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**property**

# Dilemma over Bumiputera lots

Bumiputera units form the bulk of unsold units that have led to a property overhang situation. This may force property developers to pass the additional cost of holding unsold Bumiputera units by increasing overall property prices. State governments should adopt an automatic release mechanism for properties allocated under Bumiputera quotas to reduce the high number of unsold units in the country. P.20-21

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# Conundrum over unsold Bumiputera units

The latest statistics indicate that Bumiputera units form the bulk of unsold units that have led to the current property overhang. This may result in even higher prices for non-Bumiputera units as developers are likely to pass the additional cost of holding unsold Bumiputera units.

It was reported recently that there were 80,000 unsold Johor properties reserved for Bumiputera in 2017.

This is said to be due to the requirement in the state for 40% of all property units to be set aside for Bumiputera. Properties reserved for Bumiputera are also given a 15% discount for units worth RM1 mil and above.

According to the National Property Information Centre's (Npic) Property Overhang Report for the second quarter 2018, there were 40% more unsold new residential units during the first half of 2017 than in the first half of 2016.

The number increased to 29,227 units, valued at RM17.24bil as of June 30, 2018. A year ago, it was 20,876 units, valued at RM12.26 bil.

## Adopt automatic release mechanism

Nevertheless, Npic does not segregate the Bumiputera and non-Bumiputera units from the 29,227 unsold units.

Despite the lack of nationwide figures for unsold Bumiputera units, the concerns are real.

- **Unsold Bumiputera units are an additional cost for the developer, and will eventually be passed down to purchasers**
- **The discounts can be as high as 15% and as much as 60% of a development is allocated to Bumiputeras**



by Joseph Wong

The Real Estate and Housing Developers' Association (Rehda) has continually urged state governments to adopt an automatic release mechanism for properties allocated under Bumiputera quota to lower the high number of unsold units.

"Of all the states in Malaysia, only Penang and Selangor have the automatic bumiputera unit release mechanism. "We are suggesting other states to be transparent and follow the mechanism in helping the country to lower the overall property prices," says Rehda president Datuk Soam Heng Choon at Rehda's Property Industry Survey 1H2018 and



Market Outlook 2H2018 and 1H2019 in October.

Soam says the unsold Bumiputera units are an additional cost for the developer, which will eventually be passed down to property purchasers.

According to the survey, the percentage of 152 Rehda member respondents with unsold units has increased from 66% in 2017 to 75% as of the first half of 2018.

The majority of the respondents have about 30% unsold stock of which 29 are holding more than 30% unsold stocks.

## Why the concern?

However, the survey also reveals that two other top reasons contributing to the unsold units are end-financing problems and low demand in certain areas.

Most of the unsold properties appear to be within the price ranges of RM250,001 to RM500,000 (mostly in Kuantan and Alor Setar), RM500,001 to



Rehda has been urging state governments to adopt an automatic release mechanism for properties allocated under Bumiputera quotas, says Soam



In areas densely populated by Bumiputeras, owners do not have to worry about selling off their Bumiputera units, says Ahyat

RM700,000 (mostly in Johor Bahru and Shah Alam) and RM700,001 to RM1 mil (mostly in Johor Bahru and Puchong, Selangor), according to the survey.

For those buying a Bumiputera unit, there is one main concern and that is the exit plan, says property investor, speaker and author Ahyat Ishak.

"When you buy a property, you need to think about both the entry and exit points," he tells *FocusM*.

"If you want to enter the property market, you must enter at the right price. If the entry is wrong, it will be difficult to get the exit right. The exit point is when you cash in on your investment like renting or turning it into a homestay.

"The other exit is to sell your property or take advantage of the capital appreciation via an overdraft facility on the property.

"With a Bumiputera unit, when you enter you will have a discount of 7% (for Kuala Lumpur) at the start, but when you exit, you can only sell it to another Bumiputera," he explains.

Under the Bumiputera Lot Quota Regulation, Bumiputera lots are units of land or property which can only be purchased and owned by Bumiputeras. These

## Can Bumiputera lots be converted?

THERE are three main issues with Bumiputera property units. There is a lack of demand for such property, they are slow to appreciate in value and there's difficulty to get the lots released for sale to non-Bumiputeras.

While there is usually no issue with the demand for Bumiputera lots in Bumiputera dominant areas, or the selling of such properties in such areas, the transferring of title to a non-Bumiputera can be an arduous process, according to a property observer.

"There are cases where the Bumiputera lots are 'released' to non-Bumiputeras but there is a procedure. Applicants must apply for consent from the land office to 'release' the title.

"However, they must provide compelling

reasons. For example, for developers, they must show that the Bumiputera lots are not able to be sold over a prolonged period despite continued advertisements and promotions.

"If the application is rejected, they can appeal the case," he says, adding that there is also a conversion fee to be paid.

For buyers, they have to be aware that a "released" Bumiputera lot does not make it a non-Bumiputera lot, he says.

This only means a non-Bumiputera is allowed to buy the Bumiputera lot, he says, adding that the title has not changed but just "released".

"In the event that the non-Bumiputera wants to sell off the property at a later stage, the interested buyer, if he or she is not a Bumiputera, will still need to re-apply to the

Land Office for the property to be 'released'.

"Many people are unaware of this interesting detail. And those who do, end up reinforcing the perception that Bumiputera units are hard to sell," he says.

Buyers of the subsale property should look into this detail more closely as the property they are after could be a Bumiputera unit, he warns.

"The owner may also be unaware (of this) if the developer has not been forthcoming with the information since the developer is the one who has sought for the property to be 'released', he says.

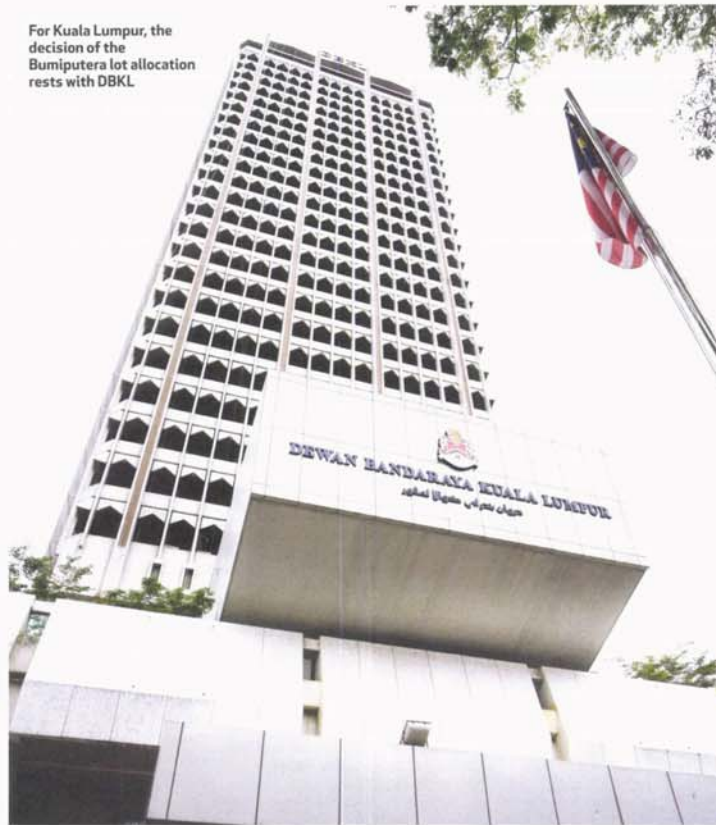
It is usually only recorded by the Land Office that the property is a Bumiputera unit so at the end of the day, it is the due diligence of the buyer to find out, he says.

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Selangor has one of the highest Bumiputera lot allocations - 60% for low-cost commercial units, 50% for other commercial units, 50% for low-cost industrial units, 40% for other industrial units and for residential property, there is no fixed allocation as it is up to the state

For Kuala Lumpur, the decision of the Bumiputera lot allocation rests with DBKL



## Differing rules on quota

THE Bumiputera Lot Quota Regulation was introduced in 1971 as a means to increase the Bumiputera share in real estate up to at least 30% under the National Economic Policy. This means that for 47 years, developers have had to allocate at least 30% of all property units (be they residential or commercial) to Bumiputeras.

Since state authorities are given full control of land matters with the exception of federal territories, Bumiputera quota regulations fall under the state government's jurisdiction and differs from state to state.

In some states, the discounts are as high as 15% and the allocation can be as much as 60%. For example, in Kuala Lumpur the discount is pegged at 5% and developers are to allocate 30% of residential or commercial property to Bumiputeras.

In contrast, Selangor has one of the highest allocations - 60% for low-cost commercial units, 50% for other commercial units, 50% for low-cost industrial units, 40% for other industrial units and for residential property, there is no fixed allocation as it depends on the state's decision.

The discount is 7% for residential property and 10% for commercial and industrial properties with the exception of low-cost units.

lots are not to be confused with Malay Reserved Land which restricts properties solely to Malays.

Either way, Ahyat points out that any restriction to an investment means additional risk.

"If you have bought into an area with a strong Bumiputera demand, then there should be no issue. But if you have purchased in an area with a low Bumiputera demand, then selling it later may be an issue," he adds.

He says there are Bumiputeras who will buy non-Bumiputera units and forego the discount to reduce their selling risk.

However, given the demographics show that Malaysia has more Bumiputeras, it boils down to the area concerned, he says.

"If a non-Bumiputera unit is located in an undesirable location, the seller will also have difficulty in finding a buyer. [On the other hand], some Malay-title property are very saleable. [The developer] doesn't have to do a lot of advertising or promoting to sell it. And when the time comes to sell the property, there are already willing buyers," he says.

### Higher rental yield

Ahyat points out that there is a strong advantage for Bumiputera units in that when used to general income through rental market, they have a higher rental yield due to the discounted price.

There is no rental price difference between a Bumiputera and non-Bumiputera unit. It depends on how the unit is packaged.

However, many have noted that non-Bumiputera units tend to have higher capital appreciation.

"A Bumiputera unit will almost always fetch a lower price than a non-Bumiputera one within the same condominium complex. The same can be said of landed property within the same area," says a property observer.

"Just go to any online property portal and you can see that there is a price difference, even if they have the same size and configuration.

"It could be because of the initial discount given or the general perception that a Bumiputera unit is of lower value," he adds.

Anticipating this disadvantage, some Bumiputera buyers become unwilling to purchase Bumiputera lots which inadvertently create a sharper demand for non-Bumiputera units.

Anyone who has a basic understanding of demand and supply will know that the above scenario will only serve to increase the value of the non-Bumiputera units further.

On the other hand, when property prices of neighbouring non-Bumiputera lots rise, the discounted Bumiputera units do not appreciate in tandem.

That said, not all Bumiputera property faces such a dilemma.

In areas that are densely populated by Bumiputeras like Shah Alam and Putrajaya, the bulk of demand for units in that area is from Bumiputeras and hence, owners do not have to worry about selling off their properties, says Ahyat.



Low-cost housing usually has the highest Bumiputera allocation

### Some leeway

It is also not all doom for developers stuck with unsold Bumiputera units. For one, developers can appeal to the state government for a release consent that will convert a property to allow its sale to a non-Bumiputera, says an investor who has bought Bumiputera and non-Bumiputera properties.

The other option is to prove that an area is dominated by non-Bumiputeras to reduce the percentage of allocation, he says.

"The Bumiputera quota is not set in stone but developers would have to pay a certain sum to the state for each unit to be released," he says.

In the case of Johor, the state government collected about RM600 mil from developers who applied for a conversion of Bumiputera status properties in 2017. The amount was used to build some 6,000 Rumah Mampu Milik Johor. **Focus**