

Letter to editor

Post covid-19: what next for real estate industrial sector in Malaysia?

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1.0 Introduction

The real estate industry in Malaysia consists of four sub-sectors; there are residential, commercial, industrial, and land. Considering the weight of effect to the real estate industry due to Covid-19, we would like to address the strategic marketing that should be undertaken by real industry players post Covid-19.

2.0 Residential/Housing

This anxious and nervous climate post-Covid-19 is likely to continue having a knock-on effect for months to come. Dr. Foo Chee Hung a manager of product research & development at MKH Berhad in his recent article titled '*COVID-19: How will Malaysia's housing market perform?*' posted in The Edge Property, mention that Malaysia's housing prices only suffered a decline between 1998 and 1999 which was due to the lingering effects of the 1997 Asian Financial Crisis. He also stated that he is optimistic about the Economic Crisis of Post Covid-19 of its market contraction caused by Covid-19. It is unlikely as severe as those experienced in the Asian Financial Crisis, where a plunge of 47.6% in terms of housing value was recorded for the year 1998.

As of April 2020, Malaysian Institute of Estate Agents (MIEA) President Lim Boon Ping, as reported in The Edge Market, said that the real estate housing property market would shift into a buyer's market. It is a massive shift from pre-Covid-19 sellers' market; with housing property, prices at best could decline by 10%, and at most could decline by 20%. The outlook here, despite the plunge in terms of value at most at 20%, the silver lining is that we might not be able to see as much as the 1997 Asian Financial Crisis record of 47.6% drops in value in the year 1998. Dr. Foo Chee Hung said in the Edge Market that the housing market would likely see a **healthy price correction contrary** to past experienced during the 1997 Asian Financial Crisis due to the different causes of a recession.

The novel coronavirus outbreak is likely going to impact the real estate property market not just from the supply chain disruption as the Movement Enhanced Order set up by the Malaysia Government shifted considerable changes in 'consumer behavior' as more companies encouraging employees to work from home, therefore, working from home may become more prevalent shortly, shifting commute times, adapting home offices, higher demand of high-speed broadband connection and likely a less demand for the natural single-use commercial office area.

With economic uncertainties caused by the Covid-19 pandemic, weak market sentiments are expected by experts to remain until the end-2020 before markets gradually rebound in 2021. The housing industry will experience a slowdown with the Moratorium introduced by the Malaysian Government in April, which took effect until October 2020. While looking at ways to encourage homeownership, the Government must see how it can spur market demand while preventing house prices from rising steeply.

Under the Economic Rejuvenation Policy introduced by the current Malaysian Prime Minister Tan Sri Muhyiddin Yassin, the Home Ownership Campaign (HOC) was reintroduced offering stamp duty waivers on instruments of transfer and loan agreements for Sales and Purchase Agreements signed from June 1, 2020, to May 31, 2021, for the purchase of homes priced from RM300, 000 to RM2.5 million. The exemption on the instrument of transfer is limited to the first RM1 million of the home purchase price. Homebuyers also get to enjoy at least a 10% discount from property developers. Meanwhile, the Real Property Gains Tax (RPGT) will be exempted from the disposal of residential properties by Malaysian individuals from June 1, 2020, to Dec 2021, which is limited to three properties per individual. This is an excellent initiative by the Government to introduce more potential new housing buyers and well welcome by real estate industry players.

3.0 Commercial

Even though the post-Covid-19 will only affect housing prices at most at 20% of the decline, how much satisfied the demand for commercial lot office area is remain unknown and the cloud of certainties for all real estate industrial players. Tech companies like Google concluded that the performance of remote and co-located teams showed no

significant differences. A 2019 study at the U.S. Patent and Trademark Office found remotely patent examiners more productive than co-located teams. Change is underway for working patterns shift. Simon Rubinsohn, RICS Chief Economist, said, “*The impact of COVID-19 on sentiment in the commercial property sector was always going to make for painful reading. However, the erosion in confidence is stark*”.

In the context of Malaysia, we are sure to see less demand for single-use commercial lot office. However, many industrial players are still uncertain how much it will affect the demand for Small-Office Home-Office (SoHo), Small office Flexible office (SoFo), and Small office Virtual office (SoVo). According to Malaysia's Housing Development (Control and Licensing) Act 1966, SoHo units have a marketable title but are used for residential purposes, as they are all commercial-titled, owners of these units must be prepared to pay an assessment, water, and electricity and telephone bills based on commercial rates, which are generally higher than residential rates. The advancement of high-speed broadband connection in Malaysia since the start of the 21st century until 2019, as reported by the Department of Statistics of Malaysia as reported in The Star on April 10, 2020, the household access to the internet in Malaysia is at 90.1% at 2019. As Malaysia is on track to see a record of 100% of internet access across her general population with each household has access to the internet, there is undoubtedly going to be less demand for Small-Office Home-Office in Malaysia the land and strata title is commercial-titled.

Report stated that employees Working From Home (WFH) only constituted about 28% of total employment sectors with higher shares of WFH also tend to have higher pay, more common among skilled workers and uncommon among Vulnerable workers consist of the self-employed, low-skilled and low-paid workers as they are disproportionately affected by the inability to work from home. The concerned matter highlighted by Siti Aiysyah Tumin in her discussion paper title “How common is working from home?”. The prevalence of the long-delayed emergence of remote work of WFH is common among skilled workers will positively affect single-use commercial lot activity. Consequently, the overall demand for single-use commercial office lot as obviously the supporting technology for WFH has significantly improve not just in Malaysia but also globally as the population is getting better at exploiting the advantage of using the internet to develop apps, software, e-commerce, e-warehouse, and other platforms.

They are traditionally co-locating work among employees among private firms; however, a new norm of the emergence of technology evolved in online platforms where work can be done in either formal or informal ways. Online cloud sharing platforms such as Google Docs, Google Drive, Microsoft Teams, SAS Online, Online Geographical Information System (GIS) Database, and other similar platforms have made it easy to distribute works among employees.

Although Covid-19 could lead to a slowdown in the commercial property market over the short term, Malaysia could gain and come up more reliable in the mid- to longer-term due to its proactive control of the situation by the Malaysian Government.

E-commerce trades in retail, food delivery players, healthcare goods and services, online learning platforms, and goods import retailers have received more interest that is substantial markedly since the Covid-19 pandemic outbreak surfaced in Malaysia.

Department of Statistics of Malaysia highlighted that the possible mixed-bag performance across various retail trades with the higher overall number of retailers likely to suffer lower sales takings mainly due to declining footfall at physical stores could result in retail rents registering an overall decline in the first half of 2020 as the year to year of the Sales value of Wholesale & Retail Trade registered -36.6% slump in April 2020 as compared to April 2019.

According to Tan Hai Sin, the Managing Director of Retail Group as reported in The Star on June 11, 2020, he said that the group is expecting not more than 10% of mall tenants to close versus "closures as high as 30%" for those located outside malls." The slump in the retail sector is massive as the market became less dynamic for small business owners. They are experiencing a higher risk of closure than tenants in large malls.

The changes in consumer spending behavior that more preferring online purchases have affected many numbers of small retailers to suffer lower sales due to declining footfall at physical stores. If the trend continues to post Covid-19 as customers remain cautious in their spending behavior, there is likely less demand for retail floor space for real estate industry players. The rental market for retail stores is also likely to see a drop in rental charges due to declining demand from new potential renters.

4.0 Industrial

According to the Department of Statistics of Malaysia (DOSM), year-to-year Malaysia's Industrial Production Index slumped 32.0% in April 2020 compared to April 2019. A slowdown in manufacturing activity and industrial floor space take-up due to delays in significant decision-making by industrialists until the impact on businesses is more apparent in the coming months. To tackle the uncertainties, the Malaysian Government allocated RM35 billion Short-Term Economic Recovery Plan (Penjana) to benefit the real estate sectors.

According to Allan Sim, the executive director of Capital Markets, as reported in The Edge Market, “*Post Covid-19, we expect to see more major companies looking to diversify and decentralize their supply chains across countries and regions to mitigate geographical risks on production lines or material sourcing. The decoupling of US-China supply chains is also evident as trade tensions continue to intensify.*” The outlook for Industrial sector remain positive as major companies decentralize their supply chain, Malaysia real estate sector is optimistic with potential entry/relocation of new global industrial players. Malaysia, the real estate sector, will benefit from the demand for new tracts of industrial lands from major companies looking for potential new land to set up their new manufacturing operations.

5.0 Opportunity and Risk

Now let us move to the big question, how an industrial player in the real estate sector should respond to post Covid-19. What is the opportunity lies ahead for industrial players, and what rather challenges that much be addressed to be taken as a potential future opportunity? Although the Covid-19 pandemic affecting the global economy, there is a silver lining for companies, real estate developers, unions, and contractors that willing to turn the problem into a golden opportunity by providing solutions for each addressed problem.

5.1 Price

Firstly, industry players must be strategic in determining the price of their production units. The future housing market post-Covid-19 is the buyer's market. Since the 2010s, the housing market has always been a sellers' market. We have seen rapid house price growth, with a rapid supply of new housing, especially the high-end luxury housing type, thus leading to nationwide housing affordability. House prices may drop slightly during Covid-19, the housing market will soon return to its long-running trajectory of rising prices often past economic recession fast recovery is observed in the market after a crisis due to confidence and optimism by housing buyers upon future capital appreciation from real estate investment of housing property. The buyers' drop of property, prices, and optimism that the housing market will bounce back from Covid-19 will likely help the number of sales of overhang high-end luxury properties of mainly single and semi-detached landed houses. During to recession, property developers must focus more on supplying more affordable housing in the market and aggressively marketing the unsold overhang luxury high-end properties. This is an excellent opportunity for property developers to gain profit maximization. This is an excellent help for property developers in reducing their existing inventories by focusing more on selling overhang units rather than launching new projects during these uncertain times. Even though the housing real estate industry is not expected to be the worst hit, the real estate industry itself will only recover depending on the recovery of the economy.

The housing market contractions caused by Covid-19 are unlikely as severe as those experienced in the 1997 Asian Financial Crisis, as previously the root cause was the financial sector, while this time around the cause is due to weak market sentiment and lack of buyer's traffic in the housing market.

5.2 Creative Marketing

Secondly, online marketing channels that are being explored by property developers include three-dimensional videos of show-flats, interactive e-brochures, along with stepped-up strategies such as content marketing and social media. These strategies are more effective in reaching out to a broader audience in the mass-market segment. For high-end projects, the on-site show-flat experience and dedicated video call consultation as an alternative to a traditional face-to-face meeting with clients by brokers, bankers, and lawyers still prevail as these efforts help to increase sales conversion. According to Malaysia Institute of Estate Agents, there are recorded cases where despite the implementation of the Movement Control Order (MCO), which has resulted in no real estate property site visit viewings, moving in and out of properties, and sale and purchase (S&P) agreements being signed meaning there have been some property deals that have been closed without viewings. This creative marketing of online virtual tours experiences enables property developers to ensure launch schedules are met, and the sales process starts promptly. This will significantly help property developers in reducing their existing inventories.

5.3 Value

Thirdly, as the post-Covid-19 property market is a buyers' market, property developers must stay competitive and maintain their strategic positioning by giving customers maximum value relative to the prices they pay. Housing quality in terms of internet connectivity accessibility, location, connectivity, infrastructure, amenities, and facilities are all key to future property value appreciation by customers. Property developers must educate their customers about their product and project's benefits to increase their sales conversion.

5.4 Customer Relationships

Fourth, the emergence of video calls and other social media platforms has enabled property developers and agents to maintain contacts with their buyers through the online marketing channel. The adoption of Industry 4.0 (I4.0) should

be utilized to narrow the gap on the information on prices, types of property, and location. As travel restrictions are still in effect, real estate players are focusing on an online platform to engage with their overseas customers. Real estate is a long-term industry; sellers must focus on long-term gains for potential customers. Even though the current market sentiment is weak, customer confidence could return swiftly as the number of new Covid-19 cases dwindle globally.

5.5 Customer-Focused Business

Fifth, the real estate industry since the 2010s has been a sellers' market. Now it is changing into a buyer's market. It is a new normal for the real estate industry to shift into a more customer-focused business, which is associated with other types of industry. With the emergence of Industrial 4.0, the real estate industry must utilize the technology to match user expectations. The commercial office and retail estate industry are expected to see a slump. To brace for challenges ahead, real estate industry players must be aware of the then-new normal of customer's needs and preferences that have changed post-Covid-19. This new normal requires Real Estate Developers to remain calm and focus as customer spending behavior is more cautious during the recession as people are more concerned about safety and security than they are about the high potential and significant gain.

5.6 Sustainability

The sixth recommendation for property developers is to thrive for sustainable development. As sustainable lifestyle choices have become increasingly mainstream, a core group of consumers has grown with real estate development that is environmentally friendly. Sustainable business practices can give a restaurant a competitive edge; in this digital era, property developers must educate and inform their customers on the effort that has been taken by property developers to ensure sustainable development. Real estate companies should support Sustainable Development Goals by the United Nations. They should feature this information prominently in their label. Property developers must participate in sustainability fairs.

5.7 Value Proposition

The seventh recommendation for real estate industry players is to look at the value proposition of their product units that are offered to customers. The value proposition is the mixture of benefits offered by a given product. It is the relative weight of a product's benefits in the minds of customers compared to its price. Understanding the product concept and formulation of marketing strategies is key to building a strong value proposition for a given product. In a buyers' market, to strengthen the market positioning of a real estate firm, a firm must focus on the right real estate products to cater to affordability.

6.0 Recovery of Covid-19 – Opportunity and Risk

Since early June 2020, Malaysia's confirmed cases of Covid-19 has continued to decline as reported by Malaysia Ministry of Health as public confidence will bounce back with the declining cases of Covid-19, this will provide an excellent opportunity for local real estate industry with expected v-shaped recovery. However, the Covid-19 pandemic outbreak is still widely spread globally with South America has become its new epicenter and raising concerns about a second wave of the outbreak in the United States of America. As on June 12, 2020, as reported in The Edge Market, oil prices extend slump Brent crude was down \$1.15, or 3%, at \$37.40 a barrel, having dropped nearly 8% the previous session. A surge in U.S. coronavirus cases has raised the prospect of a second wave of the outbreak slamming demand in the world's biggest consumer of crude and fuel.

For Real Estate Industry to recover, the best-case scenario is that number of new confirmed cases of Covid-19 remains below, the real estate industry is going to face a v-shaped recovery while there worst-case scenario is a u-shaped recovery that will take longer times due to new waves of Covid-19 pandemic outbreak and real estate industry players are going to be hit again by the weak market sentiment and the general public will remain cautious with their spending behavior as with the global economy continues to slump with continues rising concerns over the pandemic's impact on world economic health. As the full effect of Covid-19 is still full of uncertainty and the pandemic outbreak is still widely spread globally with the U.S. raising the prospect of the second-wave outbreak, in my personal views, real estate industry players must brace for impact, as a u-shaped recovery is more likely to hit the real estate industry.