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HOME OWNERSHIP FOR ALL

Proposed new housing ecosystem suggests using EPF to pay monthly loan instalment

MALAYSIA Institute of Professional Estate Agents and Consultants (Mipeac) deputy president See Kok Loong answers pertinent and pressing questions concerning housing affordability among the B40 and M40 groups in the country.

1. According to the National Property Information Centre (Napic), as of 3Q 2018 the number of unsold homes in Malaysia has reached a new high of 30,115 units amounting to RM19.54bil (unsold homes completed nine months from the Certificate of Completion and Compliance, excluding residential properties built on commercial land like serviced apartment, SoHo and others). Do you think the current property market is in oversupply or merely mismatched?

It is both. There is a mismatch of the type and price for a certain location. Generally, there is an oversupply in the market (based on the population and the number of units completed), for example in certain parts of Johor.

2. Recently, the government came up with initiatives such as the National Housing Policy 2018-2025, Housing Ministry's first Home Ownership Campaign (HOC) in March 2019 as well as lowering the ceiling price of affordable houses at RM300,000, Bank Negara Malaysia's RM1bil funds for affordable homes for two years, the Ministry of Finance announcement on stamp duty waiver during the HOC for six months, and the Real Estate and Housing Developers Association Malaysia (Rehda) offering a 10% discount. Do you think these initiatives will help the rakyat achieve home ownership?

I appreciate the initiatives of the government to resolve the mismatch and oversupply issues, but they may not solve the home ownership problems for the B40 and M40 groups. The initiatives merely push up demand so that buyers can make decisions earlier because of incentives in the short-term period.

The real solution is to have sustainable demand by raising country productivity, which gradually increases wages. Therefore, more initiatives are required to boost disposable income like an economic transformation plan.

3. How can we control the supply of houses in the market?

Land-related matters fall under the jurisdiction of the state. Due to political reasons, it is almost impossible to control incoming supply. The federal government can only manage supply using acts and policies such as the Housing Development Act and Town and Country Planning Act. One way of monitoring incoming supply is to gazette the local plans.

The land for the Tun Razak Exchange (TRX) obtained a higher-than-normal plot ratio of 1:15 compared to the draft plan of 1:8 due to the DBKL draft plan 2000-2020 being delayed. The increase could create



other social problems such as traffic congestion and poor living quality.

4. Is affordability an issue in the Malaysian housing market?

Yes, according to Khazanah Research Institute, our homes are not affordable for the B40 group. To overcome the affordability issue, we should adopt the state-based affordable level as proposed by the institute and monitor it on a yearly basis. Based on that affordability level, the government can set policies to ensure that supply meets demand.

5. Can developers build affordable houses priced below RM300,000 and still remain profitable, keeping in mind the high land cost?

Land cost, high or low, depends on demand and supply. When there is no demand for the land, the price will come down especially if the plot ratio or density is fixed (gazette of the local plan). As profit is the balance of price less cost, developers in an open economy and an ideally governed environment should compete by reducing the cost to capture profit. The biggest part of the cost of a building is the construction cost. Therefore, developers should adopt new construction methods like IBS or 3D printing to bring down the cost.

6. During the last few years, industry players have been blaming the banking institutions for being too strict with loan approval. What is your opinion?

Banks, like any other entities, need to be responsible towards their stakeholders such as deposit holders, Bank Negara Malaysia, and others. It is common for them to approve loans for "high quality" customers compared to the low real residual income B40 group that may have repayment problems. However, if there is a mechanism that enables the security of repayment, most banks are willing to finance the purchase.

7. What role should the government play in the matter of housing?

I believe in a market economy whereby the market is self-regulated and the government should not interfere. However, the government should remain as a gatekeeper to ensure that laws are followed. The current situation of "oversupply or mismatch" is created by the previous government that came into the market, adding supply with many housing schemes like 1Malaysia People's Housing Programme (PRIMA), Federal Territories Affordable Housing scheme (Rumawip), and 1Malaysia Civil Servants Housing Project (PPA1M).

8. So, due to affordability issues, is it possible for every Malaysian to own a home?

Yes, it is possible but we need to create a new ecosystem for home ownership in Malaysia.

9. What is the new ecosystem?

The new ecosystem will use the Employees Provident Fund (EPF) to pay the monthly housing loan instalment. Around 24% of the employee's gross salary goes into EPF (11% from employee and 13% from employer). As long as the person is working, the EPF contribution can be channelled towards the monthly instalment.

10. It is risky to use the EPF to fund housing loans since it is a forced savings plan for retirement?

This plan is most suitable for first-time home buyers only and is targeted at the younger generation who come into the workforce at the age of around 20. At 45 years old, the person should have a mortgage-free home with a balance of savings from age 45 to 60. Savings can also be derived through the increase in the individual's future monthly income. It is not really risky because affordable homes for own stay is the safest long-term investment. The government policy has to come in to ensure the proper implementation of the proposal.

11. How does the mortgage work then?

If the monthly payment comes directly from the EPF monies, many banks would be willing to finance the purchase even for the B40 group because the instalment is secured for the long term.

12. What else do we need to know about the new ecosystem?

The new ecosystem proposes three things:

- Home ownership.
- Owning a house at the young age of 20 to 25 years old.
- Having additional disposable income from rental savings.

Liquidity is good for the entire property market and will bring prosperity to other industries. Banks do their business as usual while the developers get to sell their units because the new ecosystem solves the real residual income issue.

13. What if the individual sells the property before fully repaying the instalments?

The monies will be returned to his or her EPF account like a unit trust investment.

14. What if the individual is unemployed?

The scheme only applies after six months of confirmation so that the individual's career is stable. It can also be covered by insurance once the person loses his or her job for a certain period.

15. Based on your calculation, what is the value of the property that the B40 and M40 can afford to buy?

Based on the Department of Statistics Malaysia, the median household income of the B40 group is RM3,000 per month. With EPF savings at 24%, an amount of RM720 per month is derived. With an interest rate of 4.4% and a loan period of 25 years, B40 individuals with EPF funds of RM720 monthly can afford a loan of RM135,000 – which means a person can buy a property priced at RM150,000 with 10% down payment and 90% financing.

The median household income of the M40 group is RM6,275 per month. With EPF savings at 23%, an amount of RM1,443 per month is derived. With an interest rate of 4.4% and a loan period of 25 years, M40 individuals with EPF funds of RM1,450 monthly can afford a loan of RM 270,000 – which means a person can buy a property priced at RM300,000 with 10% down payment and 90% financing. ?

TO OVERCOME THE AFFORDABILITY ISSUE, WE SHOULD ADOPT THE STATE-BASED AFFORDABLE LEVEL AS PROPOSED BY THE INSTITUTE AND MONITOR IT ON A YEARLY BASIS.

– SEE KOK LOONG

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