Stimulus package, low borrowing costs may alleviate pandemic's impact on property market

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The economic slowdown that Malaysia will experience because of the current pandemic will see the property market correct itself, while demand and prices decline, says CCO & Associates' report titled "Quarterly Malaysian Property Market Review" for the first quarter of 2020.

"Malaysia has undergone two economic recessions over the past 25 years: the Asian financial crisis in 1997 and the global financial crisis in 2007. The Asian financial crisis had the worst impact on the Malaysian property market, causing the Malaysian House Price Index (MHPI) to decline 9.4% and 2.3% in 1998 and 1999 respectively," the report said.

"Overall residential property prices recorded a lower increase of about 1.5% during the global financial crisis in 2019. Generally, property prices had recovered after the economy recovered."

Looking ahead, CCO & Associates believes 2020 will be a challenging time for the local property market.

"In 2020, we foresee some knee-jerk reactions by developers and individual owners affected by the crisis to sell properties at or below market value. These properties will be absorbed in the market, attributed to the low borrowing costs and ample liquidity in the market," the report said.

It also highlighted that, overall, it expects property prices to either remain stable or fall marginally. The reasons include the RM250 billion economic stimulus package by the government. Based on historical data, previous stimulus packages have helped alleviate significant drops in property prices.

Another reason is the low borrowing costs and ample liquidity in the banking system. Moreover, Malaysia's strong banking system also helps. The moratorium and allowing affected borrowers to restructure their loans, as opposed to mass loan recall and auctions during the Asian financial crisis, will be a relief for borrowers. Finally, prior to the pandemic, the local property market was already going through a consolidation stage, and this is expected to soften the impact on the market.

CCO & Associates believes these reasons will stand the Malaysian property market in good stead. It also hopes the economy will improve by the second half of the year, preferably by September, when the bank moratorium ends. If this does not occur, then the number of retrenchments may increase, leading to an increase in non-performing loans, it added.

“The number of property auctions is expected to increase, which may cause the property market to record larger declines involving most property sectors,” the report said.

Property sector review

Landed residential properties are considered more stable than high-rise properties.

“At the right pricing level, landed residential properties, particularly terraced houses, have enjoyed favourable take-up rates,” it said. “We anticipate prices of landed residential properties to remain stable. If the unemployment rate increases, we expect high-end landed residential properties to undergo a price correction, while houses that are reasonably priced will [see prices] remain stable or reduce marginally.”

On the other hand, high-rise residential properties may see developers offering additional incentives post-Movement Control Order (MCO) to boost sales. Individuals may decide to sell their property below market value.

For retail shops, the report anticipates that occupancy rates will fall, as tenants may stop operations because of the uncertainty of the Covid-19 outbreak. This is compounded by the possibility that shoppers will not return so quickly, further exacerbating the pressure on retailers.

The hospitality sector has been hit hard and several hotels have already closed during the MCO period, as occupancy rates have fallen below 30%, the report said.

“Rental income from serviced apartments used as Airbnb or hotels/resorts will suffer a significant drop due to the Covid-19 outbreak. Owners that rely on rental income from Airbnb services [to] serve their monthly instalments will be at risk of defaulting on their loan payments when the moratorium ends,” it highlighted.

Purpose-built offices will also see a change as many companies that now offer work-from-home options reduce the need for large office space.

“We foresee requirements for office spaces [being reduced]. Rental for office spaces will also [fall] as tenants ask for discounts and rebates during the MCO and [possibly] tenancy renewal due to poor business prospects,” it said.

One bright spot the report highlighted will be industrial properties, as warehousing and logistic services will be in demand, thanks to the boom in online trading.