Some announcements of incentives for affordable homes and green developers on Budget Day would be much welcomed

Guest writer

BY STEVE CHIA

Go easy on the property sector

Industry faces many challenges, including escalating prices and the impact of GST

"REAL estate cannot be lost or stolen, nor can it be carried away. Purchased with common sense, paid for in full, and managed with reasonable care, it is about the safest investment in the world." This quote from Franklin D Roosevelt extols the virtues of real estate for personal use, investment or other purposes. Long gone are the days when property was considered the safest and most lucrative investment.

But it still continues to be the subject of much discussion and contention, whether you're at the mamak stall or a fine dining restaurant. And for good reason too. Continuous escalating prices and its impact on the lower- and medium-income groups are a major cause for concern. Budget 2014 saw tough measures being introduced, amongst others, the real property gains tax (RPGT) rate hike and the abolition of the developer interest bearing scheme (DIBS), in addition to the earlier macro-prudential measures introduced by Bank Negara Malaysia (BNM). The floor price for foreign ownership was also increased to property above RM1 mil.

So, how has the market reacted? Market activities, in both primary and secondary segments, have been dampened. Short-term investors would now think twice before making any property investment as any sale within three years would mean 30% of the profits would need to be allocated as RPGT cost payable to the government. The number of residential properties completed but not sold in Q1 2014 increased 5.9% compared with the previous quarter. There was also a decline in property launches as developers are now more cautious, with some preferring to take a wait-and-see approach.

As a result, the Residential Property Index (RPI) has dropped for two consecutive quarters this year to 109.9 points, the lowest in the last four years, reflecting a slowdown in the residential property market. Despite this, property prices remain steady.

The recent Overnight Policy Rate (OPR) adjustment by 25 basis points further added pressure to the property sector. A higher OPR is likely to reduce speculation; genuine buyers however will be negatively impacted.

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The sector will also be affected by the implementation of the Goods and Services Tax (GST) which will impact overall property prices. With effect from April 1 next year, GST is levied on the supply of goods and services at every stage of a supply chain, unless the supply is specifically exempted.

The government has decided to exempt residential properties from GST. Whilst this may sound good, it is not the case. Materials and services purchased by developers are not exempted and thus they have to pay GST on their purchases, but will not be able to claim any input tax credit on GST paid. In order to maintain margin, developers would likely pass these increased costs to house buyers. Based on the Australian experience when it implemented GST in 2000 at 10%, the residential property market saw a price increase of 5%.

However, prices are just one part of the equation in addressing affordability; the supply of affordable homes needs to be increased at the same time. The government should be credited for allocating RM1 bil to the 1Malaysia People's Housing Scheme (PR1MA) and over RM700 mil to the National Housing Department to increase home ownership in Budget 2014.

In the last two years, PR1MA has been tasked with providing a total of 160,000 homes at 20% lower than the market price with this allocation. However, only 80,494 housing units were approved by PR1MA as at end of July this year. Efforts should be intensified on this front. Quantity should not be the only measure; the quality of these homes is just as important, particularly in terms of location. There is no point building these units in faraway locations with a sparsely developed transport network.

Need for affordable homes

Amidst these issues, what can the property sector expect in Budget 2015? Measures already introduced are likely to stay but the government should go easy on the sector this time.

Efforts should be geared towards increasing the supply of affordable homes. Whilst agencies like PR1MA have been tasked to focus on increasing the supply of affordable homes, more private-sector involvement should be encouraged. Incentives in the form of tax concessions for developers who partner with PR1MA to develop affordable homes should be introduced.

With GST around the corner, there are still plenty of uncertainties surrounding its implementation, particularly in the property sector. To name a few, the industry is still working out with the authorities on GST classifications of properties (what properties fall under the residential segment and what properties come under the commercial segment), treatment of common infrastructure costs, and the tax status of unincorporated joint ventures.

Developers remain cautious in view of this while also taking into account the cost pressures arising from the impending GST. To avoid affecting profitability, they tend to adopt a more prudent approach in their costing strategy. Some repricing exercises have already taken place and more developers will follow suit. The government must agree and finalise with industry players without delay on the grey areas in GST to ensure smooth implementation come April 1.

To assist first-time home buyers, further concessions should be looked at. In addition to the existing stamp duty exemption, tax deduction on housing loan interest should be considered to lessen the burden of these buyers.

Incentives to move up the value chain

Another area to look at perhaps would be to encourage developers to move up the value chain by adopting advanced and environmentally-friendly materials and practices. Green incentives have been accorded to property owners and buyers but they will expire this year. There are none currently targeted to encourage developers to undertake green developments.

With the expiry of the existing incentives, the government should consider rationalising them with the broader tax incentives accorded to green technology. Currently, businesses that adopt green technology can either apply for income tax exemption or investment tax allowance in respect of green acquisitions. Incentives should also be considered for developers involved in green and low-carbon townships.

It is hoped that the government would take a softer approach towards the property sector this time around amidst the challenges faced by the sector. Hopefully, the key property issues surrounding GST implementation can be ironed out the next month or so. Also, some announcements of incentives for affordable homes and green developers on Budget Day would be much welcomed. FocusM

__Steve Chia__ is a senior executive director of PwC Taxation Services Malaysia