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KRI: Bank Negara doing the right thing

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KUALA LUMPUR: Relaxing lending guidelines to achieve property sales is not the right way to tackle the issue of affordability, said Khazanah Research Institute (KRI) director of research Dr Suraya Ismail.

"House prices should go down first, then financing will be better. You can't make mortgages the innovative way of making house prices more affordable, by just concentrating on mortgage payment. When house prices go down, finance will take care of itself," she said in an interview.

She said Bank Negara Malaysia is doing the right thing by maintaining the strict lending guidelines for banks, in view of the household debt level.

According to her, mortgage should not be so accessible that it increases the debt as well as the value of the house.

"I'm not a firm supporter of rapid price escalation because I think that in and of itself is hitting the economy, and it's a price asset bubble, it's the starting point. What we want is proper, real gains from property appreciation," she added.

Back in 2009, Malaysia's housing sector saw a very rapid price escalation due to "flippers" who pushed up the transacted prices in the secondary market, which dictates the selling prices of new stock, resulting in a bloated market.

"It's all bloated and then you have the

finance supporting this. This is wrong. House prices must come down first, because it was too rapid; we had to flatten it a bit," Suraya said.

She explained that if prices escalate rapidly, home owners may not be able to afford to upgrade or afford the same quality in future as prices would have spiked too much. However, a gradual increase in price would enable families to still afford a decent house 10 years later.

"What we want is, for most people to have a proper staggered type of property ownership. So, at this level, you buy RM200,000. Once you are in your 50s, hopefully you can buy another house which is RM400,000. But our figures have shown that one family will hold on to that house for about 37 years. Meaning, they can't go up the property ladder. That's how bad our housing market is," she said.

She said the inability to move up the property ladder is a bad symptom of an inefficient housing market.

Meanwhile, unsold homes in the market should be left to market forces and developers should respond according to market demand, by supplying the type of homes that Malaysians want.

Suraya noted that some developers who understand market response have reduced their selling prices, with products priced around the RM200,000 to RM220,000 range in Selangor.

"That was done without cross-subsidisation between the expensive

products that they sell and the ones they do for affordable housing. So that's great. I'm not saying they should do social housing; social housing is under the government. Just concentrate on the middle range," she said.

In order to tackle inefficiency among firms which has led to sky high prices, Suraya recommends the build-then-sell (BTS) concept, which she said would instil discipline among developers.

"If we practise BTS, the overhang will be less because there is discipline there. You must really produce products that people want and you would not take all the unnecessary risks (such as building too many units or unsuitable homes)."

Recall that the BTS concept was supposed to be implemented in 2015 but the idea was later scrapped. The National House Buyers Association has been pushing for the implementation of the concept, which it said would address the issue of abandoned housing projects.

Suraya said the government should also incentivise developers to invest in research and development, which would strengthen the firms, making them leaner and more efficient at producing homes.

"That is the real incentive policymakers should give ... the pillars of development need to be incentivised, not the outcome. This is all short-termism.

"What we want is proper long term solutions to make house prices go down in a way that it can and it should."