

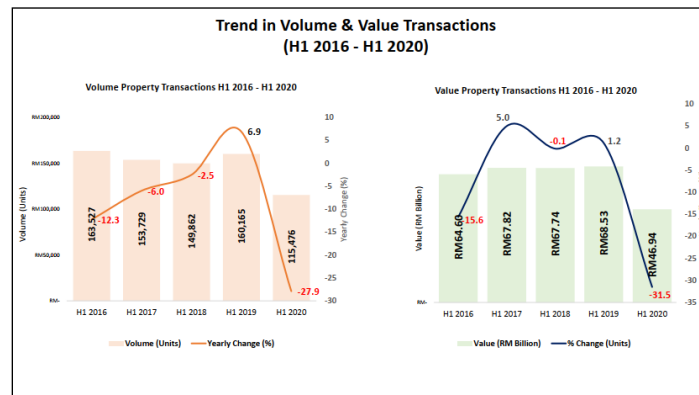
HERALD

by Henry Butcher Malaysia

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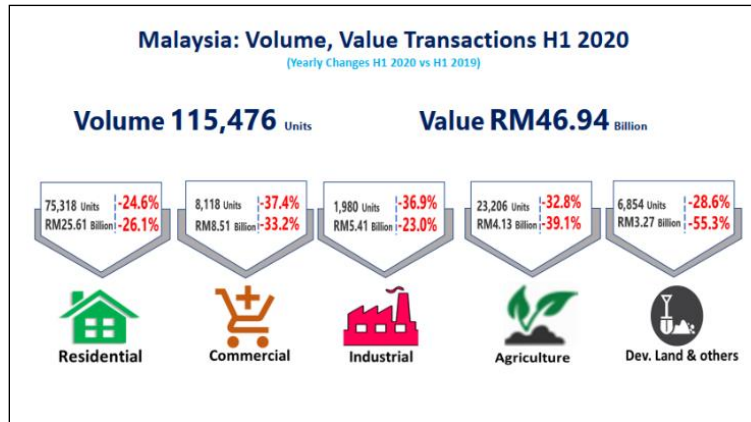
Key highlights of the Malaysian residential property market performance for the first half of 2020 & prospects for the second half

The Malaysian residential property market, aided by the Home Ownership Campaign (HOC) 2019, staged a brief recovery in 2019 with a 6% increase in the volume of transactions and a 5.3% jump in the value of transactions. The recovery was however not sustained when the volume of transactions slipped by 9.9% in the first quarter of 2020 whilst the value of transactions declined by 14.2%. This was before the implementation of the Movement Control Order (MCO) in March 2020 although by then, the Covid-19 outbreak has already developed into a pandemic in China and Europe and ignited fears of the outbreak manifesting into a world-wide health issue.



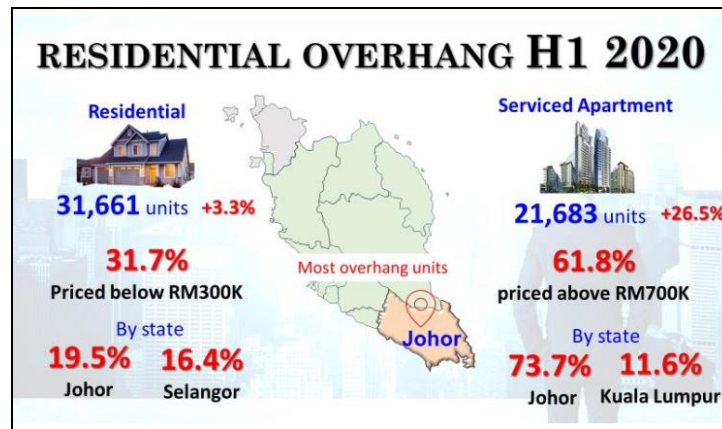
Source: PMR 1st half 2020, Napic

It came as no surprise therefore when the property market report for the first half of 2020 recently released by the Jabatan Penilaian Dan Perkhidmatan Harta (JPPH) showed a big drop of 27.9% in the volume of overall transactions and a 31.5% decline in the value of transactions. When the MCO was implemented in March, all businesses except for those offering essential goods and services had to close and this included property developers' sales offices and galleries as well as construction sites and so for a period of about three months, there were no sales activities in the property market although some developers managed to collect bookings via their online marketing programmes. As lawyers' offices were closed during the MCO, buyers were not able to sign their sale & purchase agreements and thus, no sales were recognised during this period. In going through the property market report for the first half of 2020, the following key highlights on the residential sector were noted:



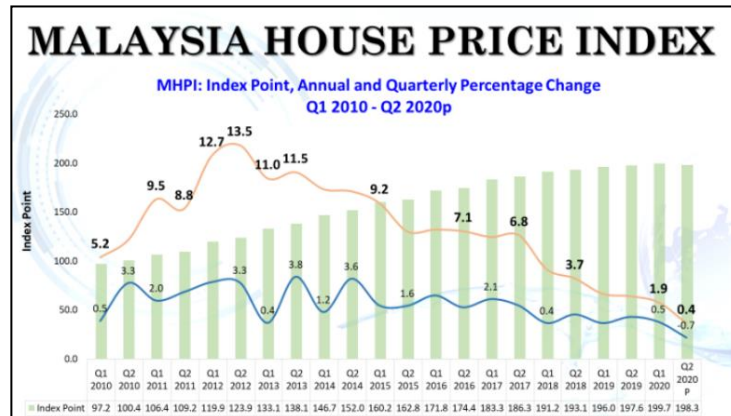
Source: Napic

- a) The residential sector is still the dominant sector, accounting for 65% of the total volume of transactions in the first half of 2020 (compared to 62.4% for H1 2019) and 54.5% of the value of transactions (compared to 50.7% for H1 2019).
- b) The volume of residential transactions recorded for the first half of 2020 dropped by 24.6% and value wise, declined by 26.1%. This shows that the market, as expected, has worsened in the second quarter compared to the previous quarter with the implementation of the MCO during this period.
- c) There were 13,294 units launched during the period, a drop of 43.6% from the 23,591 units launched in the corresponding period the year before. Sales performance saw a deterioration from 30.9% in the first half of 2019 to only 3.3% in the first half of 2020 which was understandable, considering that all sales offices of developers were not allowed to open during the MCO.



Source: Napic

- d) The residential property overhang (excluding service apartments) increased marginally by 3.3% in the first half of 2020 to 31,661 units whilst the value of the overhang units went down by 6.4% to RM 20.03 billion. The MCO has clearly worsened the overhang situation as following the improved performance of the residential property market in 2019, Q1 2020 actually recorded a 9.8% drop in the number of overhang units to 29,698 compared to 32,936 units in Q1 2019 whilst the value of the overhang units declined from RM 19.96 billion to RM 18.91 billion.
- e) High-rise residences made up 53.2% of the residential overhang. This is not surprising as the states with a large overhang such as Johor, Penang and Kuala Lumpur have been launching mainly high-rise projects. Another state with a large overhang, Selangor, have a mix of landed and high-rise amongst the new launches.
- f) 31.7% of the residential overhang units are properties priced below RM 300,000. This may come as a surprise to many as one would have thought that houses in the lower priced category would be in high demand. Unfortunately, some of those projects launched within the lower priced category are in locations which are not favoured by the targeted buyers and as such have not been able to sell that well. Secondly, a high percentage of unsold stock comprise units which have been allocated to Bumiputera buyers and if they are not in locations preferred by them, will remain as part of the overhang stock until such time when they are released by the relevant authorities and taken up by non-Bumiputera buyers
- g) Within the high-rise sub-category, 25% are properties priced between RM 500,000 to RM 700,000 whilst 23% are those priced between RM 300,000 to RM 500,000 and another 23% are within the RM 200,000 to RM 300,000 price bracket. It is apparent from this data that the unsold high-rise stock is equally distributed amongst these three price categories.
- h) Johor has the highest overhang with 6,166 units followed by Selangor with 4,865 units, Perak 4,644 units, Penang 3,816 units and Kuala Lumpur 3,224 units.
- i) Service apartments which is classified under the commercial sector by JPPH, recorded a 26.5% increase in overhang units to 21,683 units which works out to about 2/3rd of the total residential overhang. The high number of overhang units in the service apartment segment is worrying and the relevant approving agencies should look into monitoring the situation closely and putting a close watch on new service apartment approvals to prevent the overhang situation from worsening.
- j) 61.8% of the service apartment overhang are properties priced above RM 700,000. The high selling prices of the service apartments which are located mainly in urban centres may be the main reason why the sales of such units are slow.



Source: Napic

- k) Despite the more challenging market conditions, the Malaysian House Price Index recorded a marginal 0.4% increase for Q2 2020.
- l) The median Malaysian house price has risen by 83.5% from RM 158,000 in 2010 to RM 303,000 in 2017. It has since eased 4.3% to RM 290,000 in Q2 2020. It is clear that the days of galloping house prices which we have seen in the early 2010's are over and the challenging market conditions prevailing today have forced property developers to reduce selling prices in order to reduce inventory and generate better cash flow and secondly, refocus on more affordable products
- m) Interestingly, the major states on the west coast of Peninsular Malaysia recorded either a decline or a marginal increase in the median house price in Q2 2020 whereas the East coast states as well as states in East Malaysia except for Sabah, registered an increase. The East coast states of Kelantan and Trengganu in particular, recorded double digit growth in the median house price. This situation could be due to these relatively less developed states having a lower base price and less speculative buying which then resulted in a more stable price environment.

State	Annual change in median house price
Selangor	+2.6%
Kuala Lumpur	-6.0%
Johor	-2.8%
Penang	+0.6%
Pahang	+3.6%
Kelantan	+15%
Trengganu	+16%
Labuan	+2.5%
Sabah	-1.7%
Sarawak	+6.7%

Source: PMR H1 2020, Napic

For the second half of 2020, we foresee an improvement in market performance as the RMCO which was implemented on 10th June to replace the MCO allows property developers to re-open their sales galleries as well as free movement of people within the guidelines set up by the health authorities. This has enabled potential buyers to visit sales galleries and attend to signing of sale & purchase agreements at the lawyers' offices. Further, a new Home Ownership Campaign (HOC 2020) has been introduced where buyers are able to enjoy stamp duty exemptions in addition to discounts and freebies offered by developers.

Quite a few new projects launched by developers over the past two months including Artoca @ Setia Alam, Elmina Green by Sime Darby, M Luna by Mah Sing and Miyu by Tropicana have reported very good sales response. Potential buyers for a new condominium launch, Park Place in Desa Parkcity, a popular and much sought-after location, queued overnight (it was reported that for Legasi 2 by I&P, buyers queued for two days) to ensure that they get a unit of their choice, just like the good old days before Covid-19. Nevertheless, the secondary residential market is still soft as buyers, especially first-time buyers, prefer to buy from developers to take advantage of the attractive discounts, freebies as well as easy entry schemes offered by developers as well as the stamp duty savings offered by the government. On the whole, the year is still expected to end with a reduced volume and value of transactions compared to 2019 due to the loss of three months of sales activities, with a full recovery only expected in the second half of 2021 / early 2022, provided there is no global recession and the country's political uncertainties do not drag on for too long.