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IMPACT OF BUDGET 2021 ON THE MALAYSIAN PROPERTY MARKET

Note: This article was written before the Budget has been debated and voted upon by Parliament

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The tabling of Budget 2021 in Parliament was an eagerly awaited event as there were earlier concerns about whether it would even have been presented at all especially when the Prime Minster was trying to get the Agung to declare an emergency which would have given the PM the power to bypass Parliament on the matter. Even with the Budget having been tabled last Friday, everyone is now waiting with abated breath on whether the government will be able to muster enough votes to get it passed in Parliament.

Politics aside, what are the measures introduced in the budget which will have an impact on the property market? I remember I was driving home when the section of the budget on the housing sector was read out by the Finance Minister. By the time I gathered myself to concentrate on what goodies he had to announce for the property sector, it was already over. It was that brief! Anyway, the following is a summary of what was allocated to the property sector:

a) Full stamp duty exemption will be given on the Memorandum of Transfer (MOT) and loan agreement for the first home purchased which is priced under RM500,000. This will be for Sale & purchase agreements signed between January 2021 to December 2025;

b) The extension of the stamp duty exemption on the loan agreement and MOT given to rescue contractors / developers and original buyers of abandoned houses for another five years. For the rescuing contractor / developer, the exemption will be on the loan agreements for financing the revival of the abandoned housing projects and the MOT for land and houses in the abandoned projects. For the original house purchaser in the abandoned project, the exemption will be on the loan agreement for additional financing as well as the MOT. This exemption is effective for the loan agreements and MOTs executed from January 2021 to December 2025 for abandoned housing projects certified by the Ministry of Housing and Local Government (KPKT);

c) A RM1.2 billion provision for the construction of comfortable and quality housing for low-income earners as follows:
   - RM500 million to build 14,000 housing units under the People's Housing Project programme (PPR);
   - RM315 million for building 3,000 units of Rumah Mesra Rakyat entrusted to Syarikat Perumahan Negara Bhd (SPNB);
   - RM125 million for the maintenance of low and medium-low cost strata-housing and also for upgrading of old houses and those damaged by natural disasters;
   - RM310 million for housing under the Malaysia Civil Servants Housing Programme (PPAM)

d) The Government is to cooperate with selected financial institutions to provide a Rent-to-Own (RTO) scheme involving 5,000 units of houses built by PR1MA with a total value of more than RM1 billion and reserved for first-time homebuyers. This programme will run until 2022.

For the construction sector, the government has announced allocations for the following infrastructure projects:

a) RM15 billion to finance projects such as Pan Borneo Highway, Gemas-Johor Baru Railway Electrified Double-Tracking Project and the first phase of Klang Valley Double Track Project (KVDT 2).

b) Several major projects such as the Light Rail Transit (LRT) system connecting Woodlands in Singapore and Johor Bahru, as well as the MRT3 project in Klang Valley will be continued.

c) The government has indicated its intention to continue the HSR project, subject to further discussions with Singapore, the other stakeholder in the project.

d) Several large-scale new projects worth about RM3.8 billion will be implemented:

- Construction of the Second Phase of the Klang Third Bridge in Selangor;
- Continuation of the Central Spine Project with the new alignment from Kelantan to Pahang;
- Upgrading the bridge across Sungai Marang, Terengganu;
- Upgrading of the Federal Road connecting Gerik, Perak to Kulim, Kedah;
- Continue the building and upgrading of the Pulau Indah, Klang Ring Road Phase 3, Selangor;
- Construction of the Pan Borneo Highway Sabah from Serusop to Pituru; and
- Construction of the Cameron Highlands Bypass road, Pahang with emphasis on preserving the environment.

What will be the impact of the various measures announced in Budget 2021 on the Malaysian property sector?

Firstly, let us look at the current state of the country's economy. The Malaysian economy contracted by 8.3% in the first half of 2020 due to the disruption to businesses during the series of lockdowns implemented to curb the Covid-19 pandemic. In fact, the economy recorded a decline of 17.1% in the second quarter of this year at the height of the lockdowns. Overall, Malaysia's gross domestic product (GDP) is expected to contract by 4.5% for full year 2020 (it was projected to grow by 4.8% during Budget 2020). Nevertheless, GDP is expected to recover and grow by between 6.5% and 7.5% in 2021 with the measures implemented by the government to help the economy recover from the devastating effects of the Covid-19 pandemic. Malaysia's unemployment rate is also expected to improve to 3.5% in 2021, compared with an estimated 4.2% in 2020 which translated to a loss of more than 800,000 jobs.

Budget 2021 has been touted as the biggest ever tabled for the country as the amount of allocation for expenditure has been increased from RM 297 billion in 2020 to RM 322.5 billion in 2021 but then we are now living in a changed and abnormal world and grappling with a host of health, economic and political issues and the government needs increased fire power to deal with the situation. How well and how fast the government is able to manage and achieve the recovery of our health systems and economy is still to be seen but the path ahead is certainly not an easy one. Whilst controlling the spread of the Covid-19 pandemic is very important, the government needs to balance carefully health and economic considerations to ensure that businesses are able to survive and the rakyat is able to keep their jobs. Fine tuning and localising the SOPs to target the Covid-19 affected areas instead of adopting a blanket coverage over entire states is one thing that the government should study in depth and implement.

The health of the property market hinges largely on the state of the country's economy. The drastic decline in economic growth in 2020 will translate to a poor performance of the property market for the year, with drops in both the volume and value of property transactions expected. Even with the boost in sales generated by the Home Ownership Campaign 2020, the property market is expected to perform worse than the year before. The Real Estate & Housing Developers Association (REHDA) has indicated that it does not expect the sales generated by HOC 2020 to match that recorded in HOC 2019. It is therefore heartening to note the Minister of Finance's projection that GDP will recover by between 6.5 and 7.5% next year whilst the unemployment rate will improve to 3.5%. If these projections hold true, it will create the base for a recovery of the property market as people will be less inclined to invest in a house even if it is their first home, if they are uncertain about their job and income security even if there are attractive incentives offered to them.

Budget 2021 is clearly focused on the less well-endowed section of the rakyat with a number of handouts announced for them in the Budget. Even for the housing sector, the priority is given to the lower income group as well as first time homebuyers. The financial assistance offered under the Bantuan Prihatin Rakyat scheme, lowering of income tax rate for those earning between RM 50,001 to RM 70,000 as well as reducing the EPF contribution rate for employees from 11% to 9% will put additional cash in the hands of the targeted groups but this will likely be used for daily living expenses rather than be channeled to investing in property.

The extension of full stamp duty exemption on the loan agreement and MOT for first time homebuyers to cover houses costing up to RM 500,000 (previously set at RM 300,000) is a positive move as it widens the pool of buyers who will be able to benefit from this incentive. This will certainly boost interest and benefit both buyers as well as developers of houses priced under RM 500,000.

The extension of stamp duty exemption on the loan agreement as well as MOT for the first buyers as well as developers / contractors involved in the rescue of abandoned housing projects for another five years is another positive move as it will encourage more developers / contractors to take up the challenge of reviving projects which have failed and abandoned by the original developers. It will also alleviate the financial burden of buyers who were unfortunate to have invested in an abandoned project.

The substantial allocation of RM 1.2 billion for the construction of quality houses for the low income group under various government initiated programmes is also to be lauded as it clearly prioritises the B40 group which forms a significant portion of the country's population and being less well endowed financially, requires more assistance from the government. Although the amount allocated is substantial, we do however recall that the allocation in Budget 2019 for the building of houses for the low income group was actually higher, at RM 1.5 billion. Further we hope that the houses built will be made available to the low income group at low rents that this group can afford and that strict screening be carried out to ensure that only those who really deserves it will get to live in these houses. With the increased layoffs and uncertain job security arising from the difficult business environment caused by the Covid-19 pandemic, the low income group would probably be the most affected and under such circumstances would be less likely to invest in a home even if they are provided with a lot of incentives. Feeding the many mouths at home will likely take precedence over buying a home as long as they have a roof over their heads. In this instance, the government's plan to push the Rent-to-Own (RTO) scheme (although not new as it was already part of the measures introduced under Budget 2020) will be helpful as it will do away with the need to come up with the down payment to own a home and the participant will be able to occupy the house as a tenant until such time when he is financially ready to exercise his option to buy over the house.

The various infrastructure projects that will be undertaken by the government under Budget 2021 will provide the stimulus to economic growth through its multiplier effect on the economy. Further, the improvements in accessibility and the living environment brought about by the completion of these infrastructure projects will benefit the people staying along and in the vicinity of these projects as well as the landowners and developers with projects in these areas. Values of land and properties which stand to benefit from these infrastructure projects may appreciate as the area become more attractive as a place to stay or do business.

Now, down to the crunch. Has Budget 2021 been a very positive one for the property industry? Yes, to some extent as they will supplement the measures introduced by the government earlier under the Penjana and Prihatin economic recovery plans but we believe most stakeholders in the industry would have hoped that Budget 2021 will offer new and substantial measures to boost the property market which is currently facing a very challenging environment. The property market has been on a downward trend since 2015 although it appears to have bottomed out in 2018 and shown some signs of a recovery in 2019. The Covid-19 pandemic however derailed the recovery and the loss of three months due to the closure of developers' sales galleries in the months of March to May and the less conducive environment to carry out physical launches have greatly impacted developers' sales. The secondary market has also been in the doldrums as those in the real estate profession have complained of a significant reduction in income due to a drop in transactions. In the run up to Budget day, there were hopes of the government considering the following:

a) Extension of the stamp duty waiver to those buying a house in the secondary market (not specifically mentioned in the Budget speech)
b) A return to the 0 RPGT tax rate for disposals of properties after the fifth year of ownership
c) Rebates on the compliance costs paid by developers so that house prices can be brought down
d) The reintroduction of the Developer Interest Bearing scheme (DIBS)
e) Early release of unsold units held back to comply with Bumiputra quota

Alas, this is not to be and the property industry will have to wait and hope for the government to find the funds to be able to introduce some, if not all of the above measures to help the industry stay the course as part of post Budget economic stimulus packages. In the meantime, industry players will have to think deep and hard to come up with innovative and creative ways on their own to stay afloat and survive this difficult period. The weak will be culled and those who are able to pull through will be able to grow from strength to strength after being toughened in the ring of fire.