



24 AUG, 2020

'Vacancy tax could push developers to be more prudent with launches'

The Sun, Malaysia



'Vacancy tax could push developers to be more prudent with launches'

PETALING JAYA: The proposal of a vacancy tax by the Housing and Local Government Ministry to be imposed on developers who fail to sell their properties as early as 2021 in an effort to reduce the overhang of residential units in the country could push developers to exercise more caution when it comes to launches. "With the introduction of the vacancy tax, we believe developers will be more rational and careful in planning their future launches. Moreover, we reckon that developers are already doing their best to sell all their units," a note by AmInvestment Bank Research said.

It pointed out that while such a measure may be able to curb the property overhang situation in Malaysia in the short term, developers could be negatively impacted by the additional tax or offering larger discounts to clear their unsold inventories.

For developers under its coverage, AmResearch said the average inventory turnover is about 6.5 months, and with the government offering a threshold of six to nine months on unsold completed units, most of the developers may not need to pay or pay very little vacancy tax.

However, it highlighted that it remained cautious on IOI Properties Group Bhd and Malaysian Resources Corp Bhd, as their average inventory turnover is more than 9 months.

Citing a sensitivity test it carried out, the research house said assuming the current level of unsold units remained the same by the end of FY21, if a tax rate of 1% is applied, the developers' FY21 net profits would be reduced by 1.1% to 7.1% based on their carrying value.

"Earnings will be reduced by 2.3% to 14.2% if the tax rate is set at 2% and a staggering 5.7% to 35.6% at a rate of 5%," it said.