REHDA Budget

Since the beginning of the year, Malaysia's overall economy has been encountering various challenges, mainly due to decline in oil prices, realignment of exchange rates, rising cost of living and weakening market sentiment across the industry. As the Government prepares the 2016 Annual Budget under the new 11th Malaysia Plan, it is hoped that solid fiscal measures will be put in place to improve the country's economic growth while addressing the needs of the people.

REHDA has been actively participating in the annual Budget Consultation Session held by the Ministry of Finance as well as various focus group meetings and dialogues to provide industry's point of view to the Government. We are pleased to reproduce REHDA's Memorandum for Budget 2016 submitted to the Ministry of Finance for the information of our readers:

NON-FACILITATIVE FINANCING POLICIES

In an effort to curb speculation and lessen the rising household debts, the Government had implemented cooling measures as follows:

November 2010	Maximum margin of financing of up to 70% for housing loans of third property onwards
January 2012	Borrowers assessed based on net income rather than gross income
July 2013	Maximum period for housing loans reduced from 45 years to 35 years
2014	Total ban of Developers Interest Bearing Scheme (DIBS)

However, the above measures have negatively impacted home buyers' ability to secure financing and are in contrary to the Government's efforts to promote homeownership.

This also evident from the findings of the REHDA Property Industry Survey H2 2014 which revealed that the number of affected developers reporting loan rejection over sales has increased to almost 50% compared to the previous year's respondents. Home purchasers, particularly, first time home buyers are facing great difficulty in securing housing loans.

Feedback from the market also revealed that while there is strong interest in new launches, there are many cases of end-financing rejection, leading to cancellation of purchase.

Proposal by REHDA

- Investment in property is a wealth creation instrument and therefore must continue to be encouraged. As such, REHDA stands ready to assist the Government in the provision of more affordable housing and proposed the following:
  - » Keep acquisition costs low;
  - » Grants and cheaper financing for first time home buyers;
  - » Accelerated tiered payments - pay less now, pay more later when salary has increased;
  - » More flexible criteria, not merely focusing on net income at the current time but to also take into account higher salaries in the future, other income, bonuses, etc;
  - » Introduce new home buyer friendly financing schemes – lower interest rates, longer loan tenure; and
  - » Encourage innovative home financing packages such as Developers Interest Bearing Scheme (DIBS) to assist buyers lower their entry cost of home ownership.
- DIBS is aimed at helping to ease buyers' cost of home acquisition and not having to pay interest and rentals at the same time during construction period. This is especially useful to help first time home buyers take the first step on the home ownership ladder. The scheme, if implemented under proper guidelines, is an instrument to assist homebuyers in facilitating their acquisition costs with smaller initial outlay.

GOODS AND SERVICES TAX (GST): RESIDENTIAL PROPERTIES

REHDA supports the implementation of GST which makes the current taxation system more comprehensive, efficient, transparent and business friendly.

However, there are some concerns from the industry which REHDA highlighted:

i) GST Relief Order to be applied to Affordable Housing

With residential properties being an exempt supply, the imposition of GST will increase input prices due to disallowance of input tax credits, adding to the cost of development and resulting in overall increase in house prices. Such costs will be eventually passed on to house buyers in terms of higher pricing.

ii) GST Relief Order to be applied to Controlled Price Housing

In the case of controlled-price housing, the increase in construction cost has made cross-subsidisation model for provision of low cost units unjustifiable. At present, the cost to build low cost housing on average (including land cost) is about RM120,000 to RM180,000 for strata properties and between RM150,000 to RM250,000 for landed properties, both of which are sold at a controlled price of RM42,000 maximum.

The pricing is controlled by the state authorities and developers are not allowed to adjust the prices. Cross-subsidies for low cost units have gone up to an average of RM100,000 per unit for strata properties and RM150,000 for landed properties. As such, developers have no other avenues but to distribute these extra costs to other home products.

The GST imposition will result in more additional cost that inevitably will be shouldered by buyers of other segments within a project, pushing prices up further. REHDA is concerned that the GST, in its current form, will have adverse impact on the affordability of housing to the public at large.

Proposal by REHDA

- Residential properties of which the selling price is up to RM500,000 to be considered affordable housing and be given relief under the GST Relief Order. This will mitigate the increased cost for affordable housing and provide status quo opportunities to the target groups to purchase properties and own houses which are comparable to that of the pre-GST regime. The Government would be able to meet the objectives of the National Housing Policy and the property industry would also be encouraged to provide more affordable housing.
- In the event that the Government is not able to give consideration for the GST Relief Order to be applied on affordable housing priced up to RM500,000, REHDA urged the Government to apply the GST Relief Order to controlled priced properties.

iii) Rationalisation of Stamp Duty on Transfer of Commercial/Industrial Properties

Property transactions are imposed with multiple taxes such as RPGT, stamp duty, service tax and etc. At the time of execution of the Sale and Purchase Agreement (SPA), the buyer is required to pay stamp duty levied at the rate determined by the price of property. For example, stamp duty for property priced at RM1,000,000 is as follows:

a) Stamp Duty

Stamp Duty (%)	Selling Price (RM)	Stamp Duty (RM)
1%	100,000	1,000
2%	400,000	8,000
3%	500,000	15,000
Total	1,000,000	**24,000**

Wishlist 2016

b) Imposition of GST will increase the tax to be borne by buyers
Selling Price : RM1,000,000
GST (6%) : RM60,000
Total tax to be borne by buyer:
Stamp Duty : RM24,000
GST (6%) : RM60,000
Total Tax : RM84,000

The imposition of GST would not only add another layer of cost but also imposing double taxation on the property transaction.

Proposal by REHDA

- With the introduction of GST, REHDA proposed that stamp duty on transfer of properties be abolished.

iv) Transitional Provisions – To Allow Contracts with No Opportunity to Review

Under the current provision, any taxable supplies made under a contract with no opportunity for review will be treated as zero-rated supplies for a period of 5 years from the date of implementation of the GST or when a review opportunity arises whichever is the earlier if:

a) both the supplier and the recipient of the contract are GST registered persons;
b) the contracted supply is a taxable supply;
c) the contract must have been irrevocably in place and agreed by all parties, not less than two years before 1 April 2015; and
d) the recipient of the contracted supply is himself making wholly taxable supplies.

If any of the above conditions are not satisfied, the supplier will have to charge GST on the taxable supplies made by him.

However, it will be commercially impractical for the property development industry to comply with all conditions above. The introduction of GST was only announced during Budget 2014 on 25 October 2013 and this law seeks to introduce retrospective effect to a contract with no opportunity to review put in place prior to 25 October 2013 and the supplier will have to bear the cost of the GST with no avenue to pass on the GST.

Proposal by REHDA

- Supplies made under all types of contracts prior to the announcement of the GST on 2014 Budget Day (25 October 2013) should be entitled to the transitional provision granting zero rating.
- The onerous conditions in the transitional provisions that both parties must make wholly taxable supplies and be GST registrants be removed.
- The period in respect of the 5-year period or when a review opportunity arises is removed where taxable supplies made under a contract with no opportunity to review will be treated as zero-rated supplies for a period of 5 years from the GST implementation date or when a review opportunity arises, whichever is earlier.

ABOLISHMENT OF MANDATORY DELIVERY OF LOW COST HOUSING

Increase in construction costs has made the cross-subsidisation model for provision of low cost units unsustainable for developers. Cross-subsidies for low cost units have gone up to an average of RM100,000 per unit for strata properties and RM150,000 for landed properties, with both sold at a controlled price of RM42,000 maximum. This cost will unavoidably be shouldered by buyers of other segments within a project, pushing prices up further.

Proposal by REHDA

- Developers be relieved from the role of providing low cost housing and that such role should be reverted back to the Government and implemented via its agencies i.e. PR1MA, Syarikat Perumahan Negara Berhad (SPNB) and State Economic Department Corporations (SEDCs).
- The Government to provide the lower income group with social/transit housing and they will eventually purchase affordable housing as their income increases over time.
- The distribution and re-sale of low-cost/subsidised housing must be properly controlled so that the benefits are accorded to only the deserving parties. Moratorium must be imposed on the re-sale of such housing to ensure that the pool of supply is adequate and buyers do not profiteer from these units.
- The Government to identify and utilise Federal and State owned land for the provision of affordable housing, especially if such land is not used optimally.
- Focus on building affordable housing by converting low cost quota (which is low in demand) to affordable housing with higher demand.
- Private sector developers should be allowed to focus on market driven products.

REVISION OF THE BUMIPUTERA QUOTA POLICY

REHDA would like to urge the Government for a more practical and transparent guidelines that will ensure consistent implementation of the bumiputera quota policy and its release mechanism.

Proposal by REHDA

- The bumiputera quota should be standardised across all states and should not exceed 30%.
- Implementation of a standardised, structured and transparent bumiputera quota release mechanism. The automatic release of unsold bumiputera units to the open market shall be given upon:
  - » 50% to be released after 6 months from the sales launching date; 25% to be released after 12 months, and the balance 25% to be released after 18 months;
  - » blanket release for all completed unsold bumiputera lots;
- Developers should not be penalised with any form of levy or payment to any authorities or their agencies as a result of these quotas not taken up by the target group.
- No imposition of new conditions on titles for bumiputera units as it will only create restriction-in-interest on the property and be viewed by the market as unpreferred properties. This has even resulted in bumiputera purchasers preferring to buy non-bumiputera units.
- Bumiputera quota achieved based on sales irrespective of whether the units sold to bumiputera were the identified lots or not.
- Bumiputera discount should not be applicable to high end properties as the discounts accorded to such high end properties would in fact be subsidised by other categories of property and eventually borne by buyers of those categories including buyers of affordable housing.
- REHDA supports the proposals that the Ministry of Urban Wellbeing, Housing and Local Government's National Housing Department (JPN) takes on the role of facilitator in the promotion and publicity of bumiputera units through an online portal.

COST OF DOING BUSINESS – IMPOSITION OF CAPITAL CONTRIBUTION CHARGES ON DEVELOPERS

Currently, developers are required to pay various capital contributions such as sewerage, electricity, water, telecommunications, CIDB and etc; surrender land, construct facilities as well as having to comply with other planning requirements. All these imposition adds on to the developer's cost.

Proposal by REHDA

- Private utility companies including SYABAS, IWK, TNB and Telekom should not be imposing capital contribution charges on developers as developers are already required to lay infrastructure in their development projects and bring in new customers to the utility companies.

continues on page 6

continued from page 5

REHDA Budget Wishlist 2016

- These utility companies should revise their own capital to be recovered via tariff based on consumption through federal funding from general taxation.
- Reduction in cost of doing business for the industry so that eventually property prices can be managed at more affordable levels.

RM1 MILLION PRICE THRESHOLD FOR THE PURCHASE OF RESIDENTIAL PROPERTIES BY FOREIGNERS

The foreign ownership threshold increased from RM500,000 to RM1 million across the board announced during the 2014 Budget is not favorable to the promotion of property acquisition by foreigners. In many urban areas outside the Klang Valley, Penang and Johor Bahru, there is very limited supply of properties above RM500,000 while properties above RM1 million are almost non-existent.

Places such as the East Coast of Peninsular Malaysia, most parts of Sabah and Sarawak, Langkawi and Melaka may be of interest to foreign buyers due to their natural attractions and heritage status but foreigners may not be able to find suitable homes (especially smaller built-up low maintenance strata properties suitable for retirees and MM2H residents) in the said price threshold in these areas.

Proposal by REHDA

- A tiered pricing threshold approach would be a more practical and efficient way of promoting foreign investment in Malaysian properties without compromising the interest of local buyers.
- REHDA reiterated its proposal that a 3-tier pricing threshold to be adopted according to the state and degree of urbanisation of the related property:
  Tier I – Threshold for highly urbanised areas (WP Kuala Lumpur)
  Tier II – Threshold for urbanised areas (Selangor, Melaka, Negeri Sembilan, Johor, Penang)
  Tier III – Threshold for less urbanised areas (Perlis, Kedah, Perak, Pahang, Kelantan, Terengganu, Sabah, Sarawak)

BUILD-THEN-SELL (BTS) 2015

REHDA appreciates the Government taking cognisance of our concerns on the serious repercussion to the industry if the BTS system was to be implemented as a mandatory single delivery system. Nevertheless, we acknowledge the need to have a programme/scheme which would offer protection to house buyers as well as for the betterment of the industry.

Proposal by REHDA

- Proposal for the establishment of the Malaysian Housing Guarantee Scheme which is now led by the Ministry of Urban Wellbeing, Housing and Local Government.
- The proposed guarantee scheme is aimed at ensuring protection to house buyers with the delivery of completed property or refund of paid progress payments to home buyers in unlikely cases of project abandonment.
- The mechanism of the proposed scheme is through an establishment of a Government-Linked Company, the Malaysia Housing Guarantee Corporation (MHGC), to manage and monitor guarantee related to housing completion.
- The mechanism of the scheme is as follows:
  - » Developers undergo credit rating
  - » Premium paid by developers based on credit rating
  - » Guarantee certificate issued
  - » Developers apply for Developer's Licence and Advertising and Sale Permit
  - » Project commences
  - » In the event of abandonment – declaration by the Minister of Urban Wellbeing, Housing and Local Government required
  - » MHGC will take over the project for completion or refund monies to house buyers
- The MHGC is proposed to be a private and public collaboration, led by the Government. For this purpose, the MHGC requires an estimated once-off investment of about RM400 million: RM280 million (70%) from the Government and RM120 million (30%) from the industry and other stakeholders.
- REHDA proposes that the RM280 million initial capital injection by the Government be taken from the CIDB fund which has not been fully utilised – 0.125% of contract sum paid by the contractor/developer to CIDB.
- This consolidated RM400 million fund is used as a standby and if the quality of the credit rating is adequately high, probability of abandonment will be lesser. Over time, the buildup of the premium payment made by developers to be covered under this scheme would surpass this consolidated fund either resulting in a larger reserve or the return of the initial standby capital of RM400 million advanced by the various stakeholders.

FURTHER INCENTIVES FOR THE ADOPTION OF INDUSTRIALISED BUILDING SYSTEM (IBS)

REHDA acknowledges that whilst IBS is beneficial in addressing labour issue and at the same time ensuring quality and speedy delivery, we would like to highlight the drawbacks hindering developers in adopting IBS as follows:

– usage of IBS will result in 5% to 20% increase in cost depending to project. Due to lack of economies of scale and higher cost of IBS, usage of IBS is not justifiable unless a project is sizeable enough
– issues on quality such as leakages at joints, inconsistency of products (sizes, etc), façade/finishes limited designs
– lack of IBS component suppliers
– sustainability of IBS component manufacturers
– limited availability of open manufacturers or open supply
– high initial cost to set up factories and machineries
– lack of skilled workers to operate and maintain IBS system
– general market perception associating IBS with low quality homes. Buyers not confident of IBS projects
– lack of incentives provided to developers for the adoption of IBS
– legislation, guidelines and requirements impede the adoption of IBS systems and products
– high custom duties on transportation vehicles, lifting equipment, etc
– infrastructure (roads, bridges, etc) capacity restrictions result in inefficiencies in transportation leading to increased cost of doing business

Proposal by REHDA

- To have an open system or open supply to ensure that IBS manufacturing sector is not monopolised by a few big companies. This will result in competitive pricing.
- To ensure sufficient availability of IBS products to support the construction industry. There must be adequate IBS components producers located strategically in the North, Centre and South regions to supply. The Government should provide special funds to small and medium industries to create a ready supply of such materials.
- The Government and its agencies to ensure their projects adopt the IBS system and components thus ensuring economies of scale. The cost of producing the IBS components can be reduced and at the same time can encourage more manufacturers to set up plants.
- CIDB to lead the IBS initiative by providing comprehensive and systematic training programme. Incentives to be given to pioneer manufacturers/ installers who venture into IBS.
- Awareness programme for contractors to change negative mindset. Awareness programme for the public on the advantages of IBS and promote buyers' confidence in IBS projects.

Korean Specialty Contractors Association (KOSCA) Visit to REHDA Headquarters

REHDA Malaysia hosted a 20-member delegation from the Korean Specialty Contractors Association (KOSCA) on 7 July 2015 at Wisma REHDA. Their visit to Malaysia was aimed at learning about Malaysia's construction industry.

REHDA Malaysia was represented by Datuk Muztaza Mohamad, Secretary General of REHDA Malaysia, who briefed the delegates on the background and current development of the construction and real estate industry in Malaysia. The delegation was then taken on a tour of Wisma REHDA and briefed on the green features of the REHDA Headquarters. Datuk Muztaza was joined by Datuk Ng Seing Liong, Most Recent Past President of REHDA Malaysia and Mr James Chua, Executive Director of GreenRE Sdn Bhd to host the delegates

- Currently, the only incentive provided to developers for the adoption of IBS is a CIDB levy relief. Further incentives would have to be provided for the accelerated adoption of IBS such as:

  Planning, Design and Approval
  - fast lane approval for IBS projects
  - fast track approval from Bomba and SIRIM on IBS components
  - higher plot ratio/density
  - guidelines and requirements such as planning guidelines, building by-laws, bomba requirements, should facilitate the use of IBS systems and products
  - no additional provisions beyond what is required. IWK and JPS current land requirements are larger than what is needed

  Construction and Implementation
  - sales tax exemption for all accredited IBS materials to make them more price competitive
  - tax relief for IBS trainings
  - double tax allowance for capital expenditure, including all machinery and equipment incurred by developers in adopting IBS
  - double tax allowance for the increased portion of construction costs due to IBS system adoption
  - GST exemption for IBS constructions
  - reduction of custom duties to encourage adoption of mechanisation and automation
  - review of permissible load carrying capacities - higher load required and strength of bridges to accommodate heavier vehicles - economics of scale
  - government subsidy for affordable housing using IBS construction
  - waiver of low cost housing or increase selling price to meet current construction cost

  Completion (Incentives to Purchasers)
  - 100% bank loan for house buyers
  - stamp duty exemption for house buyers

  Others
  - special funding from the Government to ease IBS construction and development such as to fund infrastructure cost for IBS projects, low cost house discount, price rebate, training, etc
  - special loans with low interest rates for IBS manufacturers/developers meeting the 50% mark of IBS in building

GREENRE

GreenRE is a green rating tool established by REHDA to promote sustainable development. It is aimed at promoting greater adoption of green practice and technology amongst the industry players and offers practical and efficient solutions to green certification at affordable costs to the industry. Currently, with the exception of Iskandar Malaysia, the Government gives incentives to buildings certified only by the GBI.

Proposal by REHDA

- REHDA appeals for GreenRE to be accorded incentives and benefits similar to other local green rating tool to encourage more developers to adopt green features in their development.
- GreenRE is established with the main focus to widen the industry's participation in adopting green technology and practices by making it more affordable and practical.
- The Government's support in this noble effort through incentives provision will accelerate the achievement of the country's green agenda.