GLOBAL MARKETS

Impact Of GE14 On The Property Market In Malaysia

June 2018

Malaysia's 14th general election (GE14) was deemed a revolution where democracy defeated 61-years of grip on power by the ruling coalition. The win by the opposition party, Pakatan Harapan (PH), signalled a major shift in the political and economic essence of Malaysia. While that gave hope to the country, it also launched it into a state of uncertainty as to how the new government plans to run the future of the country, and hence the future of the housing market.

However, a few things are clear. PH won the mandate of the people with a manifesto that is about restoring the political and economic integrity of the country. A manifesto that is about bettering the lives of ordinary Malaysians yet improving the financial standing of the country. Within just a week of winning, we have seen swift actions such as the removal of the Goods and Services Tax (GST) and the East Coast Rail Line (ECRL) between Port Klang and Kuantan. Other projects that could possibly be scrapped include the RM40 billion MRT3, the Malacca Gateway and Bandar Malaysia.

The potential loss of these infrastructural projects will put Malaysia's future on a very different trajectory. On one hand, there is no doubt that such is required to contain the damage done by the previous administration and ensure Malaysia's financial viability. On the other hand, it lays a new landscape that no one has considered. What would the impact be?

In November 2017, Bank Negara announced that the property glut in Malaysia has reached its highest level recorded in the past decade whether it be residential, commercial or hybrid developments. The woes of vacancy have permeated across all classes of investment properties regardless of whether they are basic or luxury. Airbnb is now the default solution for rental yield while commercial units wait out for the economic recovery.

In considering the impact, which, we would look at the short, mid and long term perspectives that will lend some clues for your consideration as you look to invest in Malaysia.

Short Term (1-3 years)

In the short term, Malaysia is all about taking stock and survival. Uncertainty is the word as the new government tackles the issues of the previous administration and restoring the integrity of the country. While housing that caters to local affordability will likely be well supported by new policies, luxury and foreigner-driven assets will likely be frowned upon and left to fend for themselves.

Greater affordability means lesser demand for the rental stock and hence more Airbnb, which might result in the hospitality industry crying foul at some point. Without rental, mass mortgage default might follow leading to further complications as the banks get involved.

Depending on your risk appetite, that might mean a big red flag or an indication of a market ripe for the bottom picking. Some of the projects might not materialise since the new government is likely to go after

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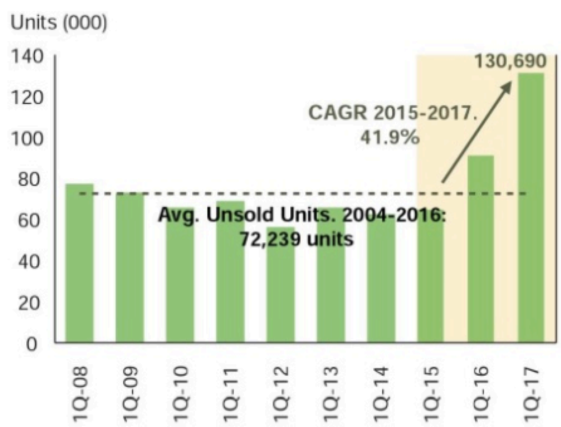
Chart 1: 130,690 unsold residential units, the highest in the decade

Total Unsold* Residential Properties



Note: *Includes overhang and unsold residential properties under construction. Includes Small Office/Home Office and serviced apartments

Source: National Property Information Centre

developers with land that has been inappropriately acquired under the previous government. It is likely to be a difficult short-term period for the Malaysia market as it re-orientates itself through a period of pain before prosperity.

Mid Term (3-5 years)

In the mid-term period, Malaysia is expected to stabilise as clarity forms around the various infrastructural projects, economic directions and financial health. Barring another major governmental shift, we are of the opinion that Malaysia's prominence in ASEAN will start to rise as global confidence in the market recovers. Relationships with other countries especially Singapore, China and Japan would have more clarity and therefore, attract greater foreign participation in its market in businesses or investments.

The question is, however, can the mid-term provide a balanced property market in terms of demand and supply with population growth, job growth, wage growth and hence substantiated property price growth?

Our answer is probably not. The current oversupply situation is much more severe than the country has ever seen before and for the economy as a whole to go from its current state to prosperity within the next 5 years might be too much to ask.

While local housing would have stabilised by now, foreign demand and high-end properties will still likely be in the doldrums. Investors would want to see a rental recovery before anticipating price growth. While some might expect the government to loosen the restrictions when it comes to foreigner purchases so as to stimulate the economy, we think that such a move will likely have detrimental effects so it might be wise to wait until more strength is seen in the market.

For the avid and strong-hearted investors, however, this is probably a good time to consider and pick prime assets in anticipation of growth.

Long Term (5-10 years)

We are confident that if the new government does not deviate from its current directions or be detracted by other political manoeuvres, the long-term future of Malaysia will be bright as it takes a position that it should have in ASEAN. Malaysia, with its ample resources as well as a hardworking and educated population, is primed for growth much beyond what it is today. Once the market is able to achieve certain levels of equilibrium, we are likely to see years of prosperity ahead.

While some might still doubt whether stability can be achieved in a nation rife with racial and religious differences, we believe that if the present government can truly achieve national unity, many good days await the country.

Conclusion

While the above are really nothing but speculation, it sincerely reflects the mix of reality and well wishes on our end for Malaysia and its property market. We do think that Malaysia deserves to be much more than where it is today. With that, we want to qualify that, with some efficiency, do not be surprised to find our 10-year forecast be shortened significantly if the new government proves to be what it says it is.

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