

Budget 2019: Malaysians cannot afford a house

Is it a myth or a reality that houses are beyond the reach of the average income earners?

BY CHIA SWEE HOW



Back when I was in secondary school, my father told me that houses in Japan were small and extremely expensive, especially in the Tokyo metropolitan area. In the late 1990s, average income earners in Japan could not afford to own a home — many decided to rent a house and spend most of their income buying lifestyle products.

Fast forward to today, Malaysia is facing a similar housing affordability issue in the urban areas due to its growing population and the ongoing rapid urbanisation rate. The World Bank statistics show that Malaysia is currently one of the most urbanised countries in East Asia, with the urban population rate increasing from around 25% in 1960 to approximately 75% in 2017. In other words, almost eight out of 10 Malaysians are living in urban areas.

While the number of unsold houses reached a decade high of 146,196 units as of March 2018, houses in Malaysia are considered seriously unaffordable due to supply/demand and pricing mismatch, based on the recent Bank Negara statistics. Clearly, developers are not able to supply houses at affordable prices for Malaysian households and urban migrants.

One of the reasons could be that developers are facing challenges to build affordable homes due to the ever-increasing land, construction and compliance costs as well as lengthy bureaucratic procedures that could result in higher overall development costs.

Government's existing measures

Historically, the public sector has played an important social responsibility role in fulfilling the lower income group's housing needs. In an effort to improve the supply of affordable housing in the urban areas, the government had in the past undertaken numerous initiatives to ease the rising cost of housing, including:

• My First Home Scheme (MFH) and 1Malaysia People's Housing Scheme (PR1MA) as outlined in the 11th Malaysian Plan.

MFH is targeted at young urban dwellers between 18 and 34 years old, with a total monthly household

income of less than RM10,000 to acquire their first affordable homes costing less than RM400,000. Meanwhile, PR1MA focuses on houses priced between RM100,000 and RM400,000 for first-time home buyers (individual or combined household) earning between RM2,500 to RM15,000 a month.

• **First Home Deposit Scheme (MyDeposit)** was announced in last year's budget to assist first-time buyers purchase their first home. A grant of RM30,000 or 10% of the house price (whichever is lower) will be given to applicants with a household income below RM10,000 per month to purchase houses priced below RM500,000.

• **Extension of "PR1MA End-Financing Scheme"** to home buyers of private developer housing projects.

• **Stamp duty exemption** on the first RM300,000 for first-time home buyers on loan agreements and sale and purchase (S&P) agreements executed between Jan 1, 2017 and Dec 31, 2018, for residential properties valued up to RM500,000. Residential properties above RM500,000 would not qualify for the stamp duty exemption.

Despite the government's efforts in introducing affordable housing measures in recent years, there still exists a mismatch between affordable housing and household income for Malaysians. This is particularly so for middle-income households who are not qualified to apply for low-cost housing projects and, at the same time, are unable to afford houses built by developers.

Budget 2019

On Friday, the Pakatan Harapan-led government is set to present its maiden national budget — Budget 2019.

Despite our finance minister's heads-up that the coming 2019 Malaysia budget will be a belt-tightening one without any handouts and goodies, Malaysians are still curious to know if the new government will introduce any exciting measures to address affordable housing needs.

Personally, I hope the government will take a closer look at identifying the root cause of the affordable housing problem and the rising cost of home ownership, and consider the following measures in the coming budget announcement.

Reducing the cost of buying a home

• Housing loan interest relief

Previously, first-time home buyers were entitled to claim housing loan interest relief of up to RM10,000 per annum for three years, for S&P agreements executed from March 10, 2009 to Dec 31, 2010. There was no extension of time for the housing loan interest relief.

As a measure to alleviate the financing cost of the first-time home buyers, I hope the government will consider reintroducing the housing loan interest relief for a longer loan interest relief period of up to, say 10 years.

• Home deposit relief

Forking out the deposit for a home could be difficult for first-time home buyers. Most of the time, they may have to borrow from relatives or friends. The government may look into the possibility of providing tax relief on the first 10% deposit for first-time home buyers, for properties valued up to RM600,000. The home deposit relief could be structured as a tax relief claim over a five-year period.

This proposed scheme for first-time property buyers will help them with the deposit they need to purchase their first homes.

• Enhancement and extension of stamp duty exemption

As mentioned earlier, first-time home buyers are entitled to stamp duty exemption on the first RM300,000, for residential property valued up to RM500,000.

To lower the entry barrier for first-time home buyers, I hope that the government will extend the stamp duty exemption period for another five years and grant a full stamp duty exemption on the entire residential property valued up to RM600,000, for both the loan agreement as well as S&P agreement.

• Developer Interest Bearing Scheme (DIBS)

DIBS allows property developers to absorb the loan interest on behalf of house buyers during the construction period of the property. It was abolished in 2014 as a measure to curb property speculation. To reduce the burden of financing a home, the government may consider reintroducing DIBS for first-time home buyers, especially for properties valued up to RM600,000.

• Public transport infrastructure

Access to cheap land is the key to any affordable housing project.

Given that land costs around urban areas are very high, which impedes developers' ability to build affordable houses, first-time home buyers may want to change the mindset of status symbol associated with living in the cities and having a car.

First-time home buyers may consider living in a transit-oriented secondary city with an efficient and comprehensive public transport infrastructure. This provides a convenient way for these home buyers to get to places of work in urban cities. Generally, home buyers prefer homes with good public transport accessibility.

Having said that, in comparison with neighbouring countries such as Singapore and Hong Kong, Malaysia lacks a holistic and long-term plan to map out future public transport needs so that the public transport infrastructure can be easily expanded when necessary.

In Hong Kong, the government successfully implemented transit-oriented development across its public transportation infrastructure in the New Territories to accommodate the population growth from urbanised areas in Hong Kong island.

Our proposed Mass Rapid Transit (MRT) project can help reduce traffic congestion in the city and, more importantly, encourage development around the transit areas and secondary cities.

As a long-term measure in addressing our affordable home issue, I hope that the government will continue to allocate funds to build a comprehensive public transport infrastructure, particularly, the rail system which is the public infrastructure backbone of major metropolitan cities around the world. With an efficient and comprehensive public transport system, Malaysians will have the option of living in secondary cities where land and houses are generally more affordable while still achieving a quality living without owning a car.

Owning a home is every Malaysian's dream, and the affordable housing issue has always been the key concern of the national budget in the past years. While the new administration is working hard in managing the nation's budget deficit, I am hopeful to see some bold and concerted efforts by the government to address our affordable housing issue.

Chia Swee How is the real estate tax leader of Deloitte Malaysia. The views expressed are solely his.