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Vaccine holds the key to market

Property sector experts optimistic of growth

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AS the Malaysian property market heads into a new year, many are hopeful of better times ahead.

While the majority of experts and observers believe that 2021 will likely be a flat year for the local property sector, some are however optimistic of positive growth.

Rahim & Co International Sdn Bhd real estate agency chief executive officer Siva Shanker says the recovery of the market will hinge on how soon the Covid-19 vaccine will be made available.

"Other countries have already started vaccinating their people. The sooner we can do it, the faster the recovery will be.

"Our recovery hinges on the vaccine and it will be a catalyst for the Malaysian property market," he tells *StarBizWeek*.

Nevertheless, Siva believes that the property market will most likely see an "L-shaped" recovery.

"I believe it will be slow and laborious, slowly growing until we get better. For 2021 and 2022, it will most likely be a flat year.

"But even if it's flat, that's still better than negative growth," he says.

Savills Malaysia managing director Datuk Paul Khong says he is hopeful that there will be "some more goodies" in the property market for the year.

"We are all waiting for the vaccine to be effective and dispersed well and this is a much needed injection to re-boot the entire market place again."

He says the residential market will remain flat, with mid and mid-high landed properties in good locations to continue to hold well in current times.

"We have seen discounts in the past few years and the strata segment will continue to be competitive due to supply factors, with a 40% increase in the number of high-rise residences in Greater Kuala Lumpur by 2023.

"Overhang in this sector will continue into 2021, but good niche products will still see strong demand, particularly in locations close to train stations," Khong says in a recent statement.

Kenanga Research in a recent report points out that the property overhang situation is largely the fault of residential and serviced apartments, which make up 84% of the total overhang.

"Adding to the economic slowdown concern is the issue of the property overhang, with the residential overhang mainly caused by high rise units (54%)."

The research house adds that 45% of the overhang units are for properties costing over RM500,000. Of these, the bulk of the overhang units are located in Johor (20%), Selangor (15%) and Kuala Lumpur (10%).

"This situation is only made worse by the pandemic, and as such we expect product margins to be impacted as developers will be pressured to re-launch and re-brand existing products to clear sales of unsold inventory, which would have been priced higher pre Covid-19.

"Meanwhile, new launches as at the third quarter of 2020 are dominated by lower priced units of below RM300,000 (50% of new residential launches), 25% between RM300,000 and RM500,000 and the remaining 25% over RM500,000."

Khong says the office sector will continue to see a flight to quality with well-specified new buildings attracting tenants.

"We also see the social / physical distancing theme taken into fit-outs in new projects. Flexible work arrangements will continue, with slow but sure trends towards partial office occupation again.

"The flexibility offered by co-working spaces will become more popular. It will be a challenging year ahead, as new supply of 15 million sq feet is expected to enter the Greater Kuala Lumpur market in the next three-to-four years."

Siva says developers will need to come up with products that are catered to buyers' needs.

Holding well: The residential market will likely remain flat in 2021, with mid and mid-high landed properties in good locations to continue to hold well in current times.

"Hopefully the infrastructure projects will continue to be economic drivers."

Paul Khong

"Supply needs to meet demand. If we continue to build the same things again, we will continue to find ourselves in the same situation."

Siva says it could take up to five years for the property market to completely recover.

"With the property market likely to be flat this year and the next, I think we should see some improvement from 2023 onwards.

"However, considering the beating we took last year, it could take up to five years for us to return to pre-pandemic levels."

Khong is hopeful that infrastructure projects will continue to be economic drivers.

"We are hopeful that the MRT 3 proceeds, together with the Rapid Transit System Link in Johor, both of which were announced in Budget 2021.

"This will spur growth of construction projects and unlock values around the station vicinity. We also look forward to the completion of the MRT 2 (Phase 1) in 2021 and LRT 3 in 2022."

Savills Malaysia valuations executive director Marcus Chia says property prices will still be under pressure into 2021 but well-cushioned by the low interest rate environment.

"Cash is king and it is a good time to buy. There are still many niche sub-markets which can still do well."

Kenanga Research says the property market could start to see a mild rebound in the second half of 2021, on the back of fewer Covid-19 cases, the availability of the vaccine and steady pick-up in economic activity. It says the property sector is expected to generate slow sales in the first half of this year, which would then get better as the Covid-19 situation improves.

"Given the uncertainty of a full recovery or any form of return to normalcy to pre-Covid-19 levels, we believe it is tough to gauge when the sector will make a comeback. On one part, the easing of local lock-down restrictions is a positive sign, as it will push economic recovery to the right track.

"But we still do caution about a worsening Covid-19 situation that may cause further setbacks to an already protracted economic recovery. Once economic activities restart, we believe it will take a few months before the property market builds up a momentum as buyers will need time to gain confidence."

The research house adds that the rebound in 2021 is also due to the low base effect from last year.

"At this juncture, we expect to see year-on-year improvements of between 3% and 80% that would be apparent in the second half of 2021, given the expectation of a vaccine sometime this year, but we remain cautious given the fluidity of the situation."