

Bank Negara's 6 policy options to reduce property market imbalances

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KUALA LUMPUR: Bank Negara Malaysia (BNM) has issued six policy options to reduce supply-demand imbalances in the property market, warning that the oversupply of office space and shopping complexes in major states may worsen with incoming supply.

It said on Friday the oversupply will be exacerbated by incoming supply, potentially becoming more severe than what was seen during the Asian Financial Crisis of 1997-98.

“Supply-demand imbalances in the property market have increased since 2015. Unsold residential properties are at a decade high, with the majority of unsold units being in the above RM250,000 price category,” it said

BNM said a multi-faceted approach should be considered to address the imbalances in the property market as the effect of regulatory constraints on lending is limited. This is because developers also fund their projects using internal funds and proceeds from capital market issuances.

"There is a need for all parties, from the Federal and state governments, to property developers, to act in a concerted manner to manage the imbalances in the property market. Policy considerations need to go beyond financial regulatory measures," it said.

BNM said over the past decade, property-related investments have risen significantly (2016: 25% share of total investments; 2005: 18%).

Currently, the property market is characterised by an oversupply of non-affordable housing and idle commercial space, and conversely, an undersupply of affordable homes.

“This situation could worsen if the current supply-demand conditions persist. Within the country, Johor is poised to have the largest property market imbalances (highest number of unsold residential properties and potentially the largest excess supply of retail space). As such, it is timely for all parties to act now to mitigate any potential risks to macroeconomic and financial stability,” it said.

BNM said for the residential market, total unsold residential properties currently stand at a decade-high, primarily on account of the mismatch between the prices of new housing launches and what the households can afford to pay

First, there is a need to resolve the high level of residential properties for all price ranges. BNM said all parties should encourage the rental market.

There is a need to develop a strong rental market by enacting the Residential Tenancy Act and establishing a Tenancy Tribunal to safeguard the rights of both tenants and landlords.

Second, as for affordable housing, there should be an increase in efficiency in the provision of affordable homes. BNM suggested the setting up of a single entity for affordable housing to accelerate the rebalancing of supply towards the affordable range

“Ensure that the development of new projects are in decent locations with good transport connectivity,” it said.

Third, BNM said there should be greater efficiency in the allocation of affordable homes. It suggested that it should be ensured that applicant registries are regularly updated, verified and filtered to prioritise creditworthy households. Ineligible applicants should be directed to rental housing.

For the offices and shopping complexes segment, BNM said there was a large incoming supply of commercial properties and a high vacancy rate and low rental rates in existing buildings.

Fourth, there is a need to manage new incoming supply. Hence, the commercial viability of any new project must be thoroughly assessed before it is commissioned.

Developers should be to be cognisant of current and future demand conditions: Cannibalising effects on tenants and customers (from new malls and offices; high costs of living and rising e-commerce market.

Fifth, BNM said the parties should look into the repurposing of vacant commercial buildings. Vacant commercial spaces in prime locations could be repurposed into economically meaningful assets – such as corporate housing, en-bloc rental accommodation, art centres and indoor parks.

Sixth, increase demand for existing space. This could be done by intensifying efforts to attract foreign companies to set up businesses and expand their footprint in Malaysia. Encourage start-up occupancy by giving rental rebates.

In 1Q 2017, total unsold residential properties stood at 130,6903 units, the highest in a decade. This is nearly double the historical average of 72,239 units per year between 2004 and 2016.

About 83% of the total unsold units were in the above RM250,000 price category.

BNM said 61% of total unsold units were high-rise properties, out of which 89% were priced above RM250,000. Johor has the largest share of unsold residential units (27% of total unsold properties in Malaysia), followed by Selangor (21%), Kuala Lumpur (14%) and Penang (8%).

The large number of unsold properties is due to the mismatch between the prices of new launches and households' affordability. From 2016 to 1Q 2017, only 21% of new launches were for houses priced below RM250,000.