Property imbalance growing wider

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Unsold properties at highest level in 10 years

THE growing supply-demand imbalances in the local property market, especially within the residential and commercial property segments, could pose severe risks to the wider economy.

Bank Negara in its quarterly bulletin says supply-demand imbalances in the property market have increased since 2015 - with unsold residential properties already at its highest in 10 years.

“In the first quarter of 2017, total unsold residential properties stood at 130,690 units, the highest in a decade. This is close to double the historical average of 72,239 units per year between 2004 and 2016.”

“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%).”

Bank Negara says the large number of unsold properties is due to the mismatch between the prices of new launches and households’ affordability.

“Over the period 2016 to the first quarter of 2017, only 21% of new launches were for houses priced below RM250,000. This is insufficient to match the income affordability profile of about 35% of households in Malaysia.

“Secondly, the mismatch was exacerbated by the slower increase in median household incomes (compounded annual growth rate (CAGR) 2012 to 2016: 9.6%) relative to median house prices (15.6%).”

The central bank says these factors have resulted in median house prices in Malaysia being five times annual median household income in 2016, rendering house prices “seriously unaffordable” in Malaysia.

“The housing affordability issue is even more acute in certain states, with house prices being “severely unaffordable” in Sabah and Penang (median multiple of 5.5).

“Such a wide disparity between the supply and demand of affordable homes has worsened the imbalances in the housing market.”

According to Khazanah Research Institute’s “Making Housing Affordable” report, as at 2014, overall house prices in Malaysia are 4.4 times the median income. Zeroing in on the states, the price of a house in Kuala Lumpur is 5.4 times the median income. In Penang, it is 5.2 times, Johor 4.2 times and Selangor 4.

In an interview in September with StarBizWeek, Khazanah research director Dr Suraya Ismail said Johor, at 4.2 times, is seriously unaffordable. Selangor and Negri Sembilan are considered moderately unaffordable, while Melaka is still considered affordable.

Suraya says property developers are definitely capable of offering affordable homes.

“Prior to 2008, the private sector had launched a lot of residential units within the RM250,000 price range.

“But from 2008 onwards, they have instead been focusing too much on units priced over RM500,000. We need to revert to the pre-2008 period.”

She says many developers are hesitant of offering affordable homes, as it is a segment with low profit margins, adding however that this should not be a deterrent for local developers to develop affordable homes.

“If they start using new technologies, they can embark on affordable homes.

“But it is important to plough back your retained profits into capital deepening – ensuring that your research and development (R&D) is done and ensuring that there’s economies of scale. This is so that there are more units to spread the initial capital costs of R&D. Big developers can do this,” she says.

Suraya admits it will be challenging for smaller developers to incorporate newer technology.

“One of the ways for smaller developers to be in this new ecosystem of new ways of producing houses is to ensure that they’re linked to the new supply chain.”

She says the Works Ministry and the Construction Industry Development Board (CIDB) are currently collaborating on a road map to ensure both big and small players can fast-track their productivity.

Possible solutions

Bank Negara says multi-faceted approach should be considered to address the imbalances in the property market. To resolve the high level of residential properties, for all price ranges, it says all parties should encourage a rental market.

“Develop a strong rental market by enacting the Residential Tenancy Act and establish a Tenancy Tribunal to safeguard the rights of both tenants and landlords.”

For affordable housing, Bank Negara says there should be an increased efficiency in provision of affordable homes.

“Establish a single entity for affordable housing to accelerate the rebalancing of supply towards the affordable range.”

The central bank suggests that development of new projects should be in decent locations with good transport connectivity.”

One property analyst says infrastructure and accessibility are crucial factors when it comes to considering the development of homes for the low income group.

“These are people that need access to work. Naturally, transportation is a necessity for them.”

To increase the efficiency in allocation of affordable homes, Bank Negara suggests that applicant registries be regularly updated, verified and filtered to prioritise credit worthy households. Ineligible applicants, it says, should be directed to rental housing.

Commercial sector glut

With regards to the office segment, Bank Negara says incoming supply could exacerbate the glut in the Klang Valley.

“Since the first quarter of 2015, the office vacancy rate in the Klang Valley has increased steadily from 20.9% to 23.6% in the first quarter of 2017. This is higher than the national average of 18.1%, and more than three times the regional average of 6.6%.

The incoming supply of 38 million square feet of office space could exacerbate the glut, the central bank says.

“The office vacancy rate is projected to reach an all-time high of 32% by 2021, far surpassing levels recorded during the Asian Financial Crisis. In other words, if current supply-demand dynamics persist, one-in-three offices in Klang Valley could be vacant in 2021.”

It says total incoming supply could potentially be higher if future phases of the ongoing large development projects are taken into account.

“This may result in further downward pressure on office rentals, which are already the lowest in the region.”

Separately, Bank Negara says total retail space in the major states have increased sharply over the years.

“In 2016, Penang had the highest retail space per capita in the country (10.5 sq ft per person), followed by Klang Valley (8.2 sq ft) and Johor (5.1 sq ft). In higher-income regional cities such as Hong Kong and Singapore, prime retail space per capita is only 3.6 sq ft and 1.5 sq ft respectively.

“The incoming supply of 140 new shopping complexes by 2021 across the Klang Valley, Penang and Johor is expected to worsen the oversupply going forward. While Penang currently has the highest prime retail space per capita, it will be overtaken by Johor by 2018.

“The large incoming supply of 15.8 million sq ft of retail space in Johor will be 1.5 times the existing supply.”

To manage the incoming supply of office and retail space, Bank Negara suggests that the commercial viability of any new project should be thoroughly assessed before it is commissioned.

It says developers need to be cognisant of current and future demand conditions, such as cannibalising effects on tenants and customers (from new malls and offices), high costs of living and rising e-commerce market.

The central bank says the parties should look into the re-purposing of vacant commercial buildings.

“Vacant commercial spaces in prime locations could be re-purposed into economically meaningful assets – such as corporate housing, en-bloc rental accommodation, art centres and indoor parks.”

Alternatively, it suggests the increase in demand for existing space.

Bank Negara says this could be done by intensifying efforts to attract foreign companies to set up businesses and to expand their footprint in Malaysia, or encouraging occupancy by start-ups by giving rental rebates.