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Vacancy Tax

What is a Vacancy Tax?
A tax levied on property developers for their unsold units

Why is it being considered?
To resolve the problem of high unsold completed units

Why is there opposition on the tax?
It is against the spirit of free market

How many unsold units nationwide as at Q1 2020?
Residential units including serviced apartments and small office home offices (SoHos): **48,619 units**, or **RM34.77bil**

Source: Napic and Rahim & Co

Vacancy tax on back burner

Move to put off proposal a welcome one for developers

By THEAN LEE CHENG
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PROPERTY

StarBiz Special

KUALA LUMPUR: The government decision to put the proposed vacancy tax on the back burner comes as good news for developers and the housing industry as well, say property consultants and economists.

Rahim and Co International research director Sulaiman Saheh said the proposal by Housing and Local Government Minister Zuraida Kamaruddin lacked clarity in the first place.

"Although the intention was to prevent the residential overhang situation from worsening, the implications of implementing the tax amid the challenging period that we are in right now could have other ramifications," he said.

Sulaiman also said developers should be given "a lead-up period of one to two years from the date of the tax implementation to clear off existing overhang."

Sulaiman was responding an announcement by Zuraida yesterday that the proposed tax would not be imposed on developers next year, as proposed earlier.

"We are reviewing it and it is not our priority.

"Let the developers manage it (the overhang)," Zuraida told *Bernama* after launching the Cagamas SRP Bhd's Digital Skim Rumah Pertamaku (Digital SRP).

She also said the proposed tax was not an urgent matter for the ministry.

"The vacancy tax idea only came about when we thought about unsold high-end properties ... it is not going to be implemented in 2021, we have other mechanisms," she said.

Sulaiman said a vacancy tax was normally levied on properties left vacant and unused for a period of time.

Its purpose is to deter speculators and developers from "hoarding properties", with an aim to reap profits when the price rises.

"Developers want to sell their units and do not intend to hoard them," he said.

Hence, the housing ministry's stand relates more to unsold property tax rather vacancy tax *per se*.

The unsold property tax, said Sulaiman, goes "against the spirit of free market".

It has "merits" in a rising market to curb overbuilding but Malaysia is not in that situation either, he added.

Also, its relevance depends on the underlying problem, Sulaiman said.

"This inability to sell (by developers) is not just about the price alone, but it is also a function of the income levels, consumer sentiments and the attributes of the product itself," said Sulaiman.

He said developers have already begun reducing the effective price through rebates, discounts and other incentives but prices but remain prohibitive for the general market.

According to the National Information Property Centre's (Napic) latest first quarter report for 2020, Malaysia has unsold housing units totalling 29,698 units worth RM18.91bil.

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Forcing tax through could spark 'panic offload'

> FROM PAGE 1

Including serviced apartments and small office home offices (SoHos), the units swell to 48,619 worth RM41.59bil.

Serviced apartments and SoHos are built on commercial land but have housing elements.

Known as an overhang in property parlance, this refers to units that have received their Certificate of Completion and Compliance but remain on the shelf more than nine months later. These overhang units have been snowballing for years.

Sulaiman said total of unsold properties numbered more than 45,000 units since 2018, a huge jump from just above 12,000 units in 2015.

Forcing such a tax may pressure developers to "panic offload" which may spark a further price fall. Although it may sound good for house buyers, there will be ripple effects on other aspects of the property market.

Sulaiman proposed that developers do mandatory independent market and feasibility studies, to be commissioned by banks and/or local authorities, at the start of any project.

A full study would enable developers to discover buyers' purchasing power, demographics, competition, and demand and supply to formulate the right pricing

Because land is a state matter, the respective state local authorities hold the key to project approvals. Banks provide developers with financing.

An independently-done study can be a condition for developers seek planning approval or applying for a development order. If the developer delays the project, another abridged version of that first market and financial feasibility study should be carried out, he said.

"The approval from the local authorities should not be in perpetuity. It should have a validity period. So, when a developer seeks an extension, a separate study or an abridged version of the first study should be done," he said.

The user of the report, be it lending institution or the local authority, should make a call on this, he said.

Economist Carmelo Ferlito said putting the vacancy tax on the back burner is "good news indeed."

He said there are other mechanisms to resolve the issue of unsold completed units.

Of of them could be making it a criteria for developers to do an independent market and feasibility studies.

"It is normal practice for any entrepreneurial venture to do an independent study before embarking on it," he said. "The developer's profit depends on the project's viability."