Polls and the property market

- National Property Information Centre data over the past 18 years reveal a link between general elections and declines in house price growth rates
- Industry stakeholders attribute correlation to other factors such as interest rates, prevailing economic crises and epidemics

by
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OVER the past year, the speculation on when the 14th general election (GE14) will be held appears to have had a dampening effect on the property market.

Home seekers, property investors, developers and other industry stakeholders are believed to have adopted a wait-and-see approach as GE14 draws nearer.

Whatever the outcome of the election, which has to be held before August, industry stakeholders and property owners are hoping for an upswing in the property market when the dust finally settles.

However, property observers and analysts are not in consensus on whether the property market will stage a quick recovery following the polls.

Power of the polls

Pejuang Hartanah Community founder Ahyat Ishak opines that socio-economic trends, along with fiscal and regulatory policies, will determine whether the property segment recovers or "crashes" after the election.

"The macroeconomic statistics show that Malaysia is doing well. Gross domestic product (GDP) growth rate estimates for 2017 ranged from 4.8% (International Monetary Fund) to 5.8% (Malaysian Institute of Economic Research), and even the ringgit is strengthening," he says.

"However, the reality on the streets is that Malaysians aren't feeling these good times, with many even likening the current situation to an 'economic crisis'. This is the disconnect between the macroeconomic statistics and the microeconomics of our purchasing power," Ahyat says.

In other words, while GE14 will set the political tone for the nation moving forward, its immediate effects on the industry are confined to consumer sentiment.

Historically, Ahyat notes that economic recessions have afflicted the nation in 1985, 1998 and 2009, with contractions in GDP of 1.1%, 7.4% and 1.5% respectively, according to the World Bank. None of these recessions coincided with election years.

Information from the National Property Information Centre (Napic), however, points toward a correlation in the short-term between elections and house prices (see chart).

The trend is seen in its Malaysian House Price Index (MHPI), which measures increases in property prices in relation to a base year, with the most recent index using 2000 as a point of reference.

Examining rates of change in the MHPI over the past 18 years, it becomes apparent that election years have coincided with sharp decreases in house price growth in 2004, 2008 and 2013, with growth rates seeing an upswing soon after.

This means that the rise in house prices will tend to slow down markedly before an election, with a subsequent increase after polls conclude, though the rate of growth has not been negative in the past two decades.

"It has been my experience over the past three elections that if you have upcoming polls, people will keep their major decisions on hold, whether it's property investments or otherwise," says ExaStrata Solutions Sdn Bhd CEO Adzman Shah Mohd Ariffin.

"This dip in activity normally starts about a year before the election date. In terms of recovery, however, it may take longer moving forward due to festive seasons such as Chinese New Year and Hari Raya having a cumulative effect with the polls up till at least July, leading to a fallow first half," he adds.

If the trend seen in Napic's MHPI growth rates holds true, GE14 may mark the midpoint of a decline in house price growth rates, with recovery within six to 18 months.

Impact of public policies

Skybridge International Sdn Bhd CEO Adrian Un, however, attributes the trend in Napic's figures to fluctuations in central bank policy.

"If you look at the spike in price growth rates from 2010, for example, that can be attributed to a favourable interest regime set by Bank Negara Malaysia (BNM), which catalysed property purchases in ensuing years," he says.

"Meanwhile, the downward trend in 2000 (following the GE in 1999) can be seen as the aftermath of the 1998 financial crisis, with its subsequent upswing possibly tracing its roots to BNM easing its credit loan terms."

Previous reports on the subject have downplayed the impact of elections on the property segment, though this changed as the polls approach.

Only 4% of respondents in Knight Frank Malaysia's Commercial Real Estate Sentiment Survey 2015, for example, cited political factors as relevant to the performance of the commercial segment.

However, in its 2018 survey, the reverse was found to be true. "Respondents have indicated that Malaysia's political uncertainty with the general election this year will be a major factor," says Knight Frank Malaysia managing director Sarkunan Subramaniam.

"They will negatively impact the commercial property market in the short-term. Many are hoping that the general election will be over with as soon as possible."

In addition, the Malaysian Institute of Estate Agents (MIEA) Property Market Sentiment Report 2017/18 found that 75.1% of participants felt that political stability was necessary for the property market to show improvement after the general election.

Meanwhile, Ernest Cheong PTL Chartered Surveyors (ECPCS) senior partner Ernest Cheong – dubbed the "prophet of doom" – has predicted an upcoming slump for the property segment regardless of election results, due to increasing disparities in household income and price growth.

Bulls and bears in balance

"Skyrocketing prices in the industry have been catalysed by speculation supported by success stories from investors who made their fortunes by flipping properties, driving Malaysian home seekers to purchase properties today that they cannot actually afford," he says.

While those advising a

Activity in the property market generally dips in the year before an election, says Adzman

Above: A growing disconnect between macroeconomic health and microeconomic misery could spell trouble for the property cycle, says Ahyat

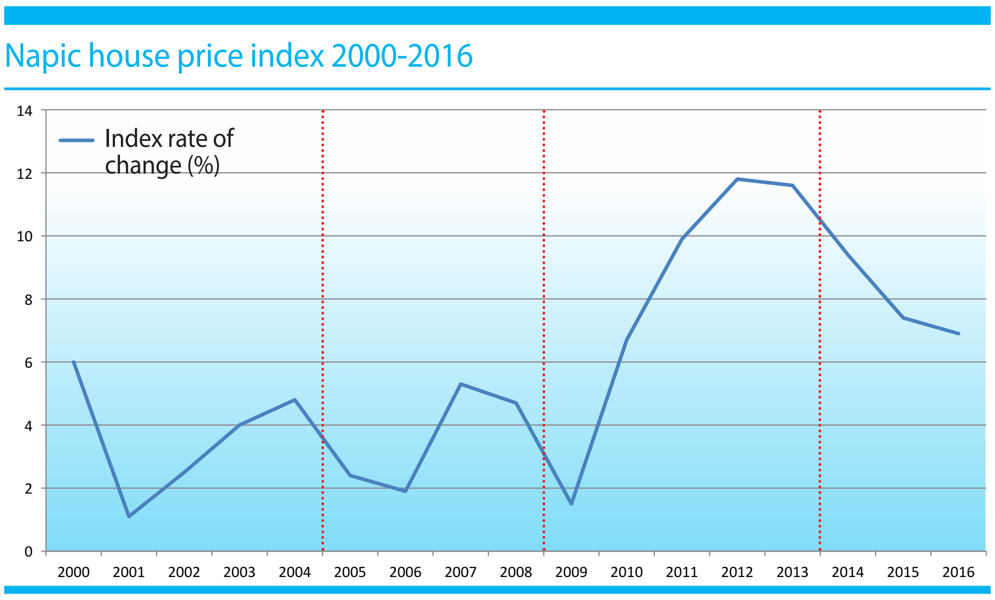
Below: National housing policy issues have grown in importance as election platforms as property prices soar

Industry stakeholders and property owners are hoping for an upswing in the property market after the election

cautious stance on property purchases focus on the microeconomics of price inflation in specific areas as a function of household income, analysts with more "bullish" philosophies maintain that the momentum of the industry's boom-bust cycle will continue unabated.

"It may be getting more difficult to buy property for owner-occupation purposes, but this trend is not particular to Malaysia. It is a reality in international markets such as Spain, Portugal, other parts of Europe, Australia and the UK as well," says Ahyat.

"Even so, property remains a cornerstone for wealth accumulation for this very reason, as those with industry-specific knowledge and networks can find opportunities even in times of crisis, as property values will tend to grow with development and infrastructure."



Source: National Property Information Centre

This macroeconomic perspective is supported by recent figures from the Valuation and Property Services Department (JPPH), which found that while transaction volumes dropped by 4.3% from 239,916 in 2016 to 229,529 in 2017, their value actually increased by 6.7% from RM95.85 bil to RM102.29 bil.

At its heart, the debate between property bulls and bears comes down to the perennial conflict between investor and owner-occupier interests, with developers caught in the middle as both demographics represent key markets for their products.

Trickledown in question

However, with the introduction of measures such as the proposed freeze on approvals of luxury properties as well as an increasing emphasis on national affordable housing initiatives, many analysts expect the situation to be resolved in favour of home seekers.

This is due to an overhang in high-end properties in the market, as well as the fact that demand for affordable properties exceed that for luxury projects. As such, policymakers are more likely to cater to home buyers seeking affordable properties as they constitute a larger voting bloc than high-end home seekers.

In H1 2017, JPPH recorded 79,191 transactions for properties priced RM500,000 and below, constituting 83% of total volume over that period, and only 15,801 for projects above this range.

At the affordable housing range, properties priced at RM250,000 and below accounted for 51,834 transactions or 55% of volume. Despite this, only 21% of new launches from 2016 to Q1 2017 were priced in this range, according to BNM, highlighting the gap between supply and demand.

Real income on the wane

The crux of the matter lies in disparate growth rates between household income and property prices. In 1995, the national median household income was RM1,377. By 2016, the Department of Statistics Malaysia reported that this figure had risen by a factor of 3.8 to RM5,228.

However, the median price of a terraced home in Kuala Lumpur increased nearly eightfold from RM94,050 to RM746,500 over the same period, more than double the rate of income growth, according to JPPH.

"Young Malaysians today are finding it hard to get by on their salaries, and often need parental help, according to the 2017 HSBC study The Power of Protection: Facing the Future," says ECPCS' Cheong.

As property prices soar out of reach of the majority of the population, affordable housing has become a common platform at the polls campaign, featuring prominently in the platforms of both coalitions in the 2013 election. FocusM

Any correlation between house price growth and election years can be explained by central bank interest rates and other factors, says Un

Purchasing power has decreased steadily in the past few decades, with dire consequences for the next generation of home seekers, says Cheong

Evolution of national housing policy

THE era of modern housing in Malaysia had its genesis in 1976, with the promulgation of a "home-owning democracy" on the part of the federal government.

This was supported by regulations requiring commercial banks to allocate up to 30% of their annual lending to the housing industry, as well as the advent of the Housing Development Act 1966.

This law approved a payment scheme where developers could receive instalments from purchasers as construction on a project progressed, catalysing development in the property industry.

The government has adopted a strategy of direct intervention in the low-cost housing segment implemented by state governments with loans from the Federal Treasury since the Fourth Malaysia Plan, launched in 1981.

The Sixth, Seventh and Eighth Malaysia Plans set housing goals in the public sector of 174,000, 230,000 and 312,000 units from 1991 to 2005, with target completion rates of 49%, 53% and 61% respectively.

The targets were 399,000, 570,000 and 303,000 units for the private sector over the same period, with achievement rates of 141%, 129% and 216% respectively.

While early affordable housing was provided largely by the public sector, new regulations in the 1970s required private developers to participate in the national housing agenda.

From 1996 to 2000, 68% of 190,597 low-cost units were built by the private sector. However, initiatives in the space have been hampered by increasing costs. Aside from rising land, material and labour costs, infrastructure and amenities such as sewerage systems are growing considerations as well.

In 1970, for example, public services only accounted for 25% of the gross land area of a project. By 2005, this had increased to 55%, with a commensurate increase in costs.

These trends have led to skyrocketing property prices, making affordable housing an ever-increasing campaign platform in recent general elections.

Differing opinions on impact of polls

GIVEN the polarising nature of the electoral process, it's no surprise that its impact on the property sector draws diverse views from industry stakeholders.

Real estate consultancy Knight Frank Malaysia Sdn Bhd, for example, attributes any causal relationship between the National Property Information Centre's Malaysian House Price Index (MHPI) and election years to larger social trends.

"The 2004-2005 slowdown, for example, was precipitated by the wider SARS (severe acute respiratory syndrome) scare around the same time," says Knight Frank Malaysia Sdn Bhd managing director Sarkunan Subramaniam.

"From 2008 to 2009, you had the global financial crisis, caused by factors such as the collapse of Lehman Brothers Holdings Inc. The current situation can be explained by the cooling measures introduced to curb speculation, and so on."

Meanwhile, developers like BRDB Developments Sdn Bhd acknowledge the effect of the polls on property, citing political stability as a key factor in industry health, though specific impacts may vary with market positioning.

"General elections are integral to any democracy, and businesses within these democracies need to take them in their stride," says BRDB CEO Kajendra Pathmanathan.

"With that said, I do think that the conclusion of the upcoming election will give some impetus and a momentum boost to the property segment, while bringing some stability back to the industry."

With regard to house price movements as a function of election years, Kajendra downplays the relation between the two, attributing such trends to Bank Negara Malaysia policies instead.

"I first joined the group in 2013, which was an election year. We were in the midst of building our Serai condominium in Bangsar at the time, which did very well," he says.

"However, BRDB's history has afforded us a safe, stable position throughout almost any economic downturn or variance, with our core business targeting the niche, high-end segment."