

Headline	Resolve the property supply overhang in a positive way, not through a punitive tax		
MediaTitle	The Edge		
Date	31 Aug 2020	Color	Full Color
Section	Corporate	Circulation	25,910
Page No	50	Readership	77,730
Language	English	ArticleSize	882 cm ²
Journalist	FIABCI MALAYSIA	AdValue	RM 15,186
Frequency	Weekly	PR Value	RM 45,558

Resolve the property supply overhang in a positive way, not through a punitive tax

BY FIABCI MALAYSIA

On Aug 19, 2020, Housing and Local Government Minister Zuraida Kamarudin announced the government's intention to implement a "vacancy tax" on developers who fail to sell their properties in an effort to reduce the huge overhang of residential units in the country.

The rationale for this tax is supposedly to make developers more sensible and responsible and to carry out more in-depth and thorough feasibility studies to ensure project viability.

But, is this an appropriate solution at this weak cycle of the property market?

Despite challenges facing the industry currently, property development is still one of the few of the pillars providing employment and creating downstream economic activities. Therefore, policymakers must take cognisance of the implications before they take any measure such as a vacancy or overhang tax.

The overseas experience

There are five countries and one territory that have implemented or attempted to implement a vacancy tax – France, Australia, Canada, Singapore, China and Hong Kong. Their experiences are elaborated below:

- (1) France implemented the tax in 2015, with a levy on the first year of vacancy at 10% of the loan amount, 12.5% in Year 2 and 15% in Year 3. There was a lot of public commotion and no improvement shown in the overall vacancy under the initiative.
- (2) Australia introduced it in 2017, applicable only to foreigners owning residential units in Australia and on units not rented out for more than 183 days (six months). Its intention is to force foreigners to make their units available for rent and increase available housing in general. However, studies have shown that this policy was not efficient and discouraged foreign investment in properties.
- (3) In Canada, a similar tax was introduced in Vancouver to get empty or underutilised properties to be used as long-term rental homes for people who live and work in Vancouver. As the general rental is high, the policy was initiated to motivate owners of empty homes to rent out their properties and increase available housing for rental.

It was reasonably effective in Vancouver but not the other parts of British Columbia, because many of the housing units in Vancouver are owned by rich Hong Kong residents.

- (4) China introduced it in May 2017 after the once-talked-about "Ghost Town" developed in Heilongjiang province where the massive number of vacant units in the entire development project prompted the provincial government to levy a heavy penalty on developers.
- (5) In Hong Kong, a policy had been planned for some time but was never implemented due to various reasons. As Hong Kong is the world's most recognised "free market", government intervention is frowned upon.
- (6) Singapore introduced in 2011 an additional buyer's stamp duty (ABSD) on unsold properties after five years from the date of acquisition. Again, it is a tax to discourage speculation during the boom periods.

It must be noted that the ultimate intention of these governments was to curb the element of "speculation" rather than to effectively fill up vacant units.

In Victoria, Australia, to take advantage of the exodus of high-net-worth individuals from China, the state in 2015 introduced an immigration incentive for foreigners via the Significant Investor Visa (SIV 188C), whereby an investment of A\$5 million gets you an Australia PR Residency. Later, another class of Premium Investor Visa (PIV) was introduced for ultra-high-net-worth investors who were able to invest A\$15 million. With those kinds of investment amounts and investors with high net worth, the imposed Vacancy Tax was totally negligible and foreigners continued to buy properties in Melbourne, which is often voted one of the 10 most liveable cities in the world. However, the rest of the states in Australia have not been successful with such a policy, which goes to show that a Vacancy Tax is essentially a levy geared towards curbing "speculation" by investors and not meant to target developers.

Impact on the economy

Let us examine the fundamental issue of supply and demand.

Supply and demand: If we examine the fundamental economic model of the supply and

demand curve by operation of market forces, the curve forms a pendulum pattern whereby when demand exceeds supply and with a favourable financing environment, supply will pick up and will eventually surpass demand.

By operation of market forces, supply and demand will eventually find its balance, in theory at least. During 2010 to 2015, the property market was in the mode of demand exceeding supply, hence prices were moving upwards and liquidity was abundant. The market became naturally speculative as buyers were chasing after relatively easy gains. At that point, policymakers took appropriate measures to cool speculative buying to avoid an overheated situation in the industry. Unfortunately, that crucial measure was perhaps not adequately in place as, after all, everybody wanted to believe good times would last longer. The musical chair syndrome prevailed.

What we have today is a situation whereby supply exceeds demand, hence property prices are slowly adjusting downwards towards the balance point.

If we look at the National Property Information Centre (Napic) data 2020, the supply situation is trending down, too. In short, by the operation of market forces, the law of supply and demand is adjusting itself progressively.

On hindsight, policymakers should perhaps have interfered earlier to avoid the oversupply situation we have today. On the contrary, some statutory bodies also jumped on the bandwagon by building homes, more often than not, at wrong locations. Therefore, it would not be fair to blame the overhang solely on private developers who are already saddled with unsold bumputera units and having to cross-subsidise low-cost and affordable housing, high regional infrastructure costs and very high compliance costs imposed by the federal and state governments, local councils, statutory bodies and even utility companies.

Any abrupt interference, especially a punitive measure like a vacancy or unsold property tax, at this time will harm the property market significantly. This in turn will put the national economy at risk, especially when we are on the verge of a recovery from the Covid-19 pandemic.

The alternatives

Instead of thinking of introduc-

ing a punitive tax, the following options should be considered:

- (1) Deferment of supply: Some developers who bought land at the top of the cycle are now under intense pressure to launch their projects in order to repay their bank loans. Imposition of any form of overhang tax at this stage will render the projects unbankable, thus increasing the high risk of non-performing loans. Therefore, instead of mooted this punitive measure, Bank Negara Malaysia should perhaps consider assisting developers to restructure their loans for longer periods so that they can delay their supply to a later date. A repayment deferment period or moratorium of three to five years will be sufficient to push the supply into the future.

- (2) Economic impact: Developers borrow large sums of money for development, with distribution of funds through a chain of downstream activities such as consultancy work, material supplies, manufacturing, construction and estate agencies.

While we can blame the overhang of properties on developers, we should not ignore the vast contribution by developers to the national economy during the heydays. At this point of time, any punitive measure will be totally unjustified and will have a reverse effect on the overall larger economy. Instead of applying the blanket rule for the overall market, policymakers may want to look at the statistics and identify the problematic sectors and address the problem in a sectoral manner.

- (3) Value of properties and wealth: The imposition of overhang tax at this point of time will drive property prices down in a very abrupt manner, thus causing loss of property values and overall wealth reduction with banks recalling mortgage loans, which will further damage our economy. Property values should not be allowed to collapse as the impairment will have far-reaching consequences on the rakyat.

- (4) Forms of control: An overhang or vacancy tax in any form is only relevant when the market is behaving speculatively and should not be used as a punitive measure at the end of the property boom. In fact, there are

many forms of control that can be deployed by the authorities during the upcycle. Bank Negara had rolled out various policies in 2014 that effectively curbed the speculative market. Based on Napic's 2020 statistics, the supply situation is already behaving predictably in a downward trend. Banks are currently very stringent in approving housing loans and this is already leading to a drop in property launches or smaller phases, curbing supply. Planning authorities are also strict in density zoning and development approvals, reducing future supply.

- (5) Positive economic measures: Instead of thinking about punitive actions, Malaysia should create a positive economic environment to attract new investments and businesses. At this point in time, the policy of wealth creation is far more important than rolling out punitive measures. For example, we started the visionary higher education sector to attract foreign students to Malaysia to stimulate the economy. However, the sector in general has not been able to move up in terms of qualitative standard. It has apparently been unable to sustain its growth.

This is despite the reality that higher education will create a talent pool that will eventually attract MNCs and technology investments. By doing so, it will create a positive environment for the property sector with spin-off effects for the downstream economy. Melbourne is a glaring example – without foreign students' spending, the city faces grave consequences.

We must immediately restart the Malaysia My Second Home (MM2H) programme with enhancements so that we can compete with neighbouring countries favourably. We only have a population of 32 million, and with a huge overhang of high-end properties especially in Penang and Johor, we believe MM2H had been extremely attractive to wealthy foreigners looking at Malaysia as a wonderful, peaceful place to live and retire. Let's roll out the enhanced programme immediately; there is no reason for the delay.

In short, the problem of the overhang in supply of properties must be resolved creatively and in a positive way and not in a punitive way. ■