy back to health so that the negative impact can be minimised and shortened.

Local buyers appear to have adopted a wait-and-see attitude as they are worried about the economy slowdown and oversupply situation.

Foreign buyers are also holding back on investing owing to the political uncertainty and confusion over whether the proposed reduction in the minimum price threshold (for foreign purchases of high-rise property, specifically condominiums and apartment in urban areas, from RM1 million to RM600,000) announced in Budget 2020 would be implemented.

The government can continue with the stamp duty exemptions offered during the HOC last year as well as relax lending criteria by the banks.

The government can also consider offering certain incentives to developers such as discounts on statutory contributions or deferred payment schemes to help them ride out the current difficult times.

There will be opportunities available in the auction market as more properties are foreclosed because of defaults by borrowers.

On the primary market, developers will be forced to offer attractive sales packages. This will be a good time for investors to buy their dream homes at a lower price.

SAVILLS MALAYSIA

Savills Malaysia managing director Datuk Paul Khong

The outbreak of Covid-19 has impacted the global financial markets, with the stock market trading at a low of about 1,220 points in the week of March 18. The drop in crude oil prices has brought the oil and gas sector to its knees as well.

[Also,] what is taking place within the political sphere in Malaysia certainly does not help to alleviate the instability.

The real estate sector has not been spared. Property prices are expected to take a hit although the sector is not as sensitive or liquid as the stock markets.

Anyone pushing to sell now might come across as desperate and ultimately, pricing could be compromised.

Owing to the high degree of uncertainty and the possibility that we are heading into a perfect storm, the future impact on the real estate market is still unknown, but we expect to see more impairment of assets coming through.

As Covid-19 is a global pandemic, the level of investor confidence among countries should not differ. If a global recession were to set in after this, it will take a direct toll on the real estate markets throughout the entire world, ours included.

The government has provided many options to help boost the property market. For instance, Bank Negara has been involved in encouraging banks to extend more assistance for existing mortgages and allow easier financing for new buyers.

A revision of the RPGT, reduction in stamp duty rates for property transfers, relief from payment of quit rent and assessment, and lowering of the cost of funds such as the base lending rate for loans are some of the options introduced by the government.

With [the pandemic striking suddenly], we expect more businesses to be impacted, thus affecting affordability. This can result in a surge of foreclosure actions on properties.

However, the latest six-month moratorium deferment package introduced by Bank Negara will help cushion this impact and give borrowers some breathing space to meet their other critical needs, rather than servicing their bank loans.

The asking prices for properties will be under pressure as markets are affected, and more bargains may surface. Then, it may be a good time to shop, as buyers will be flooded with options at attractive prices.

CBRE | WTW

CBRE | WTW managing director Foo Gee Jen

The Covid-19 pandemic and political instability are disrupting economic activity. Private consumption has always been the biggest domestic demand driver and recent GDP growth has been attributed to job security.

However, job insecurity may now kick in, with businesses — especially those that are tourism-reliant and SMEs — closing down.

If spending confidence and consumption fall, business sentiment and revenue will be affected. Big-ticket items such as residential property will be secondary [considerations], except for those who are financially confident.

The consumption of residential property is weakening in a market that is already in overhang. Tourism and retail of non-essentials have been severely impacted. Retail malls in sub-prime areas may see increasing vacancy rates and upcoming ones may expect a more difficult time securing tenants.

Consumption is expected to be feeble for this year owing to job insecurity, especially among locals. Investment appetite will remain weak for the short to medium term but optimistic in the long run.

Of utmost importance now is kick-starting the economy and the government should reach out to the daily-wage workers and self-employed as they are the most vulnerable group.

In the property market, the hospitality and F&B sectors should be given priority by providing them with more relief and discounts in the payment of utility bills.

It is a good time for the government to relook at some shopping malls that have low occupancy rates and provide more relief in terms of assessment rates.

The secondary market will be badly hit and the government should waive RPGT for a year to help smooth transactions.

The residential and office sectors will be challenging in the short to medium term, with pockets of opportunities.

For the retail and hotel sectors, this may be the time for future-proofing activities, such as renovations and upgrading, to place themselves in the driver's seat when tourism activity finally resumes.

There will be a temporary slowdown in the industrial sector and a likely wait-and-see situation. The manufacturing sector might be affected, but supply chain, logistics, warehousing and distribution hubs will perhaps play a more important role moving forward.

KENNY YAP/THE EDGE

Real Estate and Housing Developers' Association Malaysia (Rehda) president Datuk Soam Heng Choon

The government has now allowed loans for individuals to be restructured, so buyers are advised to approach their mortgage bankers to ease their cash flow, if required.

Due to the downturn, the ringgit is badly affected and it will result in higher input costs as not all construction components are locally produced. The state governments can look at reducing premiums, development charges and all other compliance costs.

People's confidence and consumer sentiment are low locally and globally as the focus is on putting food on the table. Those who invested heavily in the equity market would have been badly hit and bond yields are also at a record low.

For businesses to survive, the government needs to ensure there is continued cash flow. Hence, it should allow companies and developers to do restructuring and refinancing, and banks should not redraw credit facilities.

As the Movement Control Order (MCO) has been extended to a month and our Housing Development Act does not have a force majeure clause, the government should give a blanket extension to all projects affected by the MCO.

The government can ease cash flow for property developers by exempting payments of contribution charges [such as land premiums, quit rent, assessment and development charges, and contributions to various authorities like Indah Water Konsortium] and banks should waive interest for this period, even though the loans can be restructured.

We appeal to all state governments to reduce our input cost and help ease cash flow so as to enable developers to keep jobs, as sales can be challenging in the short and medium term.

Unsold bumiputera units should be released immediately to liquidate tied-down funds that can be used to save jobs and spur the growth of the state economy.

For buyers, the government should look into extending the HOC so that stamp duty would be exempted. The RPGT and maximum loan-to-value ratio of 70%, which is imposed on borrowers with three or more outstanding housing loans, should be removed.

The extension of loan tenures up to 40 years or age 70 should be allowed for properties priced below RM500,000, instead of RM300,000.

With the ringgit being weak now, there is opportunity for foreigners to buy in Malaysia. The only instrument that can hedge against inflation and that will appreciate in value once the economy recovers is property.

The opportunity is still in the residential market. In commercial, it should just be shopoffices and office space, as it will take a while before expansion of business comes in.

PPC INTERNATIONAL

PPC International Sdn Bhd managing director Datuk Siders Sittampalam

The property market will experience a drop in demand as buyers are reluctant to buy and there will be a decline in foreign investment due to the Covid-19 outbreak. The political instability and changes in government have also contributed to the poor market sentiment.

The outbreak is a worldwide pandemic, which will affect the investment climate, businesses and market sentiment in general. It is expected to stall the property market as buyers who intend to buy, or are in the midst of buying, have to put their purchases on hold due to disruptions in transactions and processing of legal documents.

Prices may decline because of stalled demand. The country's political instability has also contributed to the lacklustre property market.

Rental yields may drop, especially in the office space, as many tenants are suffering because of the contraction in business activity.

If the outbreak is not contained fast, businesses will suffer more and this will consequently impact the property market.

Asking prices are expected to be 10% lower in the secondary market and foreign investment is likely to suffer as a consequence of the current situation. Real estate investment trusts (REITs) and office space will be impacted and declining footfall will hit shopping malls the hardest.

In order to boost the property market, the government should further reduce the overnight policy rate, consider increasing the Economic Stimulus Package 2020 to help the industrial sector, and provide stamp duty waivers to attract buyers.

The government should also look into improving the industrial sector's allocated fund for SMEs as this sector plays an important role in the economy.

There will be a buyer's market, as people with funds may pick and choose what they want. However, these buyers must be prepared to wait for capital appreciation.

The six-month moratorium on repayment of loans may not be adequate as SMEs and individuals may not receive income or business and thus the accrued interest and higher repayment amount after the moratorium period may be a burden as they may default on other payments, causing a domino effect.

Nonetheless, this approach is a positive move by the government to avoid property loans being placed on the market for auction purposes.

Fiabci Malaysian Chapter president Michael Geh

Despite the political instability and Covid-19 pandemic, buyers will be tempted by the low-interest loans to acquire properties.

In addition, the expansion of financial relief programmes for customers who have been affected by the outbreak include a moratorium on loan repayments for up to six

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SAM FONG/THE EDGE

months. This should augur well for the overall property market, as it will not increase the supply of properties for sale.

As long as Malaysia has political stability, the property market will remain attractive as the legal and ownership laws are of Commonwealth standard and the country has relatively high living standards and low living costs.

To boost the country's property market, the government should abolish the RPGT and continue to support first-time homebuyers by easing upfront payments.

There are always opportunities for investors who know what they want. For instance, a purchaser may be an upgrader who wants to buy his or her dream home to house three generations of the family, or a retiree who wishes to downsize or return to his or her hometown.

KNIGHT FRANK MALAYSIA

Knight Frank Malaysia managing director Sarkunan Subramaniam

Due to the Covid-19 outbreak and political instability in Malaysia, there will be reduced leasing and investment activity. This will lead to further pressure on commercial office and retail units, as well as mall REITs, which anticipate a 14% reduction in earnings.

Co-working spaces will be negatively impacted, which will reduce physical interaction between employer and employee. However, as companies face uncertainties in the long run, they are likely to contract flexible co-working space rather than take up permanent space.

Many companies will re-evaluate their growth plan and postpone relocation to avoid unnecessary costs while office occupancy will be under pressure. Accordingly, there will be a dip in rents.

Hospitality, tourism and aviation-related sectors have been severely affected by the travel restrictions. Hotels have seen 170,000 cancellations and about RM68 million in revenue losses. Global travel has dropped by 10% to 18%, further pressuring the hospitality sector.

Credit rating agencies Fitch Ratings and Moody's have forecast that Malaysia's GDP will drop to 2% and 3% respectively this year and this will lead to increased unemployment. Domestic consumption has been hit hard, especially retail, restaurants and hotels because of lower tourist arrivals and consumption.

Property transactions will be limited as viewings are not going on and real estate asking prices do not reflect the actual value, given the country's current market conditions.

There will be a gap between seller's and buyer's expectations. Yields for buyers should increase due to values coming under pressure as desperate sellers are prepared to sell at lower prices.

The government has provided several incentives to boost the property market such as tax incentives for the SMEs and tourism industry, lower income tax rates for property rental income, rental waivers for People's Public Housing, a reduction in stamp duty by half and a lowering of employees' EPF contributions.

The recent announcement of an automatic moratorium of six months' loan repayment for individuals and SMEs is a relief for those affected by the outbreak.

This critical period has provided opportunities for tenants to lock in lower rentals and investment opportunities for buyers as existing owners may be over-leveraged.

LOW YEN YEING/EDGEPROP.MY

Rahim & Co International Sdn Bhd research director Sulaiman Saheh

The Covid-19 pandemic has put further pressure on the already fragile consumer sentiment and market confidence. Travel restriction measures have affected the tourism and hospitality industries whereby airline, hotel and Airbnb bookings have been cancelled. These have cascaded to the retail, F&B, SME and construction businesses.

There are escalating concerns over Malaysians' income sustainability and employment security as sales revenue drops. Despite the introduction of the Economic Stimulus Package 2020, it will be challenging to sustain business operations due to the increasing number of Covid-19 cases in the country.

Rentals and mortgage and loan repayments may be jeopardised, together with house prices. There is also an affordability dilemma as well as difficulty in securing loans. This is creating added risk for the market, which has already been hit by the bearish stock market and low oil prices.

Owners of Airbnb units who are leveraged and reliant on their room rental incomes are being pressured to meet their mortgage repayments. This has been somewhat mitigated by the moratorium on loans to provide financial relief to SMEs and individuals for the next six months.

With the prevailing liquidity and insolvency concerns, property developers have further deferred new launches and are focusing on current projects. Buyers, meanwhile, are adopting a wait-and-see attitude.

International buyers' investment appetite would have been affected by the temporary border and travel restrictions.

Nonetheless, there are those with reserves who may see opportunities emerging, including in secondary and primary markets that have seen an effective drop in prices due to indirect incentives and rebates.

For investors who have been waiting for the right opportunity and have available funds, the lower prices and additional discounts are a good bargain, and low interest rates will help to reduce the burden of home financing.

Although investors and developers will relook at their risk appetite in selecting development projects, there is demand for affordable properties, notwithstanding the current change in consumer priorities.

As the property market is heterogeneous because of its location and socio-demographic idiosyncrasies, local owner-occupier markets in established and well-connected suburban areas are expected to remain stable.

LOW YEN YEING/EDGEPROP.MY

JLL Malaysia country head YY Lau

Travel restrictions in many countries have affected the tourism, hotel and retail sectors. Landlords with exposure to short-term leases, in particular flexible office operators, will be more vulnerable to this situation as clients may opt to cancel their short-term contracts.

The contraction in China's manufacturing sector has caused supply shortages and a temporary suspension of production in downstream facilities globally, including in Malaysia.

Inventory levels will decline and supply chain linkages in affected areas will be disrupted, and the sourcing of replacement stock is likely to be difficult in the short term. This will significantly impact the industrial and logistics sector, and retail sector globally.

Nonetheless, Malaysia's real estate remains attractive, as it is located in Southeast Asia and close to countries such as Japan, China, Hong Kong and Singapore, where the largest outward flows of real estate are taking place.

Institutions, and insurance and pension funds may want to buy Malaysian real estate but only if it meets the criteria and yields to ensure a good payout.

Incentives introduced by the Malaysian government to boost the property market include providing tax exemptions or reductions, and soft loans to those affected by the pandemic, especially short-term office landlords including flexible offices, retail malls, industrial owners and tenants.

The six-month loan repayment moratorium for individuals and SMEs will assist some of those with cash flow difficulties during this period but is of benefit only if they can foresee adequate future revenue that will cover the current losses.

However, if the pandemic is not contained within six months, many companies will have to close down rather than continue incurring losses without revenue.

Lowered interest rates have a positive impact on real estate, as yields on property assets will be higher than placing one's money in fixed deposits or bonds.

Real estate continues to offer good returns compared with other asset classes, as there is increased volatility in the equity and commodity markets.

The differential between real estate yields and government bond yields remains at, or near, all-time highs. As such, we expect to see continued flows and a potential increase of capital into real estate in the medium to long term. E