

BUDGET 2009 MEMORANDUM

SUBMISSION BY: REHDA TO MINISTRY OF FINANCE (MoF)

ON: 21 APRIL 2008

Objectives of Submission

- a) This submission effectively contains proposals by REHDA Malaysia to strengthen the enabling conditions and an improving transparency of governance to promote home-ownership and sustain private sector investment into the housing industry of Malaysia.
- b) With the current high fuel prices and a commodity boom worldwide, all Malaysians are not spared of a rising cost of living and the resultant reduced propensity to save.
- c) This has resulted in an overall caution and reluctance to commit into a long-term capital debt of housing.
- d) Developers' woes are amplified by a fast rising cost of delivery that cannot be passed off into the pricing system of a generally weak housing market. In this respect, both the homebuyers and developers would need the Government's help at these current difficult times.

In furtherance to the above said objectives, we would propose as follows:

1. *Bumiputera Quota Policy Guidelines Should Be Transparent and Consistent*

REHDA would like to urge for a review of the Bumiputera housing policy in the current socio-economic context. We also advocate firmer guidelines for more consistent implementation of the Bumiputera quota policy and its release mechanism. Specifically, we propose that: -

- The Bumiputera quota release mechanism must be standardised, structured and transparent.

- Quota should not exceed 30% and
- States' approval for automatic release of unsold Bumiputera units to the open market shall be given upon:-
 - The project **reaching at least 50% of completion**, according to the architect's certificate;
 - The developer **having advertised in major Bahasa Malaysia newspapers** at least 3 times each
 - 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 quota not taken up by the target group.

- Conditions and limitations should not be imposed on the titles for Bumiputera units. This is because such conditions create restriction in interest on the property and is viewed by the market as un-preferred property, and even result in Bumiputera purchasers preferring to buy Non-Bumiputera units rather than Bumiputera units. It should be noted that bumiputera housing policy guidelines do not provide enabling provision / legislature for restriction in interest on title and a payment for dispensation to sell to non-Bumiputera after embargo period.

- Bumiputera quota to be considered achieved in a housing development based on sales, **irrespective of whether the units sold to Bumiputera were the identified lots or not**. In other words, Bumiputera buying Non-Bumiputera lots would count as contributing towards fulfilling the Bumiputera quota. As such, the balance of the unsold Bumiputera units should be released.

- Additionally, Bumiputera discount should be capped at 5% and only applicable for houses RM250, 000 and below as purchasers beyond this market segment are more financially secure and as such do not need such discounts. Low cost and low-medium cost houses should be excluded from such discounts, as these are heavily subsidised products.

2. ***Create Special Purpose Vehicles (SPV)'s at the State Government Level to Undertake the Provision of Low Cost Public Housing***

- Drop the term 'low cost housing' and adopt a more appropriate term such as affordable public housing primarily because it's not applicable anymore in today's industry where there is prevalent escalation of material and building cost. It will also serve to remove the derogatory image of the public housing
- Each state has its own State Development Corporation that can undertake this task, as the State Governments are the biggest landowners.
- Through their State EPU's and other relevant agencies, the states have the best database as to where the demand for public housing is greatest. Hence, they would be in the best position to plan and provide matching supply.
- The State Government has ultimate authority over land matters and are very well verse with all the relevant instruments of Land Law.
- Private sector developers should be allowed to focus more on market driven products. Low cost housing should only be enforced on State alienated land and not private converted land.
- The low cost segment of the Ninth Malaysia Plan accounts for about 15% of total housing targets. Low cost housing policy applied nationwide should correspond accordingly with such targets.

- As an immediate measure, it is timely that the quota requirement for private sector low cost houses be reviewed, particularly in areas where there is poor demand for low cost houses.
 - Such move will help minimize mismatch in supply and demand for low cost houses as well as make low cost housing development more feasible as costs of land is lower for these public sector agencies.
 - With the public sector taking up a more active role in this area, the low cost quota for the private sector could be reduced and scaled down before the entire responsibility of providing low cost houses to the lower income group is eventually assumed by the public sector.

- REHDA would like to further propose that, in the meantime, in order to mitigate the effect of increased development costs, the low cost housing ceiling price be reviewed from the current pricing structure of RM42, 000 per unit to RM60, 000 per unit.
 - Such a move will ease the burden of heavy cross subsidization, particularly in view of increasing cost of housing delivery. As a result, housing prices across the board are expected to better reflect the true market value and become more affordable.

- It should be noted that low cost houses in the secondary market are generally transacted at a substantive premium over controlled prices.

3. *Tax Incentive for REITs*

- Real Estate Investment Trusts (REITs) should be further promoted to attract more investors.

- The current tax structure for Malaysian REITs is not attractive enough.

- Singapore REITs, for instance, has reduced withholding tax for foreign investors to 10% from 20% for 5 years for distribution between 18 Feb 2005 and 17 Feb 2010.
- The city-state also exempts individual investor REITs dividends from income tax.
- In this respect, we propose that the authority allow **tax-free dividends** at unit holder level to attract more foreign and local investors.
- We also propose that REITs properties be exempted from the requirement of appointing a registered property manager under the Valuers, Appraisers and Estate Agents' Act to enable REITs owners to appoint the best property manager for their REITs assets.

4. *Tax Deduction on Housing Loan Interest Incurred for Houses Costing RM250,000 and Below*

- The tax deduction will reduce the financial burden for buyers in this market segment as inflation has eroded their spending power
- This will also encourage greater homeownership
- Such tax structure will also help revive the housing industry throughout the country and generate market activities

5. *Review of Stamp Duty Rates*

- In order to help keep costs of homeownership at a more affordable level for the general public, REHDA is proposing **a reduction of stamp duty rates.**

Specifically, REHDA's proposed stamp duty rates for property transfers are as follows:-

Current Rate		Proposed Rate	
<i>Transaction Value</i>	<i>Rate</i>	<i>Transaction Value</i>	<i>Rate</i>
1 st RM100,000	1.0%*	1st RM300,000	0.5%
Between RM100, 000 to RM500, 000	2.0%*	Between RM300,000 to RM1 mil	1.0%
In excess of RM500,000	3.0%	In excess of RM1 mil	2.0%

** 50% waiver for housing RM250, 000 and below – Budget 2008*

- The review in stamp duty rates will help lower costs of home ownership and/or property ownership, encourage house purchase / property investment among the general public, and
- Help sustain home affordability levels.