



Market cannibalisation in housing industry

INTRODUCTION

► **Cannibalisation** refers to a situation where a retailer opens a new store located close to an existing store, with the result that many of the new store's customers are not new at all but are customers of the old store who, for whatever reason, prefer the newer store. When this happens, the stores face a zero-sum game – the existing store loses customers to the new store.

► While market cannibalisation has been of significance in the retail industry, there is seldom a debate on market cannibalisation in the housing industry, due to the fact that the country's housing needs always outgrow the residential supply stock. However, following the weak demand and moderation in sales performance, coupled with the high number of unsold inventory in the residential housing sector, there is a high possibility that new launches will "eat" up the demand for the current product, and eventually affect both the sales volume and market share of the existing housing stock.

PROBLEMS

► Overbuilding of affordable housing is the main factor that intensifies market cannibalisation. This is testified by the increasing number of new launches priced RM300k and below in the country (Figure 1). The situation in Klang Valley is even more intense as there is a rapid growth of supply of affordable housing in the market, with a CAGR of 62.3% over the last five years.

► The introduction of a large amount of affordable housing (priced at RM300k and below) not only causes competition among products in the same price range, but also

Property Type	Production Rate (CAGR)	Absorption Rate (CAGR)
More than RM1 million	36.5%	44.3%
RM500k to RM1 million	57.4%	63.7%
RM300k to RM500k	30.7%	39.8%
Less than RM300k	52.3%	46.4%

Table 1: CAGR of housing production and absorption in Malaysia, 2013 – 2017

cannibalises the existing stock of "immediate affordable housing" (priced at RM300k to RM500k) and high-end housing (priced at RM500k and above), as end users tend to be fence sitters during the weak macro-economic conditions, waiting for better housing opportunity and new launches that match their affordability level.

► Currently, the industry is producing houses faster than the market can absorb. The newly launched affordable homes, from 2013 to 2017, was increasing with a CAGR of 52.3%, as compared to the unit sold, with a CAGR of 46.4% (Table 1). This inevitably inflates the already crowded affordable housing market segment, resulting in a spike of unsold stock.

► The situation of overbuilding in Klang Valley becomes more intense, as the absorption rates of both the affordable housing (RM300k and below) and "immediate affordable housing" (RM300k to RM500k), 105.1% and 50.1% respectively, are

Property Type	Production Rate (CAGR)	Absorption Rate (CAGR)
More than RM1 million	25.3%	38.7%
RM500k to RM1 million	62.6%	79.8%
RM300k to RM500k	79.8%	50.1%
Less than RM300k	155.7%	105.1%

Table 2: CAGR of housing production and absorption in Klang Valley, 2013 – 2017

lower than the production rate, 155.7% and 59.9% respectively (Table 2); indicating that any additional new supplies of housing around this price range are unlikely to be absorbed by the market in a short period of time. As a consequence, longer sales period is needed to achieve break even that secures the project viability, leading to a situation where developers may face significant cash flow challenge.

► In fact, active involvement of government agencies in building affordable houses (PRiMA, SPNB, RumahWip, PPR etc.) has been a threat to private developers, as this results in competition between the private for sale units and the subsidised public or quasi-public housing schemes. In the long run, this competition can frustrate private profit expectations, crowding out the private investors from the affordable housing market segment, leading to the slowdown of readjustment process in the country's housing production and delivery system.

PROPOSITIONS

► Given that there is a lack of coordination between the public and private sectors in providing affordable homes, the government should play a different role and work towards being a facilitator or a provider of incentives to help boost the industry, instead of competing with the private sector.

► An ideal move for the government would be to incentivise developers to build affordable housing through lower development charges, lesser parking, relaxation in planning requirements, as well as lower down or abolish any unnecessary charges or requirements that would increase the cost of doing business, so that the savings can be passed on to house buyers in the form of more affordable housing.

► Moving forward, it is prudent for the government to establish a single entity to streamline the country's effort in delivering affordable housing to the people. It is also imperative for the up-coming National Housing Policy (NHP) to clearly spell out the scope and parameters for both the public and private sectors; so as to increase the feasibility of each project, as well as to optimise the efficient use of resources.

► Last but not least, there is a necessity to establish an integrated housing database that consolidates data from multiple agencies at federal, state, and local levels which can help to increase the housing supply responsiveness. By making these data accessible to all the industry players, a better understanding on how new launches perform in matching the local affordability level is achieved; and hence, an adequate supply and diversity of housing opportunities is available in the country.

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PROPERTY LISTINGS

in Kuala Lumpur

Project: **Rei Seraya Residence**
 Type: **Senior living residences**
 Price: **For lease only**
 Developer: **Pelaburan Hartanah Bhd, UEM Group Bhd and Medical Care Service Inc**

This project is a luxury retirement community offering the option of either independent or assisted living, located in Jalan Ampang, next to Gleneagles Hospital. The 100 assisted living units are sized at 300 sq ft while the 200 independent living units are sized at 900 sq ft. The project is designed for senior living, with a 24-hour emergency response system, concierge and reception services as well as cleaning, maintenance and security.



Project: **The Valleys**
 Type: **Condominiums**
 Price: **From RM392,000**
 Developer: **SkyWorld Development Group**

The Valleys is the first phase of an integrated development known as SkySierra. It is located in Setiawangsa, 5km from the city centre and next to Aeon AU2 shopping mall. It offers 1,309 units housed within three towers, with built-ups ranging from 800 sq ft to 1,318 sq ft. Dual key units are also available. The project is close to LRT stations and is connected to major highways.



Project: **The Era**
 Type: **Condominiums**
 Price: **From RM375,900**
 Developer: **JKG Land Bhd**

The Era is a freehold mixed development located at Duta North, also known as Segambut. The 11-acre project comprises residential towers and a retail component, complemented by six acres of landscaped forest village and wetlands. The first phase of the residential component offers 921 units housed within two blocks, with built-ups ranging from 614 sq ft to 2,928 sq ft.

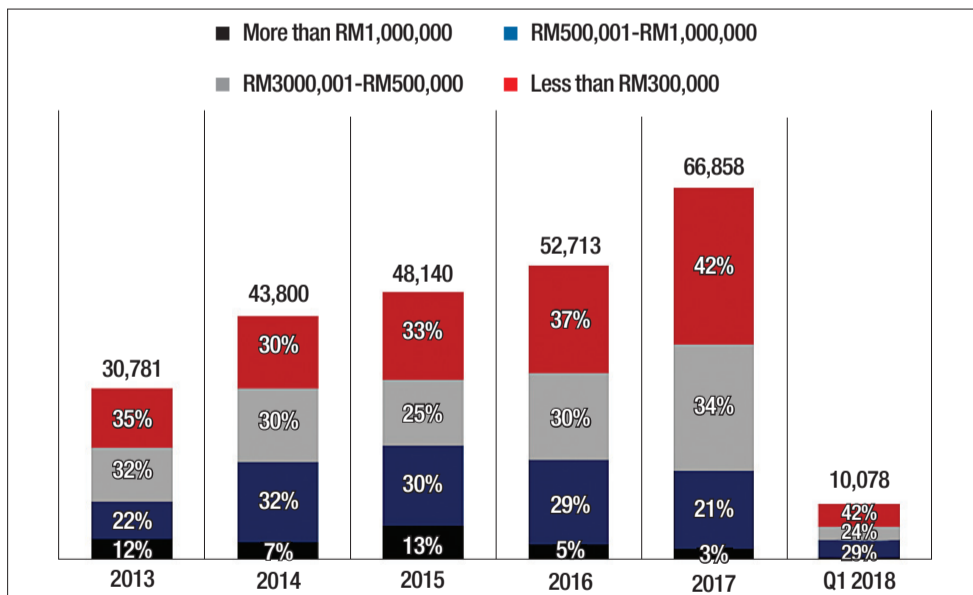


Figure 1: Residential new launches in Malaysia, 2013 - Q1 2018

IOI Properties offers rent-to-own for three projects

PETALING JAYA: IOI Properties is offering three projects under a rent-to-own campaign that will run until Sept 30, 2018.

The projects are Muse by the Sky at Bandar Puchong Jaya; Seri Puteri Hills at Bandar Puteri Puchong and La Thea Residences at 16 Sierra. All these properties are already completed.

The scheme allows for prospective buyers to choose to rent units in the projects for 36 months.

At the end of the tenancy, they can choose to buy the property – at a locked in

price. It comes with a 100% refund of the rental paid for the first two years.

"On top of that, you will also get a rebate of up to 9%," IOI Properties said in a statement.

It said the campaign is expected to help those needing more time to gather money for the down payment; to beef up loan eligibility; and those unsure if the new place is the right choice for them.

For more information, surf www.ioiproperties.com.my/renttoown or call 03-8947 8888.