

The Strategic Sustainability of the Malaysian Property Market: Why it cannot go wrong

Get it right

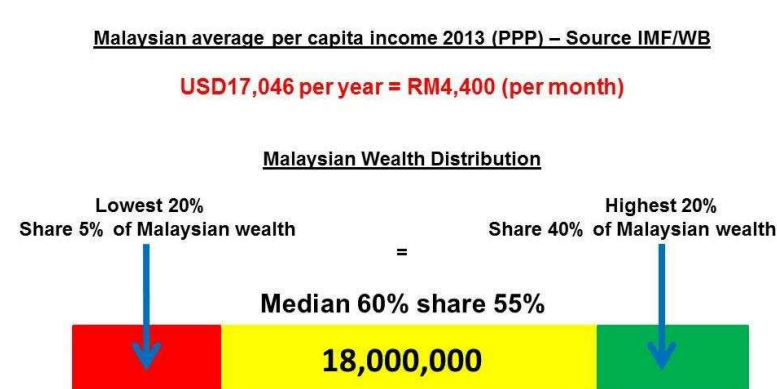
When looking at Property Market we have always to look first at the main driver that justifies the balancing between offer and demand of properties: the current economic

	USA	EU	UK	JAPAN	AUSTRALIA	MALAYSIA
GDP Growth	2.52%	0.12%	0.65%	0.65%	0.65%	4.70%
Gov. Debt as % of GDP	101.60%	90.60%	91.10%	226.1%	20.7%	53.10%
Gov. Deficit as % of GDP	-4.10%	-3.7%	-7.40%	-9.6%	-3.00%	-4.50%
Balance of Current Acc in USD Billion	-360.7	-34.5	-93.6	56.6	-44.9%	16.6
Inflation	1.5%	1.5%	2.7%	0.2%	2.4%	3.2%
Unemployment	7.3%	10.8%	7.7%	4.1%	5.7%	3%

performance and outlook of the Country. Real Estate is not an economic driver or, we can also say, it is not generating economic growth in a Country. It comes in as a logic and natural consequence of the economic development of the Nation. Economic drivers are manufacturing, services, education, tourism, O&G and so on. Malaysia has been kept on performing quite well in the past decade and the outlook for the next several years remains positive as all the indexes are showing good achievements but with still ample room for improvement (Chart 1).

Wealth Distribution

Another very important parameter that we should all keep in mind when deciding to plan a Real Estate investment, as buyers investors or developers, is how the Malaysian wealth is distributed throughout the



population as this will affect the value of affordability for houses creating a proper offer to reply to a logic demand. In Malaysia as at December 2013 the national wealth distribution was showing the following figures (Chart 2). Still it is unfortunately not clear what affordable means and, above all, we should agree upon the fact that it is

impossible to define a “Nationwide Value” of affordability. This means we need to first understand on a state

by state basis how the wealth is distributed and how the population is growing and migrating to understand

PER CAPITA INCOME STATISTICS					
State	GDP per Capita at current prices				State by state Population in 2012
	2009	2010	2011	2012	
	RM	RM	RM	RM	
Kuala Lumpur	57,040	62,075	68,072	73,931	1,768,680
Sarawak	31,286	34,136	39,324	40,414	2,601,000
Pulau Pinang	30,098	33,601	35,188	37,006	1,664,640
Selangor	28,468	31,457	33,727	36,135	5,826,240
Malacca	25,397	28,328	31,093	33,550	832,320
Negeri Sembilan	25,595	28,586	31,295	32,511	1,040,400
Pahang	20,548	23,008	26,066	26,197	1,560,600
Johor	18,878	21,329	23,593	24,574	3,537,360
Terengganu	19,102	20,581	22,220	22,733	1,144,440
Perak	15,809	17,341	19,362	20,569	2,496,960
Sabah	15,515	17,118	19,038	19,010	3,537,360
Perlis	15,186	16,175	16,992	18,119	208,080
Kedah	12,481	13,744	15,388	15,814	2,080,800
Kelantan	8,421	9,322	10,366	10,617	1,664,640

how many dwelling we need to offer to the Rakyat and at with which diversification of values.

Generally speaking affordability is normally calculated as a percentage of the household income and, if we look at today's household expenditures, we should not allocate more than 30 to 35% of the total income to the house loan repayment (house expenditures to income ratio).

If we look at affordable housing from this perspective, we first need to define how much Malaysian households are getting every month or, in other words, the average income per-capita in Malaysia.

Latest international statistics (International Monetary Fund and World Bank) are calculating it (reference PPP) at the end of 2013 as USD17,046 per capita per year or RM4,400 per capita per month. From here, using available Government statistics dated December 2013 on population and per-capita income, the resulting share per state/per capita is showed in the table below (Chart 3).

Affordability Framework

2012 PER CAPITA INCOME STATISTICS								
State	State by state (est) Population in 2012	GDP 2012 @ const prices		GDP 2012 per Capita at current prices		35% of monthly income = Loan repayment	Affordable House value (30 yrs loan @ BLR-2.3 4.4%)	
		2012	Yearly	Monthly	Per capita		Per household	
		RM Billion	RM	RM				RM
Kuala Lumpur	1,718,680	114,106	73,931	6,161	2,156.32	480,000	720,000	
Sarawak	2,501,000	71,874	40,414	3,368	1,178.74	260,000	390,000	
Pulau Pinang	1,654,640	52,530	37,006	3,084	1,079.34	240,000	360,000	
Selangor	5,626,240	176,239	36,135	3,011	1,053.94	240,000	360,000	
Malacca	832,320	21,953	33,550	2,796	978.54	220,000	330,000	
Negeri Sembilan	1,040,400	27,717	32,511	2,709	948.24	220,000	330,000	
Pahang	1,560,600	30,750	26,197	2,183	764.08	165,000	247,500	
Johor	3,337,360	68,791	24,574	2,048	716.74	160,000	240,000	
Terengganu	1,144,440	19,627	22,733	1,894	663.05	145,000	217,500	
Perak	2,396,960	39,627	20,569	1,714	599.93	135,000	202,500	
Sabah	3,437,360	44,434	19,010	1,584	554.46	125,000	187,500	
Perlis	208,080	3,535	18,119	1,510	528.47	120,000	180,000	
Kedah	2,080,800	25,307	15,814	1,318	461.24	105,000	157,500	
Kelantan	1,654,640	13,461	10,617	885	309.66	70,000	105,000	

As we can all see, once we look at affordability proportional to "per-state-income" surprises are coming.

While an average middle class member in Kuala Lumpur can still afford to buy a house of RM500,000, a Selangor Sr. Admin can hardly afford a house above RM250,000 and in Kedah or Kelantan the affordability value, per capita, drops till RM70,000.

Few considerations are surely due as till now we have

spoken about “per-capita” income while, as per statistic dated 2012, an average Malaysian household has 4 members out of which at least 2 are working. If we look at the last column of the table above values are surely more realistic and in line with actual happenings.

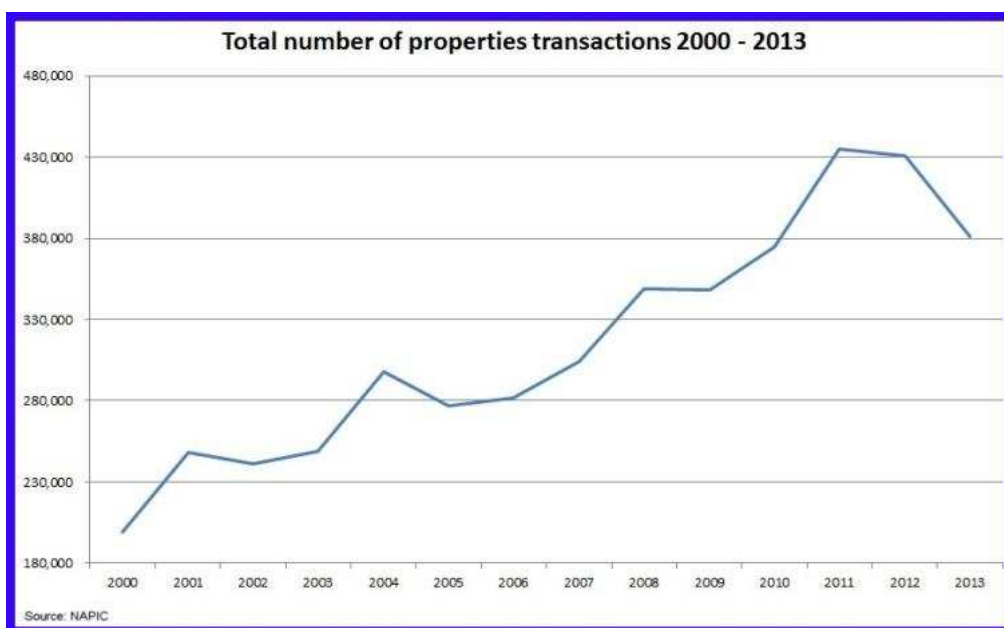
Sustainable Market and the Current Demand/Offer Situation

The next step is to determine how the current “ratio” of demand and offer of dwelling is performing and, up to

EXISTING STOCK 2013 AND HOUSE SUPPLY TILL 2020						
STATE	SUPPLY OF LANDED TILL 2020	SUPPLY OF LOW COST TILL 2020	SUPPLY OF HIGH RISE TILL 2020	TOTAL HOUSES SUPPLY BY 2020	POPULATION BY 2020	NEED OF HOUSES BY 2020
KUALA LUMPUR	113,318	156,915	247,843	518,076	1,870,000	105,257
SELANGOR	859,609	493,772	347,133	1,700,514	6,279,686	392,715
JOHOR	686,277	262,283	129,310	1,077,870	4,499,432	421,941
PENANG	222,425	230,474	96,451	549,350	1,767,542	39,831
MALACCA	149,295	50,516	17,828	217,639	914,506	87,196
NEGERI SEMBILAN	262,639	82,018	44,486	389,143	1,276,244	36,272
PAHANG	238,572	67,669	16,302	322,543	1,674,660	235,677
PERAK	394,091	95,430	14,073	503,594	2,494,237	327,818
PERLIS	19,619	9,303	1,242	30,164	243,400	30,686
KELANTAN	69,622	15,644	4,790	90,056	1,533,613	421,148
TERENGGANU	94,969	39,193	1,026	135,188	1,045,864	213,433
KEDAH	249,768	113,925	3,057	366,750	1,947,472	282,407
SABAH	101,155	63,110	50,645	214,910	3,443,107	473,711
SARAWAK	196,291	52,320	18,581	267,192	2,543,759	241,560
GRAND TOTAL FOR MALAYSIA	3,657,650	1,732,572	992,767	6,382,989	31,533,524	3,309,653

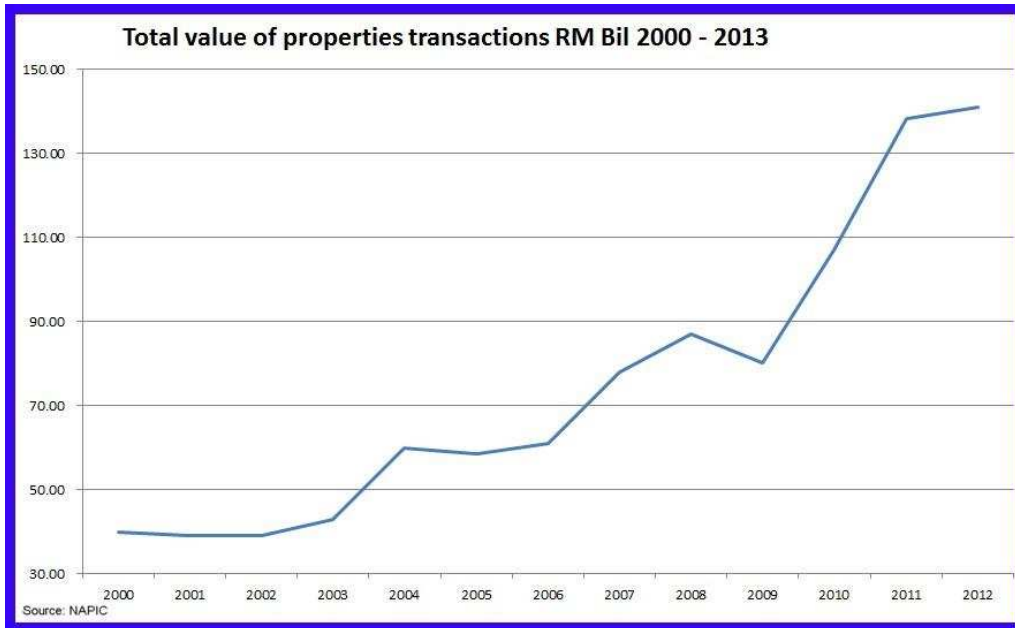
the latest statistics (source is Property Market Report 2013) and doing a bit of estimate projections for delivery of houses (landed, low costs and high raise) we actually find out that quantity wise the offer is still far behind the current and future demand. Even though there

has been an improvement in some of the Malaysian States, the final result still shows a future big lack of supply.



However, once we re-look into the values and above all compare the trend of value and number of transactions it appears clear that most of the residential products offered in the

last few years is within the un-affordable category.



Total number of transacted properties is declining since 2011 while the total value has been rising consistently for the past several years with a very sharp increase

started in 2009. In other words, most of the products supplied into the residential segment of the market are high end and not affordable.

Looking back at the wealth distribution table above we should expect a supply of 50/60% out of the total quantity of dwellings as affordable, 20% as low cost (possibly supplied directly by Federal and States Authorities) and only 20/30% of houses in the upper segment and all the statistics are not showing it. During the last few months developers have been complaining that their stock in hand is at a very high level and expressed concern over the future but they should be the one adjusting their product offer to a different segment of market which requires houses with an average price per square feet of RM200 to RM700 according to different states and within each state different areas. Buyers, at their end, should start looking for houses within affordability in areas which are suitable for that type of values and somehow the Government (States and Federal) should study a “practical way” to help them to own their house.

Sources: Nasic Property market Report 2013, CIMB, World Bank, IMF, REI Archives

REI Group of Companies CEO and co-founder Dr. Daniele Gambero gives presentations on the Property Market and welcomes feed-back at daniele.g@reigroup.com.my “

Many more are the issues that should be addressed and spoken about to resolve once forever the housing affordability challenge but the space is not enough and, first, I would like to see if there might be any reply to the possible starting solutions proposed above.

I've chosen Malaysia as my first home because I've liked what I found here in the late 90s, politically stable with a good and consistent economic growth, good planning, great people to live with and fantastic climate for a Mat Salleh coming from a four seasons country with temperatures ranging from Co 40 in summer to Co -15 during winter time this is paradise. In Malaysia we are still living in an exciting time of the Malaysian Economy and Property Market history. New Property and Economic hot spots are surging in the north with Kota Baru and the Northern Educational Hub, in the East with Kuantan as East Port of Malaysia, in the central region Ipoh with the lush greenery environment perfect to plan a long lasting retirement homes and health tourism market just to mention some of them. New Property Market's Niches are foreseeable with a forthcoming boom for retirement homes and double key-system houses and Iskandar Malaysia is flourishing within the 2005 planning and time frame defined by Kazanah Nasional Bhd in 2005 as the most Strategically Sustainable Location in South East Asia.

Affordable house buyers, by looking at the forthcoming challenging future might be taking into consideration a wise and action packed advise: "if the mountain is not coming to me, then better I go to the mountain" or in other words Kuala Lumpur affordable home buyers looking into the property market of Serdang, Seri Kembangan, Kajang, Bangi might be having good and positive surprises type, size and price wise. The same applies to Klang Valley purchasers who, travelling a bit more south between Bangi and Seremban, might again find good offers for much bigger houses. A lot of big developers are preparing launches within the southern and western corridor of the Greater Klang Valley and opportunities are there for everybody to profit of. It's enough to know what you are looking for and then.....look for it by using common sense!

Sources:

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