What shall we do with the PROPERTY OVERHANG?

- Why and How

What should we do with the record amount of property overhang in the market? What led to the oversupply situation? Find out on Pages 4 and 5.

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What shall we do with the PROPERTY OVERHANG?

I nitially, it could be one of the most bizarre situations in the housing industry. On one hand we have many people who find it difficult to own a home, while on the other hand we have completed but unsold homes piling up in the market. The Malaysian property sector has been nursing a hangover over the property overhang.

Defined as units that have received their Certificate of Completion and Compliance but remain unsold for more than nine months after launch, the number of these overhang units is growing like a rolling snowball. Based on data from the National Property Information Centre’s (Napic) Unsold Property Enquiry System Malaysia (UPESM), there was an increase of 50,088 overhang residential units worth some RM33.96 billion in the country as at the third quarter of 2019 (3Q2019). They include both residential- and commercial-titled housing, namely terraced homes, detached houses, apartments, condominiums, serviced apartments and Small-office Home-offices (SoHo).

Of the total, the non-landed sub-sector tops the list with serviced apartments (17,459 units) as well as apartments and condominiums (13,630 units) taking up more than 60%.

In 3Q2017, there were 22,175 overhang homes worth RM13.27 billion, which means, based on the 3Q2019 figure, the overhang has increased by a massive 126.5% in volume and 156% in value in just two-and-a-half years.

However, there was a slight dip from the previous quarter (32,268 units worth RM14.99 billion as at 2Q2019) by about 5.12% in volume and 2.94% in value.

This can be attributed to the Home Ownership Campaign (HOC) which helped to clear of some of the unsold stock in the market, says Real Estate and Housing Developers’ Association Malaysia (Rehda) president Tan Sri Soam Heng Teo.

According to the Ministry of Housing and Local Government (KGPT) Achievement Report Card Data of 2019, the year-long campaign achieved sales of 29,461 units worth RM17.86 billion as compared to 2018 where 21,735 units worth RM14.72 billion were sold.

The overhang and unsold property issue is not to be taken lightly. Real estate consultancy CBRE (TW) managing director Foo Gee Jen describes the current situation as “worrying”, considering the sizable volume of unsold units that are being built and those yet to commence construction.

According to the UPESM data, overall, there were 112,244 units and 25,114 units of unsold property under construction and unsold unconstructed property as at 3Q2019 respectively, worth more than RM23 billion in total.

If the issue remains unsolved, it could even affect Malaysia’s economic growth, Foo adds.

“When you have more than RM30 billion stuck in the economy, it definitely goes against the economy, aff ordability and confidence were eroded, resulting in less demand.”

2 High cost of living and stagnant income growth

According to Perbadanan PRIMMA Malaysia chairman and MKH Bhd managing director Tan Sri Eddy Chen, the substantial growth in house prices is a key factor that contributed to the high number of overhang.

He recalls that Malaysia’s recovery from the sub-prime mortgage crisis which took place during 2007 to 2010 was sharp and prices started to escalate from 2011 to 2015, causing house prices to increase by as much as 15% per annum.

“The growth [of as high as 15%] was clearly unsustainable,” he says.

Meanwhile, Bandar Utama City Centre 5dn Bhd director Tan Sri Ted Cheng Kok believes the escalating cost of doing business and construction faced by developers contributed to higher house prices.

“Due to the rising cost of compliance, cost of doing business, long approval process and the down cycle of the economy, affordability and confidence were eroded thus resulting in less demand,” says Teo.

3 Cooling measures

The cooling measures introduced by the government also came into play, including measures such as the reintroduction of the Real Property Gains Tax, a maximum loan-to-value ratio of 70% for a third housing loan, removal of the Developers Interest Bearing Scheme and the more stringent loan approvals by banks.

“Effective measures to clear the overhang are badly needed because of the prolonged problems that house buyers face,” Chen says.

Chen believes that selling the properties will help developers to start afresh and move on from the current situation. He adds that the property overhang also needs to be taken into account by the government when deciding whether to loosen the regulations and loan approvals for developers.

Chen stresses that the government needs to focus on making sure the property overhang is cleared first before moving on to other issues.

Teo says that the cooling measures have been effective in reducing the number of overhang units since 2017.

“Some developers have observed the cooling measures which have been implemented, including the Real Property Gains Tax, the Malaysian Lending Limit (MLL) 70% and the Real Property Gains Tax 70% which is a very effective method,” says Teo.

They also aim to reduce the number of overhang units by ensuring that developers bring their projects to market as soon as possible and avoid holding back unsold units.

Chen adds that the government needs to ensure that the developers are able to get the resources needed to build the houses on time and avoid any delays that could lead to higher costs and longer approval processes.

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The on-going property overhang could also be attributed to the supply-demand mismatch in some locations. Many are situated in unaffordable places or are considered unaffordable. Some units were also developed in areas where there is already an oversupply of similar properties, Tang says, citing Jalan Pudu as an example.

"Some of the projects may be located in areas which are not deemed suitable or ideal by targeted buyers due to a lack of amenities or public transport," he elaborates.

Cost of living in urban centres is on the rise. "By making the data accessible to all, developers will have to study the local dynamics in the chosen market and focus on the segment that has strong demand," says Tang. "This means avoiding credit support. Going forward, it is important to keep the credit system on a conservative stream to avoid artificially supporting a boom," he says.

However, this has to be tampered with prudent practices in curb non-performing loans and to prevent a property bubble.

"Let market forces take their course as the best way to help improve the situation is to avoid supporting the market in artificial ways like using methods that support a demand that is structurally not there," he says.

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Soam says some industry players believe the absence of timely and accurate data for developers caused the mismatch.

"Information inequality also gave developers false optimism to persistently build especially high-rise residences during the boom back in 2013/2014 at prices, locations and sizes that failed to match market demand..." he says.

Tang, too, supports the move for developers to clear the old stock of unsold units in areas not deemed suitable or ideal by targeted buyers due to a lack of amenities or public transport.

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