

REHDA Budget

As it has been in the past years, REHDA continued to be invited to submit its Budget Memorandum to the Ministry of Finance. In carrying out its role as the voice of the industry and in the interest of members as well as the industry, REHDA diligently put forward concerns and proposals for Budget 2017 in anticipation that the Government would take cognisance of issues and challenges faced by the industry and give due consideration to our proposals. REHDA's 2017 Budget memorandum submitted to the Ministry of Finance is reproduced here for the information of our members.

NON-FACILITATIVE FINANCING POLICIES

The various cooling measures and financing guidelines introduced since 2010 have negatively impacted home buyers' ability to securing financing. These guidelines and measures are contrary to the efforts to promote homeownership whereas Government should instead provide more incentives to help first time house buyers. Developers stand ready to assist the Government in the provision of more affordable housing. Feedback from the market continues to reveal that while there is strong interest in new launches, there are many cases of end-financing rejection faced by buyers, leading to cancellation of purchase.

Proposal by REHDA

- Whilst we take cognisance of the Government's intention to control the rising number of household debt, investment in property is a wealth creation instrument and socio-economic wellbeing and therefore must continue to be encouraged.
- Financing to eligible house buyers and innovative financing packages should be made available to help buyers. First time house buyers especially should be accorded more flexible criteria.
- REHDA has proposed a Home Ownership Assistance Programme (HOAP) to the Ministry of Urban Wellbeing, Housing and Local Government (KPKT) aimed to address the affordability issue faced by the first time buyers. HOAP is a proposal where developers include the interest of the housing loan disbursed during construction period into the purchase price. The home buyers do not need to service the interest on the loan until the house is completed, which usually takes about two to three years from the date the SPA is signed.
- The main objective of the proposal is to assist buyers at the early stage of purchase and at the same time ease the burden of house buyers having to service both their house rental and the loan interest during the construction period. This is especially useful to help first time home buyers take the first step on the home ownership ladder.
- Schemes such as HOAP, if implemented under proper guidelines, are instrumental to assist homebuyers in facilitating their acquisition costs with smaller initial outlay.
- REHDA has proposed that HOAP be specifically targeted for first time home owners and also those who have sold their previous homes to upgrade and/or relocate with the following criteria:
 - » House priced RM500,000 and below
 - » House price includes interest on mortgage during construction period
 - » Property under construction (landed and high-rise)
 - » Household income RM10,000 and below
 - » Not applicable to cash buyer
- As the proposal does not require house buyers to pay interest and rentals at the same time during construction period, this will assist house buyers to reduce the impact on the disposable income especially to younger population who have just started working and want to own a house.

MYDEPOSIT SCHEME

Payment of deposit has always been the biggest barrier to house entries. Whilst first time house buyers, especially the younger population, may be able to service the monthly repayment instalments, they would be hard-pressed to come up with the initial 10% down payment upon signing the Sale and Purchase Agreement (SPA).

This category of first time buyers are usually those who have just entered the work force and would not have accumulated sufficient savings to cover the 10% down payment, especially with the rising cost of living.

Proposal by REHDA

- REHDA lauds the Government's initiative to assist house buyers through the introduction of the scheme, called MyDeposit Scheme with the allocation of RM200 million in Budget 2016. MyDeposit is expected to address the issue of first time house buyers struggling with financing upfront deposits especially in this current challenging times.
- The scheme to be extended with higher allocation to benefit more first time house buyers in addressing the issue of high entry cost.

REVISION OF THE BUMIPUTERA QUOTA POLICY

REHDA would like to urge the Government for a more practical and transparent guidelines to ensure a more 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 be capped at 30%.
- Discount rate should be standardised and capped at 3% to 5% for housing and 5% to 7% for commercial properties.
- Levy or payment to authorities for release shall be between 3% to 5% per unit for residential properties and 5% to 7% for commercial properties.
- Bumiputera quota release mechanism should be standardised, structured and transparent. The automatic release of unsold bumiputera units to the open market shall be as follows (upon fulfilling the necessary requirements):
 - » 10% to be released after 6 months from the launching date;
 - » 10% to be released after 12 months; and
 - » Balance 10% to be released upon completion.
- 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 property. 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.

GOODS AND SERVICES TAX (GST)

REHDA supports the implementation of GST which would make the taxation system more comprehensive, efficient, transparent and business friendly. However, there are some industry concerns which REHDA would like to highlight:

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 eventually be passed on to house buyers in terms of higher pricing.

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ii. GST Relief Order to be Applied to 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 (excluding land cost) is about RM105,000 for strata properties and RM75,000 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. The GST imposition will result in 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 not only be able to meet the objectives of the National Housing Policy but 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 urges the Government to apply the GST Relief Order on 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:

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

b) Imposition of GST will increase the tax to be borne by buyer.

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 effectively imposing double taxation on the property transaction.

Proposal by REHDA

- Stamp duty on transfer of properties be abolished as buyers are already paying for GST.

INCREASE AFFORDABLE HOUSING SUPPLY

Increase in construction costs has made the cross-subsidisation model for provision of low cost units unsustainable for developers. On average, the cost to build low cost housing (excluding land cost) is about RM105,000 for strata properties and RM75,000 for landed properties, with both sold at a controlled price of RM42,000 maximum. The cross-subsidies for low cost units are 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 such role should be reverted back to the Government through one (1) centralised body with statutory powers to build such homes.
- The Government to provide the lower income group with social/transit housing before this group can eventually afford to purchase affordable housing as their income increases over time.
- The distribution and re-sale of 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 subsidised housing to ensure that the pool of supply is adequate and buyers do not profiteer from such subsidised units.
- Proposal to increase supply of affordable housing:
 - » The Government to identify and utilise Government 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.
 - » Review planning requirements in order to facilitate and encourage supply of more houses. Current planning policy for residential development based on density should be changed to plot ratio to enable subdivision of floor area into smaller units, thus increasing supply.

COST OF DOING BUSINESS

Currently, developers are required to pay/provide amongst others:

- Planning requirements: surrender of land for construction of social and community facilities, roads and drainage, provision of open spaces.
- Utilities and infrastructure: surrender of land and/or the construction of utilities facilities and infrastructure, such as electrical substations, reservoirs, cabling and trunking.
- Financial contributions: capital contributions, connection charges, conversion premiums, development charges, submission fees, contribution for drainage, infrastructure, burial ground etc.

All of which are adding to developer's costs.

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 giving new customers to the utility companies.
- These utility companies should revise their own capital to be recovered via tariff based on consumption through federal funding from general taxation.
- Government should review and lower down or abolish unnecessary charges or requirements with the objective to reduce the costs of doing business so that the savings can be passed on to house buyers in the form of more affordable housing.

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ASSURANCE ON DELIVERY OF COMPLETED HOUSING

REHDA appreciates the Government for taking cognisance of our concerns and feedback 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 in place 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 Malaysia Housing Guarantee Scheme which is now spearheaded 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 License and Advertising and Sale Permit
 - » Project commence
 - » In the event of abandonment, a declaration by the Minister of Urban Wellbeing, Housing and Local Government is 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.

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

REHDA applauds the Government's move in providing special promotional fund of RM500 million to encourage the adoption of IBS in Malaysia. The RM500 million Promotion Fund would not only help developers and contractors to accelerate project delivery but also reduce the dependency on foreign workers. However, there are still drawbacks hindering developers in adopting IBS as follows:

- » usage of IBS will result in 5 to 20% increase in cost depending on project. Due to lack of economics 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

- The Government to continue in the provision of IBS promotional fund with higher allocation to encourage more adoption of the system.
- 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 plant.
- There must be adequate IBS components producers located strategically in the North, Centre and South regions to ensure sufficient supply of IBS products. The Government should provide special funds to small and medium industries to create a ready supply of such materials.
- 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.
- 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.

RM1 MILLION THRESHOLD PRICE 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 of non-existent.

Places such as the East Coast of West 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 property without compromising the interest of local buyers.
- REHDA would like to reiterate that a 3-tier pricing threshold be adopted according to the state and degree of urbanisation of the related property:
 - » Threshold for highly urbanised areas (WP Kuala Lumpur)
 - » Threshold for urbanised areas (Selangor, Melaka, Negeri Sembilan, Johor, Penang)
 - » Threshold for less urbanised areas (Perlis, Kedah, Perak, Pahang, Kelantan, Terengganu, Sabah, Sarawak).