Views on property cooling measures

> Comments and observations of key players at iProperty.com Malaysia and Brickz.my

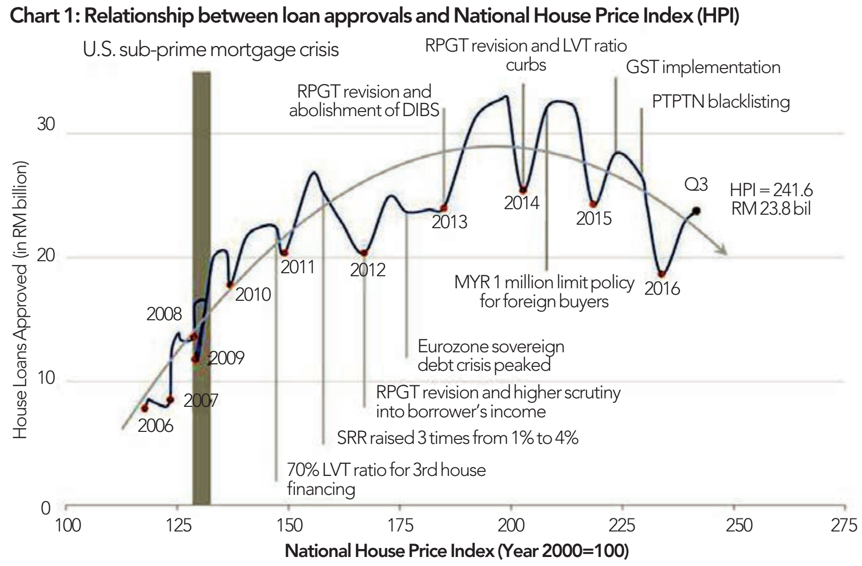
VARIOUS cooling measures introduced by the Malaysian government and Bank Negara Malaysia (BNM) to help curb escalating property prices has had little impact, said iProperty.com Malaysia and Singapore CEO Haresh Khoobchandani. Together with Brickz.com, the company analysed data from BNM and the Valuation and Property Services Department of Malaysia (JPPH) to examine if the measures introduced over the years actually impacted the residential and financial markets. *theSun* reports the study conducted.

"From the data we got, we saw that prices for residential property in Malaysia had been sky-rocketing since year 2000. Between 2008 and Q2 of 2009, following the sub-prime mortgage crisis in the US, which affected economies around the world, house prices experienced nearly no growth. The number of loans approved for residential properties also decreased the same year as the market moved funds away from the softening real estate market," Haresh said.

Based on figures in the Malaysia Residential Loans and National House Price Index (HPI), it was learned that the annual quarter-on-quarter national HPI began to increase the highest from 2011-Q1 to 2012-Q1.

In 2011-Q1, the HPI was at 149.1, while in 2012-Q1, the HPI was at 167. Thus, the difference shows an increase of 17.9 index points in 2011. For the same period, performance for residential loans approved was stable at RM20.4 billion. The data showed that the quarter-on-quarter HPI had slowed down to a growth of 15.3 index points between 2015-Q1 and 2016-Q1. Performance for approved residential loans also fell drastically by RM5.6 billion from 2015-Q1 to 2016-Q1. HPI however, continued to rise despite a drop in the amount of residential loans approved since 2014.

Chart 1: Relationship between loan approvals and National House Price Index (HPI)



Source : Bank Negara Malaysia and Valuation and Property Services Department of Malaysia

Table 1 : National HPI and Housing Loans Approved for Q1 and Year-On-Year Change

Period	National House Price Index for Q1	Change National House Price Index for Q1	Housing Loans Approved for Q1 (MYR '000)	Change in Housing Loans Approved for Q1 (MYR '000 and percentage)	
2007	123.4	+ 5.7	8,516,435	694,703	8.88%
2008	128.7	+ 5.3	13,589,771	5,073,336	59.57%
2009	129.6	+ 0.9	11,669,915	-1,919,856	-14.13%
2010	136.9	+ 7.3	17,788,834	6,118,919	52.43%
2011	149.1	+ 12.2	20,363,494	2,574,660	14.47%
2012	167.0	+ 17.9	20,371,468	7,974	0.04%
2013	184.9	+ 17.9	23,985,479	3,614,011	17.74%
2014	202.7	+ 17.8	25,418,331	1,432,852	5.97%
2015	218.5	+ 15.8	24,305,339	-1,112,992	-4.38%
2016	233.8	+ 15.3	18,657,200	-5,648,139	-23.24%

Source : Bank Negara Malaysia and Valuation and Property Services Department of Malaysia

"In our opinion, the drop in loans approved was contributed by all the previous interventions introduced by Bank Negara and the government. The interventions did not reduce the property prices but did slow down the growth," Haresh said.

Brickz.my founder Premendran Pathmanathan, who is also iProperty.com Malaysia's data services general manager said that the measures introduced by the government, including removal of the Developer Interest Bearing Scheme (DIBS), had actually decelerated demand.

"Other factors that could also put tha brakes on demand could be due to the changes in real property gains tax (RPGT), revision in loan to value (LTV) curbs and also the introduction of the Goods & Services Tax (GST). Aside from this, the global uncertainty, weakening ringgit, and change in price (drop) of oil and gas has also played a role in this as well," Premendran reasoned.

"The DIBS scheme only required an initial payment of 5% or 10% of the property price. So, purchasing property became an attractive option for investors. It was likely that the increase in the price of new properties from 2011, were the result of speculative buying due to the scheme," Premendran said.

Haresh however, felt that the cooling measures had actually impacted the financial sector and also reduced negative sentiments of the oversupplied housing market. "If you look at the data, the price index for houses continued to climb at double digit rates, by 15.3 index points in Q1 2016, while the financial sector on housing loans fell 23.24%. The various measures introduced appeared to have consolidated the financial sector and reduced the negative sentiments of the oversupplied housing market," he said.

"It is unlikely that prices will decrease, instead likely to stabilise or increase at a slower rate in coming years. This is primarily due to the fact that we have a growing young adult population and this is driving the demand for property, which in turn will continue to place upward pressure on prices.

"With the real estate industry now consolidating, the industry may shift their focus toward developments that apply to affordable living. Infrastructure such as transportation, energy and social infrastructure will help to increase economic efficiency and reduce the cost of living, thus making locations that once seemed expensive to live in now more affordable."

In all, Haresh believes the above is why property buyers and investors are adopting a cautious approach and are being very selective in where and what they choose to purchase. "There is increased demand for affordable homes, particularly through a growing, young population looking for properties in the major urban centres. "While Malaysians are concerned about the rising house prices and affordability, property is still viewed the most attractive investment choice and this is due to capital growth opportunities. It is also more stable compared to other assets," he said.

[Information and images from iProperty.com]

TIMELINE

2007

It was reported that in 2007, the Developer Interest Bearing Scheme (DIBS) was first introduced by a property developer in Penang, as a precursor to the Built-Then-Sell (BTS) 10-90 concept stated in the Housing Development (Control and Licensing) Regulations, 1989 (amended 2007). At that time, the demand in the real estate market was high and property developers were offering creative products and marketing schemes to attract house buyers. It can be observed that the total housing loans approved went up by 59.57% (RM5.07 billion) for quarter-on-quarter change in 2008 Q1

2008 TO 2009 Q2

House prices in Malaysia only had a growth of 0.9 index points in 2009 (Table 1) during the sub-prime mortgage crisis in the US which also affected economies around the world. It can also be observed that the amount of loans approved for residential properties suffered a contraction. In the same year the total housing loans approved fell by 14.13% (RM1.91 billion).

2010

In November 2010, Bank Negara Malaysia (BNM) implemented the policy of a maximum loan-to-value (LTV) ratio of 70%, which will be applicable to the third house financing facility by a borrower. The policy aimed at moderating the excessive investment and speculative activity in the residential property market.

2011

It is strongly believed that the increase in the prices of newly launched properties (primary market) beginning in 2011 are the results of speculative buying. At that time DIBS was popular among property developers to attract ordinary house buyers. The scheme also made it cheap for speculators to earn relatively large profits because it only warrants an initial 5% or 10% of property price and two to three years' time period for them to sell the investments. From April to July 2011, BNM has raised the Statutory Reserve Requirement (SRR) Ratio three times to 4% from 1%. It is observed that there was a large shift in global liquidity which resulted in significant capital flows into emerging economies, particularly the Asian region. The decision to raise the SRR was undertaken as a pre-emptive measure to manage the risk of this build-up of liquidity. From Table 1, annual quarter-on-quarter national House Price Index (HPI) began to increase the highest from 2011-Q1 to 2012-Q1. In 2011-Q1, HPI was at 149.1, while in 2012-Q1 HPI was at 167. Thus, the difference shows an increase of 17.9 index points in 2011. For the same period, performance for residential loans approved is maintained at RM20.4 billion.

2012

In January 2012, BNM issued guidelines requiring financial institutions to make appropriate enquiries into a prospective borrower's income after statutory deductions for tax and EPF, and consider all debt obligations in assessing affordability. The guidelines promote better protection for financial consumers and a sustainable credit market. The government has also revised the Real Property Gains Tax (RPGT) to 10% from 5% for properties held and disposed within two years as the previous rate of 5% is not effective in curbing real estate speculative activities. The government have also expanded My First Home Scheme to help those earning below RM3,000 by increasing the limit of house prices qualified to RM400k from RM200k. The scheme is available to house buyers through joint loans of husband and wife. At the same time, the high sovereign debt within the Eurozone was posing a threat to global economies. It started in 2009 when Greece was at risk of defaulting its debt. There were allayed fears that Malaysia's current government debt to Gross Domestic Product (GDP) ratio of 53.3% in 2012 was vulnerable to any economic collapse from the Eurozone. Malaysia's government debt to GDP ratio has always hovered below the limit of 55% since 2010. Meanwhile, the country's gross external debt which includes external offshore, public enterprises and private sectors loans) to GDP ratio has been rising from 62% (RM602 billion) to 72.1% (RM833 billion) from 2012 to 2015.

2013

Loans approved for residential properties climbed in 2013. In November, BNM issued guidelines to banks tightening lending practices which include abolishment of Developer Interest Bearing Scheme (DIBS) and enforcement of stricter LTV ratio calculations, while the government imposed a higher RPGT at 15% for properties held and disposed within 2 years and 10% for properties held and disposed between two to five years.

2014

It can be observed that following the counter measures taken in 2014 such as revision of RPGT and curbs on LTV ratio, the amount of loans approved the following year in 2015 fell by 4.38% (RM1.11 billion) while Q1 quarter-on-quarter change in HPI for 2015 increased by 15.8 index points (Table 1).

2015

In June 2015, the National Higher Education Fund Corporation (PTPTN) began listing borrowers who have never paid back their loans into Central Credit Reference Information System (CCRIS). It has been reported that 30% of the loans submitted in 2016 were rejected due to applicant's debts with PTPTN. From Table 1, quarter-on-quarter HPI has slowed to a growth of 15.3 index points between 2015-Q1 to 2016-Q1. Recall earlier on that in 2011, HPI increased by 17.9 index points. Performance for residential loans approved also fell drastically by RM5.6 billion from 2015-Q1 to 2016-Q1. HPI continues to rise (moving towards right) despite a drop in the amount of residential loans approved since 2014.

Email your feedback and queries to: propertyqs@thesundaily.com