Property Outlook 2014 – Inte

Further to the cooling measures introduced by the Government as announced in Budget 2014 to curb increased property prices, the media showed keen interest in REHDA's views on the property outlook for Malaysia in 2014. Many interviews with REHDA President Datuk Seri Michael KC Yam were held over the last few months. In this issue of REHDA Bulletin we share Datuk Seri Michael KC Yam's outlook for 2014 with members and readers.

M: In your opinion, how did the year 2013 pan out for the property sector?

DSMY: In general, the property market remained healthy with local buyers still dominating the market. Results of the REHDA Property Industry Survey H1 2013 showed better sales performance for 1H 2013 with 6,095 (56%) units sold compared to 2H 2012 at only 4,822 (46%) units sold.

The survey findings also indicated that future launches are anticipated to continue to be on the upward trend with strata properties expected to dominate the market. Launches were especially active in Selangor, Melaka, Kedah and Johor.

According to NAPIC's Property Market Report for 1H 2013, the first half of 2013 recorded 118,890 residential property transactions worth RM32.95 billion. This was lower by 12.6% in volume but value slightly increased by 1.0% against H1 2012. Compared to H2 2012, volume and value of transaction decline by 13.0% and 6.3%.

The report also stated that by type, housing units made up 82.0% (97,456 transactions) of the market share whilst 18.0% (21,387 units) were vacant plots. Terraced houses were most sought after capturing 47.8% (46,605 units) of residential transactions followed by condominium/apartment at 15.4% (15,022 units) and low-cost units at 11.2% (10,931 units). Overall, the property market has done well.

M: What is your view on the various measures announced by the Government to curb speculation – hike in the real property gains tax (RPGT), the removal of the developers interest bearing scheme (DIBS), foreign ownership threshold and Bank Negara Malaysia's circular on Measures to Promote Sustainability of the Property Market (to tackle the issue of lending by house buyers and developers, the display of detailed sales price including benefits and incentives such as legal fees exemption, cash rebates and free gifts, etc).

DSMY: On RPGT increase

The increase in RPGT may be able to help curb speculation to an extent but only in certain hot spots, hence it is really not necessary. We expect that the primary and secondary market will be impacted following from the RPGT increase, particularly genuine buyers who may want to upgrade or relocate within the first five years of acquisition.

Whilst such measure is aimed at curbing speculative activities in certain market segments, in reality, the presence of speculators in the market is insignificant. The value of residential transaction in 2012 for instance, totalled RM67 billion, out of which more than RM50 billion are secondary property transactions and this definitely cannot be the target of speculators. The balance RM17 billion are property transactions in new developments and speculation activities can only be a minority of this amount in pockets of hot spots targeted by speculators.

The increase, may instead backfire and lead to further increase of property prices. For example, a homeowner may choose to hold on to their property for some time to avoid paying the high RPGT rate thereby, affecting supply in the vibrant secondary market and eventually reducing demand. The decrease in demand may put more price pressure on new launches.

On Removal of DIBS

We believed that removing DIBS will hurt genuine buyers especially first time home buyers. Innovative home financing packages such as DIBS are mostly offered by developers of high premium properties in certain hot spots in Kuala Lumpur, Penang and Johor and have been helpful as they have made home financing easy to buyers.

The primary intent behind the introduction of the innovative DIBS home financing package by some developers was to facilitate home buyers in their acquisition cost during the initial stage of purchase. The initial cost involved in property acquisition may be quite hefty as they include not only the 10% of property price as down payment upon signing of the Sale and Purchase Agreement but also many other incidental cost which buyers would have to cover out of their own pockets which may put any first time buyers out of the equation. With the presence of DIBS, house buyers' financial burden to come out with the high upfront acquisition cost will be alleviated.

On Increase in foreign ownership threshold

The new requirement allowing foreigners to buy only properties worth RM1 million or more is highly likely to hit the market. The imposition will certainly reduce sentiments from foreign buyers and affect foreign property investment into the country, whereas, the various economic corridors in Malaysia are currently growing very rapidly with most professional foreign expats residing within these locations. For instance, foreign purchasers accounts for 54% of residential sales in Nusajaya and 39% in Johor Bahru (CBRE property consultants). We anticipate a knee-jerk slowdown in overall sales especially in these areas in the near term as the market has become less attractive.

It is also vital to note that there is very limited supply of properties above RM500, 000 in many urban areas outside the Klang Valley, Penang and Johor Baharu, while properties above RM1 million are almost non-existent in such locations. As the Malaysian housing and property market is not

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homogeneous, the industry is of the opinion that imposing the increase of threshold across the board is rather unfair and counter-productive to the Government's effort to promote foreign talents and the Malaysia My Second Home programme.

REHDA feels that the Government should look at having a tiered floor pricing, where higher prices could be set for larger homes instead of a flat price for all units. It is impractical to impose a blanket price for the whole country when some foreigners may wish to purchase a house on the outskirts where the cost is much lower than RM1 million. Besides, this will also restrict the development of smaller units such as such as studio and one-bedroom apartments as prices for these type of properties are usually below RM1 million.

On Imposition of GST

Similarly, the imposition of GST on the property sector would have adverse cost impact on investors and the public at large. At present, land and property transactions are already subjected to stamp duty at a rate of 2.75% on average. The imposition of GST, either through exempt or standard ratings will result in double taxation and inevitably lead to higher cost of property acquisition.

As the Government has decided that residential transaction is an exempt supply, this effectively means that developers will have to pay 6% GST on nearly all the inputs required in their development which would result in quite a substantial increase in construction costs but will not be able to claim any input tax.

Eventually, the additional costs will be passed on to house buyers resulting in overall increase in house prices. This will be particularly felt in the residential sector where cost push prices are further widening affordability gaps of the people.

M: How would property developers live up to such challenges?

DSMY: Developers will definitely have to make adjustments accordingly. The subsidy for low cost and medium cost houses especially, are no longer attainable at present moment in view of the sharp rise of land prices and the numerous compliance costs that developers have to bear. Amongst others, compliance to the new regulations of the revised Housing Development Act (Act 118), the deposit of 3% of development cost for developers' license and backloading of progress payment drawdown would inevitability lead to higher costs of development leading to higher selling prices. Ultimately, some of these costs are alleviated by passing on to the end buyers through the cross subsidy method.

M: What is your wish list? What better ways should the government act to safeguard our property sector?

DSMY: For GST, REHDA would like to reiterate its earlier proposal which has been submitted to the Government that property transaction be treated as follows:

Residential	Zero rated or Standard rated
Affordable housing	Zero rated
Non-residential, commercial & industrial	Standard rated

With the implementation of GST, stamp duty on transfer of properties should be abolished to lower the burden of cost to property buyers.

We also believe that some of the more effective measures to curb speculative buying in property would be:

- Tightening of fiscal policies.
- Tighter loan requirements (for third properties and above).
- Proper monitoring and tracking system to identify between genuine buyers and speculators.
- To encourage early home ownership, Government should incentivise young families to buy by assisting in the initial deposit either via a first time home buyers grant or other innovative schemes.
- Revision of stamp duty rates to help reduce cost of purchase and ownership of property especially for first time home buyers.

M: What do you think will be key events and challenges that will shape the sector's prospect in 2014?

DSMY: One of the key events which would be of main focus is the affordable housing projects where developers are given incentives of RM30,000 per unit by the Government to build affordable housing under the MyHome programme. The incentives will certainly encourage private sector developers to build affordable units and we hope the Government will be able to release the details of the programme immediately to accelerate supply of these houses into the market. In addition to that, with the MRT projects fast coming into the pipeline especially in the Greater KL area as well as the ETP/GTP projects progressing rapidly, we believe there will be greater demand for housing.

Amongst the main challenges to the industry would be compliance to new regulations (with hefty penalties) pending the enforcement of the revised Housing Development Act (HDA). The more stringent measures announced by the Government is also expected to give developers greater competition in terms of product offerings, pricing and providing attractive financing facilities especially with the removal of DIBS. In order to survive, developers will need to be more creative in marketing.

M: What is the general outlook for Malaysia's property sector in 2014?

DSMY: We are taking a rather cautious measure especially for the first half of the year as the property market outlook for 2014 is still uncertain. Despite the general sentiment pervading the media and the masses that the property market is slowing down due to the cooling measures announced by the Government and the volatile global economy landscape, I am cautiously optimistic that the Malaysian economy will continue to be robust and in the medium and longer term is resilient against external threats. The challenges, we face are common amongst all nations and in fact in Malaysia's case less acute than most countries.

The Government and the industry through REHDA as one of the NGOs, are working together to try and craft a common stand and policy of housing the nation for the well being of all. Whilst it is still early to comment on the impact of the cooling measures, we believe that buying interest would return in H1 2014 when house buyers realise that property prices are not likely to fall.

M: What are your expectations for the sector in 2014?

DSMY: With the cooling measures announced, we anticipate some impact on the property market. Although the budget is tailored to promote a more stable and sustainable property market, with the reinstatement of Real Property Gains Tax (RPGT), removal of Developer Interest Bearing Scheme (DIBS), affordable housing initiatives by the Government and higher price threshold for foreign buyers, all these measures, will inevitably bring some major changes in both the demand and supply sides of the equation.

M: What areas in Malaysia will be 2014's hot property areas?

DSMY: Some of the hotspot areas include:

- Greater Kuala Lumpur (Puchong, Cheras, Kota Damansara, KLCC and Shah Alam)
- Penang (Penang Island and Seberang Perai)
- Iskandar Region

M — Media
DSMY — Datuk Seri Michael KC Yam