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Should I buy a home now or wait?

End of loan moratorium and high unemployment rate will affect the property market in the short term

by NUR HANANI AZMAN

For high-end projects, an expert believes the prices of new launches will remain high due to the location and positioning of the products

MANY probably have plans to spend in the home-buying season this year. Then, just when the perfect home hit the market, the Covid-19 pandemic turned the world on its head.

Property stocks have fallen as demand takes a hit, while the residential overhang woes were slightly exacerbated in the first half.

Despite some exceptions, home prices have remained widely resistant, unlike during the Asian Financial Crisis, which saw prices fall by nearly 12% in two years.

With so much uncertainty over what the next few months will bring, is now a good time to buy a home?

Nawawi Tie Leung Property Consultants Sdn Bhd ED and regional head of research and consulting Saleha Yusoff said 'Yes'.

"First-time homebuyers would benefit from this, especially those who can afford it, as the interest rate is low and the government has extended the Home Ownership Campaign (HOC) with developers offering discounts and other incentives.

"However, investors might want to hold on to their cash until the economic recovery is more certain as the rental market is rather weak," she told *The Malaysian Reserve (TMR)* recently.

Saleha pointed out that the number of sales under HOC this year is expected to be lower than last year due to the lockdown implemented in March.

She added that the end of the loan moratorium and high unemployment rate will also affect the property market in the short term as the economy has yet to recover from the impact of the Movement Control Order.

"We might see a higher number of units for auction as banks are expecting higher rates of non-performing loans (NPLs).

"However, as banks continue to reach out to borrowers to discuss their payment method after the moratorium ends, the number might not be as bad as during the Asian Financial Crisis in 1997/98," she said.

In the secondary market, Saleha said prices might drop as buyers have many options to choose from the unsold completed units, while rental yield is low due to the weak rental market.

"Therefore, there could be a significant number of investment properties that would be up for auction.

"As for new launches, most developers have postponed their 2020 launches, with some indicating it will be pushed back to 2022 when a Covid-19 vaccine is expected to be available (hence, improvement in the economy)," she said.

Recent data by the National Property Information Centre showed that the volume of residential transactions had dropped by 25% year-on-year in the first half of 2020 (1H20) to 75,329 units from 99,931 in 1H19.

Excluding SoHo (small office home office) and serviced apartments, Saleha said residential market activities have slowed as new launches have been declining since 2017, adding that figures in 2020 are expected to be lower than in 2019.

She said asking prices in the secondary market generally have dropped due to the slower demand. Prices for new launches have also dropped if discounts, rebates and other incentives offered by developers are considered.

"For high-end projects, we believe the prices of new launches will remain high due to the location and positioning of the products.

"For mid-market, developers might scale down the units to offer more affordable prices. However, developers' margins are already thin, so we do not think prices will drop further," she said.

Meanwhile, REA Group Asia (iProperty.com.my) customer data solutions GM Premendran Pathmanathan said the impact of the pandemic on GDP and supporting sectors meant that the crisis today is different from the 1998 Asian Financial Crisis.

"The main difference is in the banking sector. In 1998, banks' effective lending rate rose to as high as 13.53%. With the reduced Overnight Policy Rate (OPR) today, the effective bank lending rate was down to 3.7% in August 2020 from 4.4% in March 2020.

"Combined with the six months' loan moratorium, the NPLs reduced from 1.58% in March to 1.4% in August. That is a huge contrast compared to 1998, where per Bank Negara Malaysia's data, NPL rose from about 2.18% in June 1997 to 11.45% in July 1998," he told *TMR*.

In 1998, homeowners experienced a sudden increase in their monthly home instalments. Coupled with the recession, this led to a rise in NPL, Pathmanathan said.

"Distressed owners were selling them off at reduced prices to clear off their loan to avoid losing their homes. Clearly, this is a scenario not yet experienced by owners today due to the reduced OPR and loan moratorium," he explained.

While every crisis presents an opportunity to pick up good assets, Pathmanathan said the ability to buy should be prefaced with prudent research and a thorough assessment of one's financial capability.

He said real estate principles, such as location and quality, will continue to be the primary property value determinants.

"For homeowners, I would strongly advise them not to be swayed by discounts, but also to conduct their research and buy within their actual affordability.

"For investors, stick to the basics of yields and returns. As we adapt to the new norm of social distancing, it is time to rethink our idea of 'home' concerning safety and privacy," he added.

Pathmanathan said buying sentiment for residential property is expected to be cautious in the short term mainly due to the uncertainty over whether people will hold onto their jobs or businesses, and the ability to rent out a property.

"Those with excess cash may go for it as they have sufficient holding power. Problems arise for the mid-tier and lower-end markets. I would strongly advise property seekers to be extra vigilant with their financials and not over-leverage themselves.

"Homes are considered important for many, and for those with the financial capability, it is a good time to buy as the government has extended the HOC until May 2021, which includes significant stamp-duty exemptions. Developers are also actively offering many discounts," he added.

The exemption on Real Property Gains Tax until December 2021 will also ease the exit for existing homeowners.

Pathmanathan said new launches and transactions are expected to be slow in the residential market in 2020 due to the current economic outlook and job insecurity.

He said this is because many developers have instead shifted their focus on clearing their inventories instead of having new launches.

"The more considerable concern on everyone's mind is the Covid-19 pandemic, its containment, its full impact on the global economy and the impending recession with its attendant problems, such as distressed companies and job losses, which will affect homebuyers' sentiment.

"This is against the backdrop of the property market being in an oversupply situation even before the pandemic," he said.

Due to the unprecedented situation, more property seekers are now considering rental options instead.

The recently launched iProperty.com.my 1H20 Property Demand Analytics (Rental Market) showed an increase in the number of user visits and property listings for Kuala Lumpur compared to 1H19.

Universiti Kuala Lumpur's Business School Associate Prof Dr Aimi Zulhazmi Abdul Rashid said low interest and profit rates, combined with unrestricted borrowing limit for a third house and a stamp-duty exemption, are all incentives to boost the local property industry.

"This is a big-ticket item that will boost the consumption contribution to GDP. These are good deals for potential homebuyers and real estate investors to expedite their decisions.

"The end of the moratorium will bring back normalcy and may open the subsales market to potential investors too as obtaining financing is much easier," he told *TMR*.

Besides, there would also be people divesting their portfolio in real estate to cash out. This flurry demand and supply activities will help boost the property industry as well, Aimi Zulhazmi said.