PRESS RELEASE

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NAPIC - Property Market Report 2019
'The Day Before'

Kuala Lumpur, 12 May – The property market in Malaysia saw an improvement in 2019 with increased in transaction by 4.8% in volume and with only 0.8% increase in value, indicating more transaction at lower prices. Residential, commercial, industrial and agricultural reported some improvement, while transactions for development land declined.

8 out of the 14 states in Malaysia reported declining overhang in 2019. Residential overhang in major cities of Klang Valley, Johor and Penang also improved slightly from 18,030 units in 2018 to 16,272 units in 2019.

Below are our observations of property market performance for selected regions in Malaysia:

1. Central Region

i. Klang Valley

- Development activity in all 3 stages have declined – completions -6.2%, starts -17.3% and new planned -15.2%. New launches -9.2%. Our broad observations from recent market studies and enquiries with developers indicated a slowdown in sales in 2019.
- The overhang remains a big concern despite the slight improvement in 2019. Enquiries with selected high-end residential developers in KL noted that HOC had limited impact for them and overseas marketing was a major source of potential buyers.
- In 2018-19, 30% of incoming supply will be SA/SOHO with 50,000 units, which is a worrisome trend.
- Total retail space was 16.5 mil sq m of which new completions was 560,000 sq m. The occupancy rate has been stable ranging from 82.4% in 2015 to 79.2% in 2019, a slight decline.
- Total PBO space was 22.59 mil sq m of which new completions was 2.38 mil sq m. The occupancy rate has been stable ranging from 83.7% in 2015 to 80.6% in 2019, a slight decline.

ii. Ipoh, Perak

- The Perak property market is still dominated by the Residential sector with 60.8% of the total transactions. This trend will probably continue for years to come as the majority of the buyers are locals and with buy-to-own interest.
- Landed properties are on an upward price trend whereas high-rise residential showed price reduction. As for the rental market, location and nearby facilities are still the prominent factors that drive market rental.
- The Industrial sector is rather at its plateau with minimal activities recorded. Based on our observation, current activities are mainly refinancing of existing industrial property by the owners. Meanwhile, developers are trying to market their existing stock.
- Market movements are stabilising with some sector showing signs of gradual improvement.

2. Northern Region
   i. Penang

- Developers of residential projects particularly apartment / condominium schemes are experiencing increased pressure in securing sales under the prevailing soft market.
- The landed residential units remain as the preferred residential accommodation for Penangites, particularly in Penang Island. As such, prices of landed residential units were generally firm in 2019
- Hence, various incentives continued to be offered to prospective purchasers by developers. Some new incentives were introduced such as holiday packages, referrals, and lucky draws of luxury cars.
- Due to the property market downturn in the past 2 years as well as the unfavourable number of overhang units, certain developers have also shifted their focus to developing affordable units.
- Developers having sizeable parcels of development land were revising their proposed developments to comprise more content of affordable units which would serve the needs of the mass market. Moreover, there are also development incentives for those who intend to develop solely affordable units for sale.
- In catering to the demand from companies which seek MSC status or quality office space, the Penang Development Corporation (PDC) has commenced construction of GBS@Mahsuri, a 2-storey building with about 7,400 sq. m of space is slated to be completed by mid-2020.
- A mixed performance among retail complexes. Single owner retail complexes such as Gurney Plaza, Gurney Paragon and Queensbay Mall on Penang Island, and Sunway Carnival and Aeon Mall in Seberang Perai, continued to sustain their occupancy rates and high rentals. Meanwhile, most stratified shopping complexes with multiple ownership with poorer tenant mix experienced reduced occupancy rates and rentals due to low footfalls and unsustainable business volume

   ii. Alor Setar, Kedah

- Overhang units are still quite a number which is due to the oversupply from new projects. Moderate spending power in Kedah may cause a longer time before developers dispose most of their properties.
- Transaction activity and prices for commercial developments are recorded slightly higher as compared to previous year.

3. Southern Region

- The spike in serviced apartment overhang in Johor by 63.2% (2019: 12,207 units; 2018: 7,478 units) overshadowed its decline in residential overhang of 7.2% (2019: 5,627 units; 2018: 6,066 units). By price range, residential properties priced more than RM900,000 accounted for 55.1% of Johor's residential overhang. Meanwhile, close to 86% of serviced apartment with no takers were priced above RM700,000, 47.3% were tagged at RM1 million and above.
- The overhang in Johor is by and large, found in Iskandar Malaysia which is known to be among the favourite picks for foreign investors. The market has been experiencing a supply gush of serviced apartments since 2012/2013. The price tag of these investment-oriented serviced apartments is a mismatch to the affordability of locals. While the property prices in Iskandar Malaysia are still attractive compared to major cities in South East Asia and neighbouring Singapore, the immediate challenge facing the market would be the weakened investment appetite among foreign buyers in the light of the Covid-19 pandemic.

Moving forward, in relation to current market situation, our outlook for property market in Malaysia are as follows:

I. The residential, retail, PBO and leisure sectors are all expected to be challenging in 2020.
II. Overhang and unsold may probably level up in 2020 and new launches are expected to quieten further.

III. Market activity and absorption may be slower. Prices and rentals are expected to soften.

IV. Extension of HOC and stamp duty incentives by the government are expected but may not significantly boost demand given the current economic and financial situation.

V. It is uncertain if the housing market has improved despite the apparent trim in residential overhang and the upturn in residential transactions in 2019. As the market buckles up for the difficult time ahead, there are a few measures the government could undertake in order to address overhang and to stimulate the property market:
   - Roll out a new edition of HOC with broadened rebates and waivers which cover properties of all prices in both primary and secondary markets.
   - Waive RPGT to incentivize transactions and foreign purchases which could increase market catchment.
   - The authority should assess residential demand and supply before giving new approvals in view of possible widespread project delays due to this pandemic coupled with the prevailing residential overhang.
   - Minimal barriers and simplified mechanism for release of unsold Bumi units to liquidate the stock.

VI. The office sector is likely to experience less adversity in the short- to medium-term since office tenancies by default, have longer lease terms. With social distancing in practice, there could be a reversion to conventional office after this as hot-desking and sharing of communal space may be perceived as a risk. This would help to maintain current office space requirements. There may be opportunities to target international companies with currently no local presence. These may be international companies currently located in Singapore or other regional capitals who are seeking a lower density work and living environment. Kuala Lumpur could offer such options as well as a lower cost of living.

VII. However, there is no escaping the fact that the economic climate is anticipated to be subdued for most part of 2020, activities on the ground will continue to experience disruptions of different magnitudes and investment appetite will continue to weaken.

VIII. There is a danger of increasing numbers of projects being abandoned which happened during the Asian Financial Crisis. Residential projects abandoned will result in financial hardships of many buyers while commercial projects will become eyesores in our cities and bankruptcies that may subsequently take decades to unravel. State governments and local councils should consider measures to mitigate these.