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Property developers in for better year

Analysts say market improvement is underway

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PETALING JAYA: Property developers are set to record better earnings in 2021, as the market is anticipated to slowly regain some confidence going into next year.

TA Securities said economic recovery, an accommodative interest-rate environment and friendly measures such as the reintroduction of the Home Ownership Campaign and stimulus packages under the National Economic Recovery Plan (Penjana) will help to spur demand for properties.

"We believe the worst is behind us and recovery is underway. Amid uncertainties, our in-house 2021 gross domestic product (GDP) projection of 6.4% year-on-year is conservative, vis-a-vis the forecasts of the International Monetary Fund, World Bank and Asian Development Bank of 7.8%, 6.7% and 7.0%, respectively.

"From the real estate perspective, we observe that there is a strong link between GDP growth and demand for properties," said the research house in a report.

TA Securities noted that housing market activity, represented by total property transacted in value, largely moved in tandem with broader economic activity.

"This also suggests that property investments in Malaysia is a direct way to participate in economic growth."

While near-term outlook appears fragile, TA Securities said Malaysian property prices have managed to stay relatively stable.

"Our channel checks suggest that while there are some one-off fire sales, generally, sellers are not exiting in a hurry. We believe there are not many motivated sellers in the

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TA Securities

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market, due to low cost of funds and the prospect of capital appreciation when the market recovers."

TA Securities said trends have shown that with each property cycle, the values of properties with favourable addresses tend to attain new heights.

"Moreover, we are inclined to believe that developers' aggressive marketing campaigns will not last forever and fire sales in the primary market is highly unlikely, given that prices of the new and future property launches are primarily cost-driven."

Additionally, TA Securities said the accommodative interest-rate environment should continue to bode well for the property sector.

"At 1.75%, the current overnight policy rate is at its lowest level since it was introduced as the financial system's interest rate framework in 2004. The record low interest rates have made buying a home the most affordable it's been since 2009."

Separately, TA Securities said property developers' third-quarter 2020 sales rebounded strongly compared with the first two quarters of this year, driven by the opening of show galleries during the period and incentives under Penjana. As a result, developers are on track to meet their revised sales targets, said the research house.

"As the market regains some confidence, we expect the developers' solid third-quarter 2020 performance to sustain into the fourth quarter of this year.

"Having said that, we believe developers are on track to achieve their respective revised 2020 sales target, given that their nine-month sales have already made up between 60% and 91% of the target."

Underpinned by various initiatives announced under Penjana, as well as developers' internal promotional packages, TA Securities said property players have received healthy bookings so far. "Pencilling a bookings conversion rate of 50% to 60% for the fourth quarter of 2020, the developers' 2020 sales target should be largely intact."