

# Business News

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Tuesday, 11 October 2016

## Tackling the home ownership conundrum

BY [SIM KWANG GEK](#)

### **Budget 2017 should address the root of the problem**

EVERYONE desires to have a place to call home.

Despite the numerous measures introduced by the Government over the years to address the issue of affordability, low- and medium-income earners are still finding it difficult to own a home.

The upcoming Budget 2017, themed “Accelerating growth, ensuring fiscal prudence, enhancing well-being of the people” which is expected to focus on this issue, should take a closer look into the root of the problem and propose more effective measures to address the concerns.

### **Containing costs of supply of homes**

In its Annual Report 2015, Bank Negara highlighted that while there have been affordable housing initiatives by the Government such as Perumahan Rakyat 1Malaysia, the current level of house-building in the affordable segment has not been sufficient to meet demand.

An estimated 202,571 new houses will be required annually between 2016 and 2020 to match the estimated growth in households during this period.

With rising land, construction and compliance costs, developers are facing acute challenges to build affordable homes. The Government can play a role to reduce the cost of supply of homes by alienating and selling state land at low price to the developers for affordable homes.

The cost of supply of homes can be further reduced with the adoption of the Industrialised Building System (IBS) for affordable housing programmes.

Currently, there are tax incentives for IBS manufacturing companies and exemption of construction levy for housing projects with a minimum IBS score of 50%. In Budget 2016, an IBS Promotion Fund of RM500mil was established through SME

Bank to provide soft loans to developers and contractors in category G5 and below (for projects less than RM5mil).

To promote the use of IBS, the Government should consider allowing G7 contractors access to the IBS Promotion Fund as these players have the capability to spearhead larger projects and the willingness to adopt the IBS.

To bring down the IBS cost, scale really matters. Enhanced tax incentives should also be offered for IBS manufacturing, training programmes, research and development.

### **Incentivising first-time home buyers**

Lowering the entry barrier for house-owning aspirants would be helpful.

The Hong Kong government provides tax deduction on home mortgage interest payments of up to HK\$100,000 annually against the individual purchaser's employment income for 15 years and first time home buyers are exempted from paying the higher ad valorem stamp duty rate ranging from 1.5% to 8.5%.

In Malaysia, a housing loan interest relief of RM10,000 per annum for three years was introduced in 2010 for sale and purchase agreements executed from March 10, 2009 to Dec 31 2010.

A 50% stamp duty exemption on loan agreements for residential properties valued up to RM500,000 is available but will expire in 2016.

The Government should review the above incentives and I hope that the housing loan interest relief can be given for a period of 10 years and stamp duty on the purchase of the first home up to RM500,000 should be fully waived for eligible first time home buyers.

The Developer Interest Bearing Scheme (DIBS) was removed in Budget 2014 to manage the escalating real property prices in Malaysia.

To ease the burden of financing the purchase of affordable homes, the Government should consider re-instating DIBS.

To prevent abuse of this scheme, the DIBS can be offered to targeted first time home buyers for properties capped at RM500,000.

In Budget 2016, the First Home Deposit Scheme (MyDeposit) was announced to assist first time home buyers to purchase their first home.

A grant of RM30,000 or 10% of the house price, whichever is lower, will be given for eligible applicants with household income below RM10,000 per month to purchase houses priced below RM500,000.

An amount of RM200mil has been set aside for this scheme. This is indeed a good government initiative and I hope to see more allocations be given to this scheme in Budget 2017.

### **Expanding lease and own scheme**

There has been mixed views on the recent decision to grant money lending licences to property developers. While this measure seeks to reduce homebuyers' difficulties in obtaining loans, it could add to the risks of rising household debt.

An interest of up to 18% compared with an average home loan rate of around 4.5% can be too hefty for the low- and middle-income earners.

To ease home ownership, the Government should consider expanding the rent to own (RTO) scheme that was introduced in the Budget 2014 to facilitate buyers who cannot obtain a housing loan to buy a house under PR1MA.

Under the RTO scheme, eligible buyers can choose to rent the PR1MA home for up to 10 years before deciding to buy it at the end of the fifth or 10th year at a pre-determined price.

A similar scheme is practised in the UK where a person may buy a 25% to 75% portion of a property and pay a rent on the balance not owned at discounted rate with an option to acquire the balance in future. Such scheme can be considered by other affordable housing programmes launched by the public and private sectors.

### **Increasing EPF withdrawals**

The Government is considering the proposal to increase withdrawal from the Employees Provident Fund (EPF) account to fund the purchase of a house.

The additional amount withdrawn should take into consideration its impact on the buyers' future retirement savings.

It was said that such a move would only be allowed for those who are first-time buyers of affordable homes.

This would be a good proposal and to curb any abuse, should the house be sold by the owners later, part of the proceeds should be re-deposited to their EPF account based on the additional amount withdrawn.

**Conclusion**

The 2017 budget will be the second one under the 11th Malaysia Plan and increasing affordability and accessibility of the low- and middle-income households is one of its priorities. No doubt, it will be a challenging task for the Government to formulate measures that will stimulate economic growth and at the same time, the need to balance its books and improve the well-being of the people. Let's hope for some bold measures to be tabled!

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