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REHDA Webinar-
Economic Recovery Plan: Powering-Up the Industry

Will PENJANA Revitalise Real Estate Sector?

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11 June 2020



PENJANA – THE SHORT-TERM ECONOMIC RECOVERY PLAN



REAL ESTATE SNAPSHOT



PENJANA: INCENTIVES FOR PROPERTY SECTOR

PENJANA – Short-term Economic Recovery Plan

- PRIHATIN Economic Stimulus Package's measurable impact:



2.4 million jobs have been saved via Wage Subsidy Programme

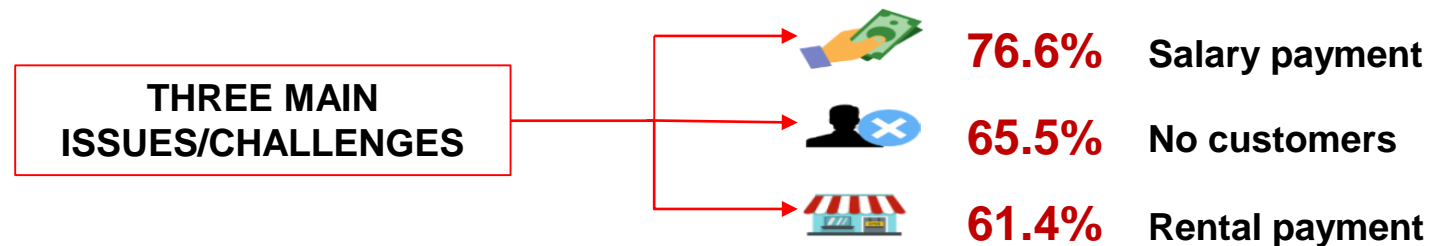


Nearly 11 million individuals' cash flow burden has been eased via Bantuan PRIHATIN Nasional (BPN), loans moratorium and EPF's i-Lestari



More than 300,000 businesses have received various financial assistance and loans moratorium

- Many businesses concerned about **3Cs (cash flow, costs, credit)**. They are struggling to cope with **IMMEDIATE CHALLENGES** (slow demand, supply disruptions, cash flow problem and operating costs) and **STRUCTURAL CHALLENGES** (consumer protocols, Standard Operating Procedures, intense competition in online business and e-commerce) that threaten their survival.



Source: PENJANA Short-Term Economic Recovery Plan; DOSM Special Survey on COVID-19 impact on business sector (10 Apr -1 May)

Reopening the economy – Channel checks



Most businesses have started operations. As of 2 Jun, **about 12.7 million (~83.5%) employees** have returned to work (vs. 10.2 million @ 67.2% as of 17 May).



Manufacturing plants: Mostly have resumed operations (**70-80% capacity utilization rate**); high capacity utilization for personal protective equipment (PPE), rubber gloves, electronics, food processing and packaging materials. For **electronics and automation companies**, nearly 40% operating at 100%; 40% above 80%; 20% between 50-60%.



Major shopping malls (7): a) **Around 90% retailers are operating** (some not opened due to negative list; concerns about SOP and closed business (3-4%)); b) **Business hours** have returned to normal (10 am -10 pm) for most shops; some closed early at 7.00-8.00 pm); and c) **Customers – between 30% and 40% lesser** compared to pre-COVID-19, particularly during weekend. Footfall/foot traffic about 40-50%; shopping 20-30%.



Hotels: 13 out of 14 are operating; **occupancy rate below 20%**. Based on the Malaysian Association of Hotels (MAH) survey (324 hotels), **15% will close business permanently** and **35% temporarily closed**. **Hotel's occupancy rate** is expected to rise from 15.83% at end-June to **32.10% at end-Dec 2020**. So far, **seven hotels** have closed business (KL, Penang, Ipoh and Melaka).



Restaurants/coffee shops: Dined-in was constrained by decreased seating capacity (social distancing). Potential loss of key sources of income (functions/events/wedding dinner) for some months (**Aug/Dec**).

Reopening the economy – Channel checks (cont.)



Construction: As of 9 June, **5,366 (73.9%)** of **7,262 construction sites** inspected by CIDB, **have not started operations** (vs. 87.4% as of 14 May). 1,555 (21.4%) have complied with SOP. Only 12 (0.2%) have been instructed to stop operations due to non-compliance.



Businesses face slow sales amid maintaining high operating costs. As of 8 June, 309,410 **employers** have applied **WAGE SUBSIDY**, benefiting **2.5 million employees**.



Employees face prospects of weak employment, pay cuts, no pay leave, furlough and layoff. Expect **unemployment rate to hit between 4.5%-6.5% in 2020** (4.0% during 2008-09 GFC; 4.5% during 1997-98 AFC).

As of 8 June: (a) **335,933 employees were given unpaid leave**; and (b) **36,326 workers have lost employment (90.6% of total (40,084) in 2019)** based on the Employment Insurance System. 22% in manufacturing and 16% in retail. **62%** (professionals, managers, executive and technicians). **92.2% of employment loss comprises B40 and M40) wage earners having monthly wage between RM1,000 and RM8,000 per month.**

As of 8 June: 37,435 employers have applied **EMPLOYMENT RETENTION PROGRAM (ERP)**, involving **335,933 employees**.



Consumers still wary about the coronavirus; slowly returning but still a long way from pre-COVID-19. Even for those who have gainful employment and have not suffered pay cuts, health fears will decrease the desire to go out to shop, eat and travel.

PENJANA (RM35.0bn) looks like a “Mini-Budget”

- As we emerge from this pandemic, the **short-term economic recovery plan (Three thrusts: Empower People, Propel Businesses; and Stimulate the Economy)** will be an important first step in supporting the reconstruction of our economy to ensure that **jobs, livelihoods and businesses are protected**.
- The measures and initiatives are **fairly broad-based and well targeted** to help stabilize domestic economic and business conditions as well as enable the economy to recover sustainably over the medium-term.
- **The plan outlines 40 initiatives** categorised under the three thrusts, **covering saving jobs, reskilling and upskilling, support businesses to transform, boost spending, revitalise investment and address sector-specific needs (tourism, agriculture and food, property, auto and palm oil industry).**
- **In terms of timing and depth of economic recovery**, we expect the large economic contraction estimated at between 11.0-13.0% yoy to hit the peak in 2Q 2020 (+0.7% in 1Q), reflecting the full impact of MCO in April and a gradual reopening in May and June.
- Exports contracted sharply by 23.8% and industrial output (-32.0%) in April. Consumer spending and businesses are slowly on the mend. Wholesale, distributive and retail trade declined by between 27.6% and 37.1% in April. **A smaller magnitude of GDP decline (-3.4%) is expected in 3Q before reverting to +2.2% in 4Q.** Overall, **SERC estimates 2020's GDP to decline by 3.0% (4.3% in 2019). For 2021, real GDP growth of 4.5-5.0%.**

The current state of real estate sector



Amid some improvement in volume and value of transactions in 2019, **Malaysia's property sector remains saddled with massive unsold units and property overhang five years** after the market nose dived as billions of units remain idle in the market.



The **situation in the near term remains bleak** as **there are more than 500,000 units in incoming housing supply**, and that would take years for the market to absorb.



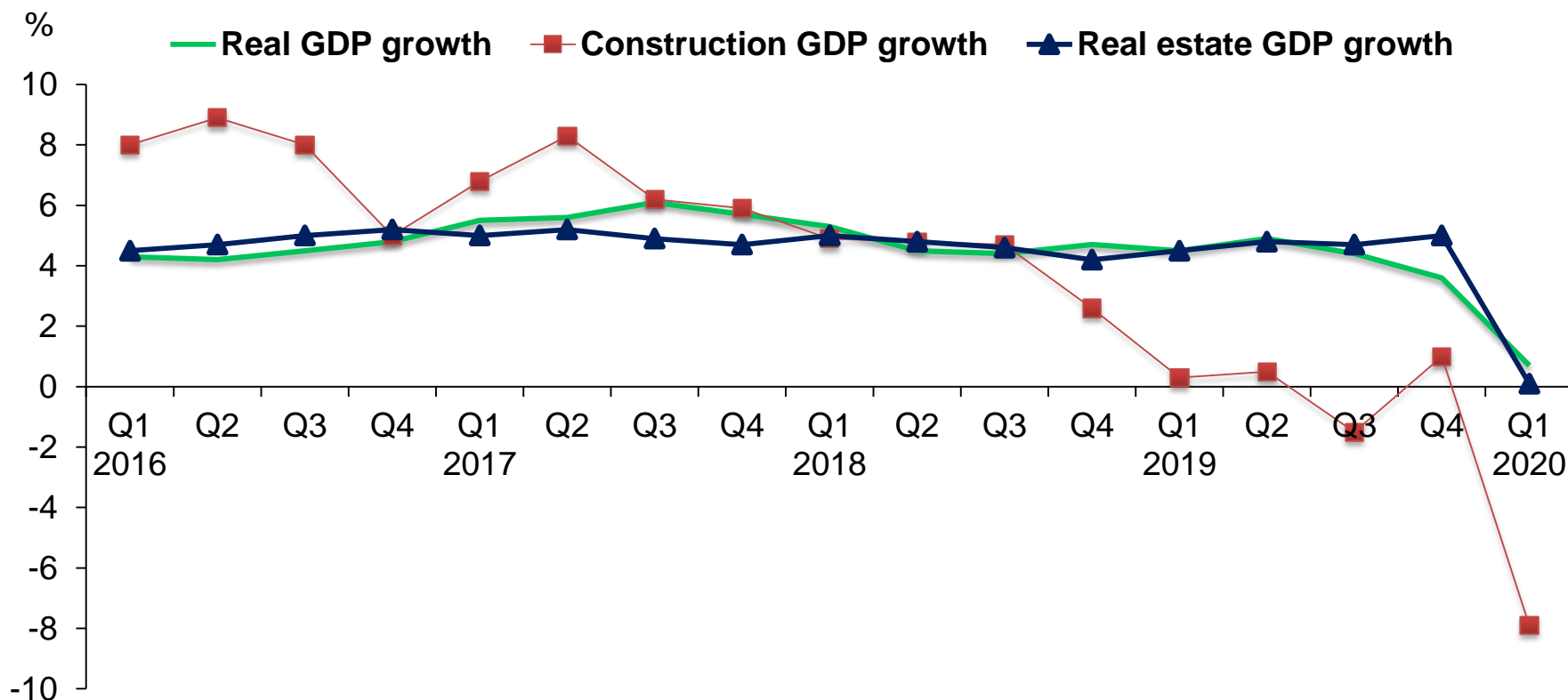
Housing prices have been on a moderating trend since 2013, registering a **1.9% growth in 2019** (3.3% in 2018) for **seven consecutive years**.



We view with concerns about a stubbornly overhang in property sector given that it is an important sub-sector of the construction sector. **A protracted consolidation and over-adjustment in real estate sector would drag down overall construction sector. With the construction sector supporting the growth of around 140 other downstream industries, a sustained weak growth would have ripple effects on the broader economy.**

Growth in real estate almost flat (0.1%) in 1Q 2020

- Growth in real estate sector moderated in recent years due to **softening domestic economy; cautious investors' sentiment, banks' prudent lending policies** as well as **disconcerting overhang and unsold number of properties**.
- **Growth in real estate slumped to 0.1% in 1Q 2020** due to the impact of COVID-19 and Movement Control Order (MCO). **Construction output declined by 7.9% in 1Q 2020, due to solely to a 8.3% decline in private construction work done** (55.4% of total construction work done in 2019).

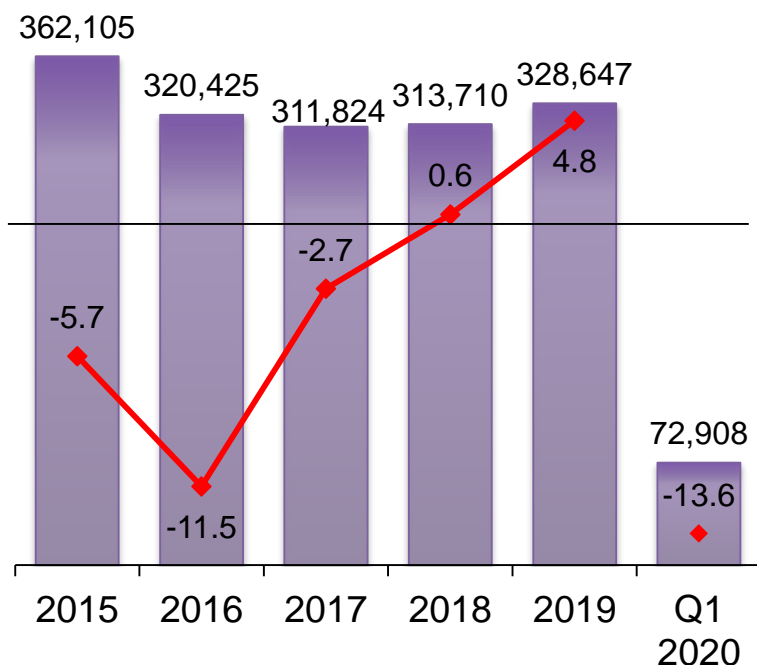


Source: Department of Statistics, Malaysia (DOSM)

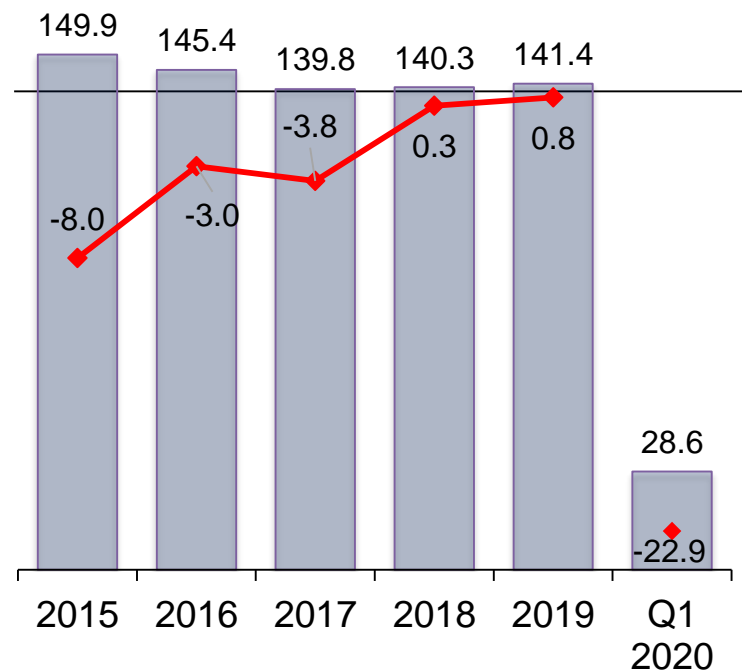
Overall property transactions contracted sharply in 1Q 2020

- In 1Q 2020, **property transactions** registered a **sharp decline in volume (-13.6% yoy)** and **value of transactions (-22.9% yoy)** respectively due to the impact of COVID-19 and MCO.
- **Declines were across-the-board in volume of transactions:** Residential (-9.9% yoy), commercial (-27.9% yoy), industrial (-32.9% yoy), agricultural (-17.0% yoy) and development land (-13.3% yoy).

■ Number of transactions ◆ Growth* (%)



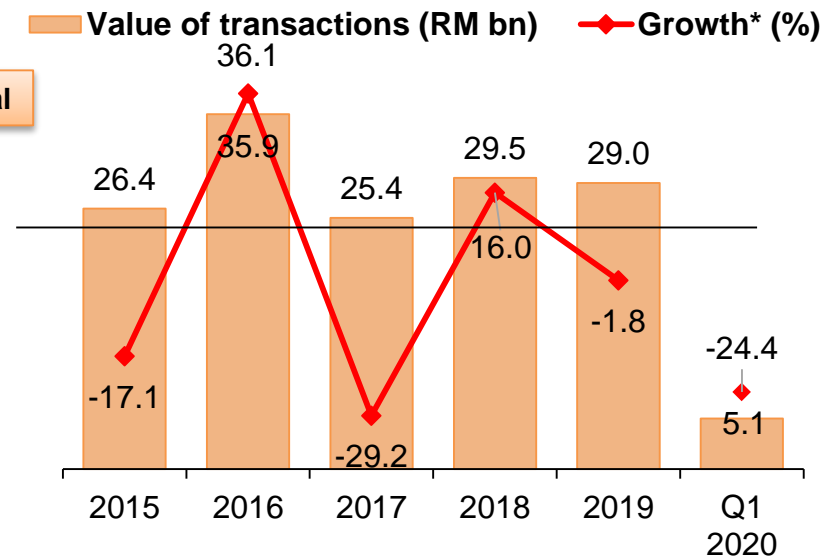
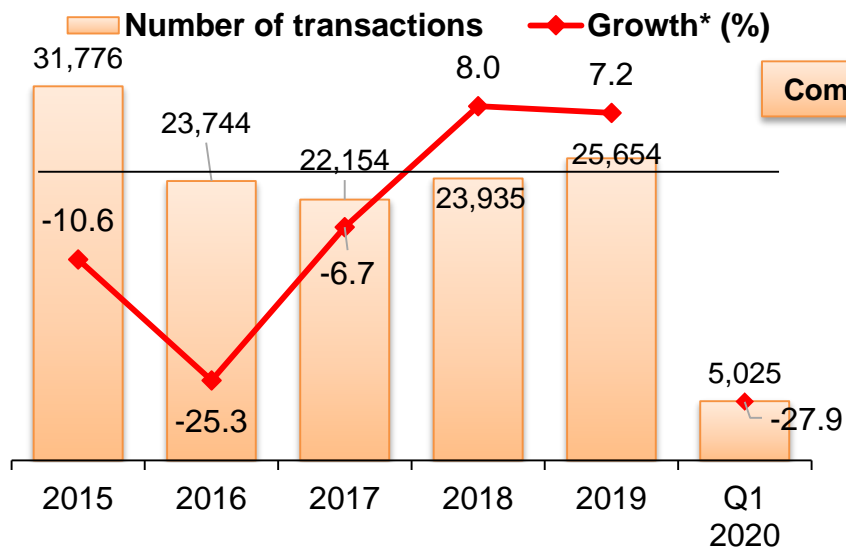
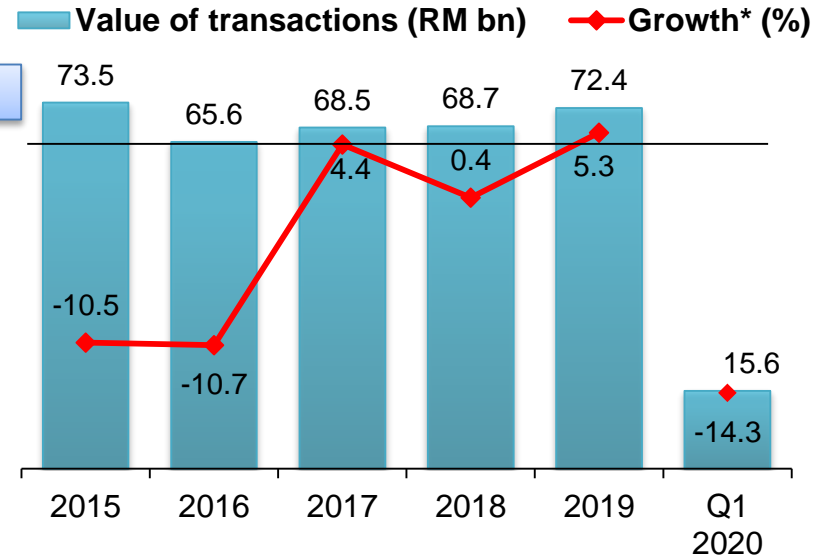
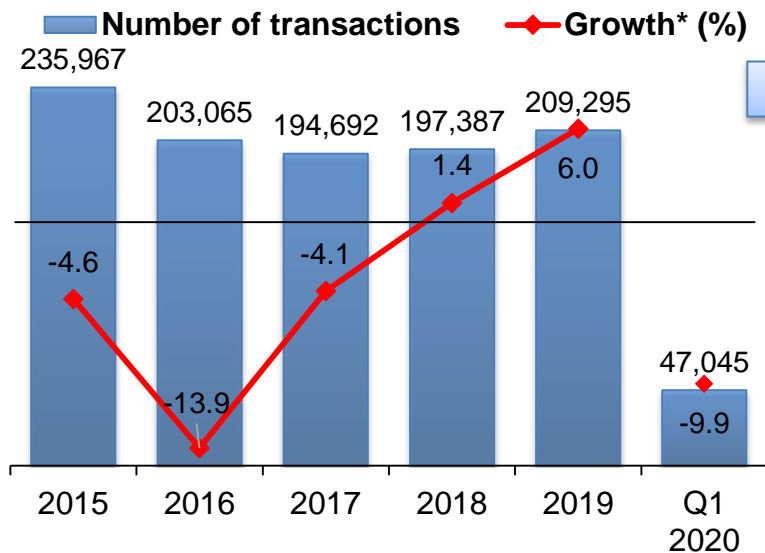
■ Value of transactions (RM bn) ◆ Growth* (%)



Note: Straight line indicates 0%

Source: National Property Information Centre (NAPIC)

Residential and commercial property transactions

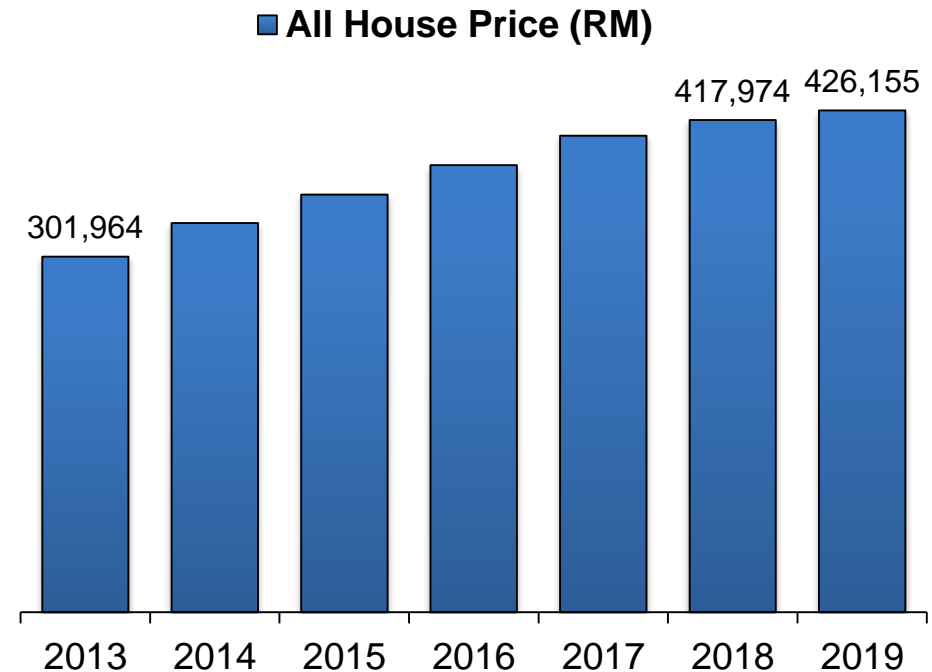
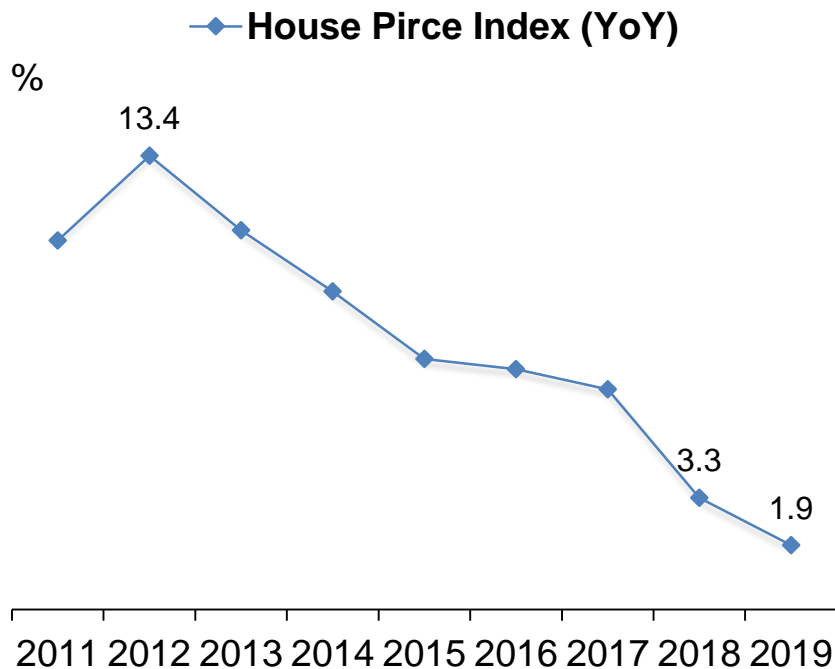


Note: Straight line indicates 0%; *YoY

Source: NAPIC

Residential property outlook

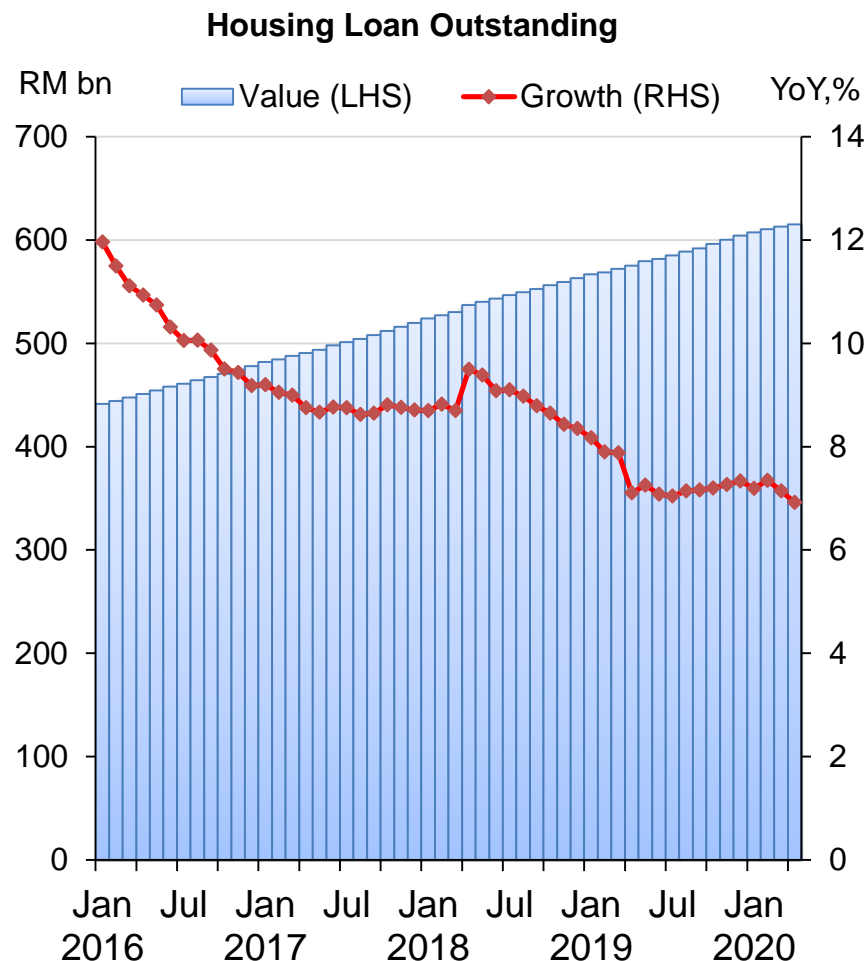
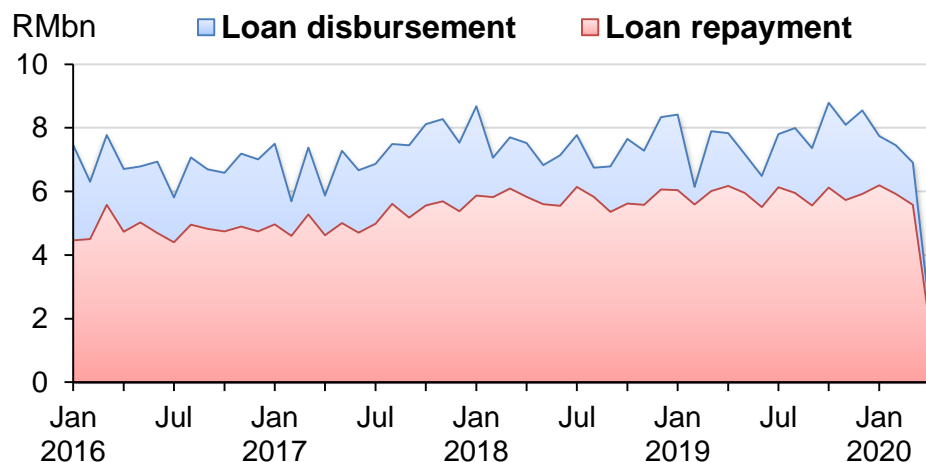
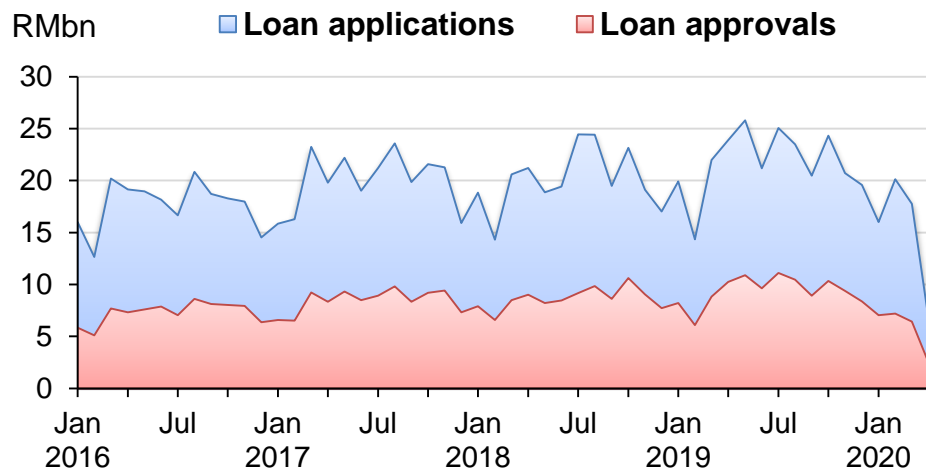
- **Growth in Malaysia's House Price Index (HPI) had slowed for seven consecutive years, from 13.4% in 2012 to 1.9% in 2019 (3.3% in 2018).**
- **Average house prices have increased from RM417,974 in 2018 to RM426,155 in 2019.**



Source: NAPIC

Housing loan growth trend

Housing loan applications, approvals, disbursement and repayment slowed sharply in April 2020 due to impact of MCO.



Note: Loan data for April 2018 onwards have been revised to include MBSB Bank Berhad. Source: Bank Negara Malaysia (BNM)

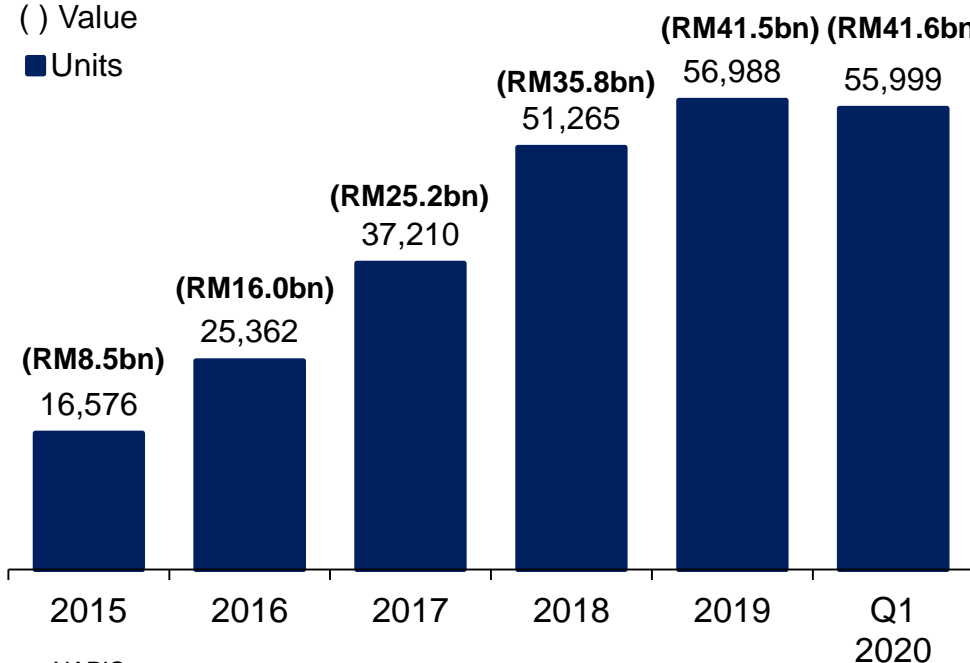
Addressing property overhang

- Malaysia remains **saddled with a massive property overhang five years** after the market nosedived as billions of units remain idle in the market.
- The **persistent overhang (completed and unsold)** in overall segment of properties (comprising residential property, service apartment, shops, SOHO and industrial property) have been increasing since 2015, from **16,576 units (RM8.5 billion) in 2015 to 55,999 units in 1Q 2020 valued at RM41.6 billion.**

Trend of Overhang

() Value

■ Units



Q1 2020

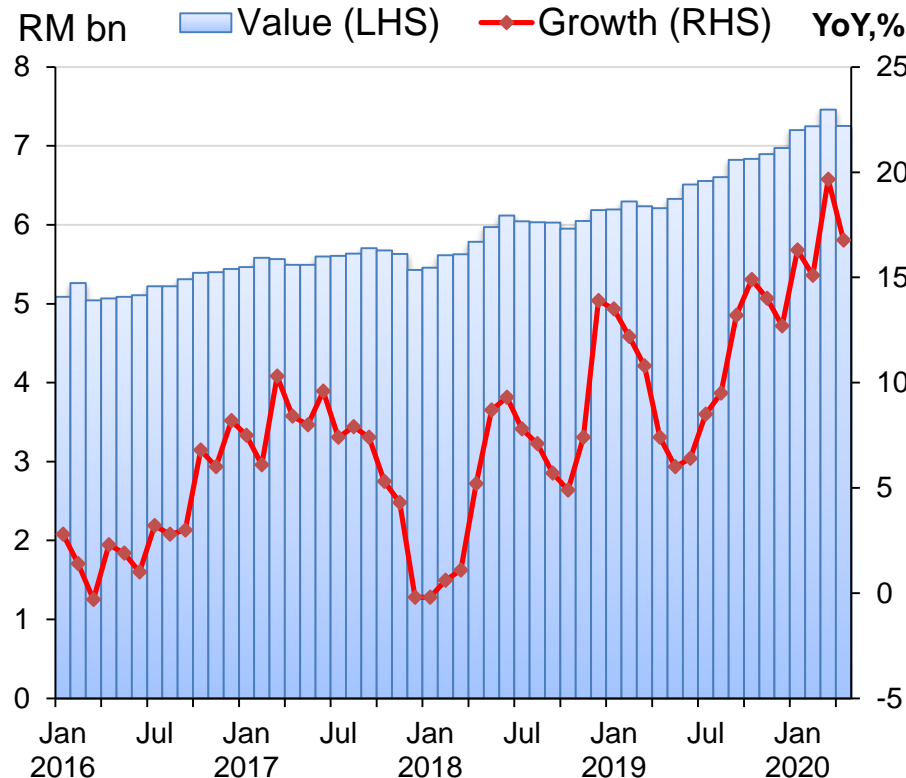
	Unit	RM bn
Residential	29,698	18.9
Service Apartment	16,942	14.9
Shops	6,042	4.9
SOHO	1,979	0.9
Industrial	1,338	2.0

Source: NAPIC

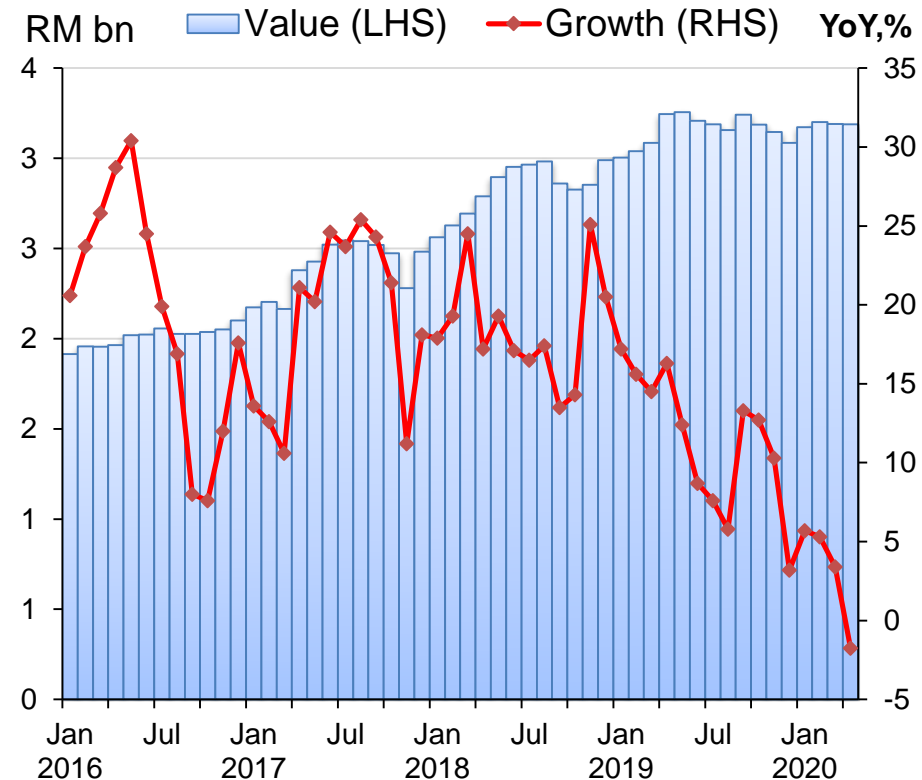
More auction properties in the market

Rising level of non-performing loans for housing indicates more properties are expected to be put up for auction in the near future.

Non-performing loans: Housing Loan



Non-performing loans: Commercial Property Loan



Note: Loan data for April 2018 onwards have been revised to include MBSB Bank Berhad.

Source: BNM

Initiatives and incentives for the property sector



Reintroduction of HOME OWNERSHIP CAMPAIGN (HOC):

- **Stamp duty exemption** on the **instruments of transfer** and **loan agreement** for the purchase of residential homes **priced between RM300,000 to RM2.5 million** subject to **at least 10% discounts** provided by the developer.
- The exemption on the instrument of transfer is limited to the first RM1 million of the home price while **full stamp duty exemption is given on loan agreement** effective for **sales and purchase agreements signed between 1 June 2020 to 31 May 2021**.



RPGT EXEMPTION for disposal of **residential homes from 1 June 2020 to 31 December 2021** (This exemption is limited to the disposal of three units of residential homes per individual).



The **UPLIFTMENT OF CURRENT 70% MARGIN OF FINANCING LIMIT** applicable for the third housing loan onwards for property valued at RM600,000 and above **during the period of the HOC**, subject to internal risk management practices of financial institutions.

Impact on the real estate sector – Much awaited catalysts !

- **Timely relief measures to improve buyers' sentiment** and help to **revive the real estate sector**, which has long been in doldrums and plagued by a massive overhang since 2015.
- Will buyers **rush in or stay on the sidelines**? Will **financial institutions tightened requirements** for new mortgage applicants, including credit score during current economic downturn?
- **Further refinement to measures?**
 - a) **RPGT exemption to include commercial properties, particularly serviced apartment and SOHO.** It is noteworthy that the number of commercial property transactions between individual and individual accounted for 50.1% (or 12,858 transactions) of total commercial property transactions¹ worth RM6.6 billion in 2019.
 - b) **RPGT exemption to include companies owning both commercial and industrial properties.** Some companies have invested in properties as part of their business strategies for capital preservation to hedge against inflation.
 - c) **To review foreign property purchase price threshold level given the low share of foreign property ownership between 0.3% and 1.0% in 2012-2016.** The **weak ringgit and competitively priced property prices in the region** offer a good entry point for foreign buyers intending to choose Malaysia as their second home.

¹ Share of total commercial property transaction = between individual and individual + between developer and individual + between company and individual + between company and company and others

Our wish list for other property-related measures

- **Ease construction and holding costs.** Both **compliance costs**¹ and **capital contribution charges**² could range from 8% to 20% of the gross development value (GDV) of a property project.
- **Allow for an extension of time** (especially for ongoing housing development scheme) or **waiver of Liquidated Ascertained Damages** (LADs) arising from the delaying of works at site caused by the MCO or other COVID-19 supply chain issues.
- **Utility companies (Konsortium Sdn Bhd (IWK), Syarikat Bekalan Air Selangor Sdn Bhd (SYABAS), Telekom Malaysia Bhd (TM) and Tenaga Nasional Bhd (TNB)) consider to reduce capital contribution charges by 50%** since developers are already mandated to lay infrastructure at development projects. Developers provide new customers to utility companies whenever there are new projects development.
- Introduce an **automatic release mechanism for Bumiputera quotas** as a means to balance market forces, at least until the supply glut is corrected.
- **Bumiputera discounts should only be applied for FIRST-Timer house buyer** and for free market housing up to RM700,000. This is in accordance with the practice of Need-Based.
- The Ministry of Housing and Local Government (KPKT) should **expedite the Approval of HDA Account (Regulation 9) Excess Money Release (Pengeluaran Wang Lebihan, Peraturan 9)** in less than 1 month but not 2 to 4 months presently.
- Request LPPSA (Government Loan Department) to **release payment to developers in less than 2 weeks but not in 3 to 5 weeks presently.**
- **Lower land conversion premiums and allow conversion premiums to be paid only upon the launching of each parcel** instead of upfront in one lump sum based on total acreage converted.

1. Refer to development charges, Improvement Service Fund (ISF) contribution, strata title application and land conversion premiums.

2. Refer to payments made by developers to utility providers for the provision of sewerage, telecommunication services, water and electricity in their projects.



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