

Developers' margins seen to be hit by new policy

BY SUPRIYA SURENDRAN

KUALA LUMPUR: The specifications for developers to build affordable homes that are larger than the current norm under a new National Housing Policy (NHP) 2018-2025 could erode profit margins of property developers, say analysts.

CIMB Research said at present, the sizes of affordable homes range from 700 to 800 sq ft, with the Kuala Lumpur City Hall setting the minimum requirement at 700 sq ft.

"We think larger affordable homes could further erode developers' margins if no incentives or subsidies are given to private developers," the firm said in a note to clients yesterday.

According to a report by EdgeProp.my on Monday, the NHP offers a clear guideline under the affordable housing policy for developers to build quality affordable homes for the Bottom 40% (B40) group.

The specifications include built-ups of not less than 900 sq ft and types of facilities and infrastructure that need to be included in the development. It was also reported that these homes are to be priced below RM300,000.

AllianceDBS Research concurred on the higher costs for the property sector and noted that there are still structural challenges for developers with the unveiling of the NHP.

"Intense competition for affordable housing is likely to continue as home ownership for the B40 remains the priority of the government's agenda.

"We believe there will be stricter government enforcement on future approvals for new property developments. An increasing cost burden is expected to persist for developers which will pressure their profit margins," the research firm said in a note yesterday.

Under the NHP, the government is targeting to build one million affordable homes over the next 10 years, with the target broken down to 100,000 homes per year.

On this, CIMB Research said as of the first half of last year, 31% of the unsold residential units were priced less than RM250,000.

"The upcoming one million units of affordable homes could pose a threat to the property market if the issue of oversupply and affordability are not tackled accordingly," it added.

The Institute for Democracy and Economic Affairs (IDEAS) senior fellow Dr Carmelo Ferlito questioned if there is a need for more affordable houses.

"On the specific issue of the 900 sq ft houses to be sold at [below] RM300,000, the final outcome will depend on how the plans are going to be implemented," he told *The Edge Financial Daily* via email.

"Margins for developers can be preserved only in two ways, with subsidies [and therefore] further costs for the government that are to be borne by taxpayers, or with the choice of lower quality materials.

"I do not see who is going to win in such a game, given also the fact that the number of unsold units below RM 250,000 is on the rise," added Ferlito.

Ferlito is of the view that house prices cannot simply be fixed by a central authority or a pool of experts.

"How is it possible to know that a 900-sq ft house [priced] at RM300,000, and in a certain quantity, is what the market needs? Such information can only be generated in the mar-

ket. A central plan, on the other hand, is quite the opposite.

"To believe that prices are simply a function of costs is not to understand the true nature of prices, which is the synthesis result of billion of subjective evaluations. A price not resulting from the interplay of market forces is just a meaningless number, which will impede to appreciate the profitability, or not, of a certain project," he said.

Meanwhile, AmInvestment Bank, in its note on the property sector yesterday, said it is positive on the National Home Ownership Campaign, which is a programme under the NHP where 180 developers will offer 22,000 housing units worth a total of RM22.5 billion with at least a 10% discount at an exposition planned from March 1 to 3.

"This will help developers clear unsold stock while at the same time generate cash flows from these inventories [albeit with] lower margins, thus providing them huge savings on financing costs and alleviating the [property] overhang situation," it said.



Guan Eng (centre) launching the Affordable Home Fund yesterday. Also present were Housing and Local Government Minister Zuraida Kamaruddin (second from left), Deputy Finance Minister Datuk Amiruddin Hamzah (left), Nor Shamsiah (second from right) and AKPK chairman Anuar Mohd Hassan. Photo by Bernama