Was the property bubble averted?

- **Number** of unsold units could have been higher if developers had not held back projects
- **In** the first half of 2018, there was a 52% drop in the number of units intended to be launched

by **Joseph Wong**

The majority of Malaysians were waiting for the property bubble to burst last year, given that the number of unsold units had ballooned to nearly 30,000 units as of the first half of 2018.

The figure was expected to increase in the second half of last year as there was a substantial number of new units nearing completion.

According to reports, there were 40% more new unsold residential units during the first half of 2017 compared to the first half of 2016.

The number increased to 29,227 units, valued at RM17.24bil as at June 30, 2018, according to the National Property Information Centre's (Napic) Property Overhang Report for the second quarter 2018. In 2017, it was 20,876 units, valued at RM12.26 bil.

But the question is whether the bubble was averted because property developers held back projects as the market was already saturated with unsold units.

The first half of 2018 witnessed an 18% decline in the number of new projects launched in Kuala Lumpur compared to the same period in 2017, according to international asset consultant Henry Butcher Malaysia.

"In terms of the number of units, the drop was even more significant, with a 52% dip in the number of units launched. This could be due to weaker market sentiments but a key reason would have been the 14th General Election in May.

"That month saw no new projects being launched as developers held back in view of the general lack of interest among the public to make substantial financial commitments during this period when the pervasive focus was on politics and there was an overall uncertainty of how the election would pan out," it says in its newsletter.

ExaStrataSolutions Sdn Bhd chief real estate consultant and CEO Adzman Shah Mohd Ariffin says the property bubble in Malaysia was expected to burst in 2018 but appears to have been averted.

"The fact is that the government had taken steps to introduce cooling measures earlier to reduce the risk of non-performing loans and to curb speculation from causing house prices to spiral down.

"This helped to curb the property market from collapsing due to oversupply and poor sales take up," he says.

Then there was the wait-and-see stance following talk of local authorities freezing development orders to curb the overhang.

Some developers, as can be seen from the statistics, are already holding back their projects although there are others who are proceeding with theirs.

Many experts believe that market forces will eventually create a push upwards either through developers offering promotional prices or 'freebies' to rid themselves of lingering stocks.

International property consultancy Rahim & Co expects the property overhang in Malaysia to ease over the next two years as market forces and various prudent measures are expected to stabilise the situation.

The company's founder and executive chairman, Tan Sri Abdul Rahim Abdul Rahman, while conceding that the level of overhang in the country is worrying, sees two possible outcomes.

"One school of thought is that the local authorities can freeze development orders to curb the overhang.

"The other is to let it be driven by market forces, to let the market correct itself," he told a recent Rahim & Co one-day seminar on the Malaysian property market, entitled "Where are we heading post-GE14."

Abdul Rahim points out that the overhang situation this time round is different from the last two as the property market then was affected by two recessions, in 1997/98 and 2008/09.

But in both cases, the property market eventually recovered, he points out.

"The current situation is not a recession, just an oversupply situation. In this case, the developers need to be prudent in what they are offering. It must be something that is sellable given the current market situation," he says.

Abdul Rahim is confident that the property market, like on the two occasions previously, will recover "over time."

Rahim & Co real estate agency director Robert Ang agrees: "Our economy is fairly matured and you should let market forces decide the direction, not impose restrictions on developers and investors.

"Let developers sort themselves out. This can be done by way of lowering rates or offering special packages. In business, you need to be smart."

Abdul Rahim agrees that developers would know what to do to sell their unsold units without supervision as they already know the market.

"A prudent developer will not simply build, because it needs to take care of the cash flow," he says.

However, some developers came back to the market in June to latch onto the feel-good factor after the election unexpectedly resulted in a change of government although the government-linked companies (GLCs) were in a mood of uncertainty at the time.

"As is to be expected, all the new projects launched in land-scarce Kuala Lumpur were strata residential properties with condominiums and service apartments forming the bulk of the units launched.

"The majority of the developers played it safe, preferring to focus on units with sizes of less than 1,000 sq ft which could then be priced at more financially accessible levels," says Henry Butcher Malaysia.

Based on Henry Butcher Malaysia's analysis, 33% of the projects launched in 1H18 offered units with built-up areas within the 801-1,000 sq ft band and another 22% had a mix of units within the 1,001-1,200 sq ft range.

"Only 5% of the projects offered units larger than 2,000 sq ft in size. Approximately 31% of the projects had units priced above the RM1 mil threshold while 21% of the projects offered for sale were in the RM400,001 to RM600,000 price band and another 21% between RM600,001 and RM800,000.

"In terms of price per sq ft, 29% of the projects were analysed to be priced in the RM501-RM750 per sq ft (psf) band and 39% in the RM751-RM1,000 psf range.

"Only 15% of the projects had units priced above RM1,500 psf. New projects launched in 1H18 were spread throughout Kuala Lumpur with Setapak, the OUG/Old Klang Road area, Mont'Kiara and Cheras seeing more than one new project," it says.

Ang adds that in line with the current market glut, developers need to slow down or postpone launches so that demand can eventually catch up with supply.

No bubble

SuperiorWealth Resources Sdn Bhd CEO Alan Poon doesn't believe that there was a bubble in the first place.

"Generally speaking, Malaysia's housing demand is still healthy, hence the need for the government of the day to supply 1,000 homes each year for the first half of the 11th Malaysia Plan (2016-2020).

"I am generalising the market as the actual scenario has to be analysed by location and property type.

"There has been too much hype on the overhang in housing supply in recent months. Whatever goes up must come down and the cycle repeats. Real estate has always been seen as a need rather than an investment in the past," he tells ***FocusM***.

As for property projects being held back, it is only right for property developers to sell what the market needs, he says.

"If the launches, which we had already seen, are not what is favoured or demanded, the market shall 'punish' [the developers] with unsold property, [especially if the] prices are not within the grasp of those who apply for housing loans," he adds.

Market sentiments play a major role and the media has been playing its role with balanced reporting, by not blowing up negative property news or focusing too much on negativity with regard to the policies introduced by the new government, he says.

Poon says: "The golden era of the last boom cycle actually did something good. The newer generation or first-time homebuyers had their first taste of wealth creation through property investment.

"Of course, [this also] resulted in some greedy ones taking up more than what they could chew and hence face the unfortunate potential of a default."

But with the dust now having settled and the policy directions of the new administration, developers have gone back to their launch pads and the market is likely to see a ramping up of new project launches in 2019.

Of course, this is provided that the economic outlook and property market conditions continue to remain positive. FocusM

An aerial view of Kuala Lumpur city. Developers have been holding back projects to avoid worsening property overhang.

The skyline of Petaling Jaya showing the various commercial, retail, office and residential units. Can the market support more incoming units?

Abdul Rahim sees two possible outcomes following the overhang

Too much hype on the overhang in the last few months, says Poon

New projects are coming up even within already-developed areas

Overseas ventures

THE larger property developers, when faced with a market slowdown in the country, have a tendency to seek overseas markets.

"Big developers facing this problem have gone overseas to sell their properties. In fact, two very successful developers in Melbourne are Malaysian companies {and more are following their footsteps]," says Rahim & Co founder and executive chairman Tan Sri Abdul Rahim Abdul Rahman.

Melbourne, the world's most liveable city, has attracted Malaysian property developers in a big way. In the last four years, alone, many property tycoons and their listed companies have undertaken projects worth more than an estimated RM24 bil in gross development value (GDV) in Australia's second largest city.

It is not only Melbourne that is drawing the Malaysians. Australia's largest city, Sydney, and others such as Perth and Adelaide have also attracted many Malaysian property players albeit not as many.

The biggest listed Malaysian property players in Melbourne - SP Setia Bhd, UEM Sunrise Bhd and OSK Property Holdings Bhd – have a combined RM18.7 bil worth of projects.

SP Setia's Fulton Lane, Parque Melbourne, Maison Carnegie and Sapphire by the Gardens projects have a combined GDV of nearly RM4.2 bil while two other projects on their recently-acquired parcels of land have yet to be launched.

The developer also won the bid for its sixth parcel of Melbourne land - 111 A'Beckett St site – for RM200.7 mil, upon which a RM1.37 bil development will be built

OSK Property's inaugural venture, Melbourne Square, a partnership project with the Employees Provident Fund (EPF), is worth a whopping RM9 bil while UEM Sunrise's Aurora Melbourne Central, The Conservatory and Mayfair have an estimated GDV of RM4.1 bil.

Regulatory risks

Like all international purchases, Malaysian buyers should be wary of the property-related laws and regulations, which could be subject to change, affecting their investments.

There have been some recent legislative changes to stamp duty for both local and offshore investors like the 2017 introduction of a new tax levy at 1% on vacant residential properties in Melbourne's inner and middle suburbs.

Changes like these make the market more volatile, not to mention the stringent regulations and standards Malaysian developers would have to adhere to.

It is not just Australia. Other countries also have strict sets of rules. "In Singapore, developers are fined if they don't sell their properties within a specific time. This is why it's important for developers to undertake due diligence or a feasibility study before launching," says Abdul Rahim.

For developers venturing out, the risk doesn't necessarily reduce but the gains, not just in sales and revenue, can be rewarding, especially when they adopt new standards and technology transfer which could be adapted to the Malaysian property market.