

# Need to resolve housing issues

## How new houses are priced remains unclear and lack transparency

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EVEN as the Housing and Local Government Ministry battles to reduce the volume of completed unsold properties with its proposal to sell the higher-end units to foreigners, two important issues remain unresolved.

At a Housing & Valuation Conference 2019 seminar on Sept 17, the Board of Valuers, Appraisers, Estate Agents and Property Managers president Ahmad Zailan Azizuddin said pricing of today's properties, and how new houses, and new housing schemes are priced remain unresolved and lack transparency.

The conference was organised by the Malaysian Public Sector Valuers Association.

"The valuation of new houses, of new housing schemes, cost, pricing and valuation are pressing issues. Does cost equal value?"

"What are the ways to mitigate house prices for affordable housing, and the valuation of new houses?" Ahmad Zailan, who is also the Valuation and Property Services director-general, asked.

Universiti Malaya lecturer Ainoriza Mohd Aini, who was a speaker at the same event, said cost does not equal value.

"Why did the government do away with the one sen coin some years ago? Because it cost more to produce it than its face value."

Taking the same principle with property development, Ainoriza said the cost would be high to build a high specification building in an inaccessible location.

"Its cost is colossal and yet its value would be negligible."

"That property may have no value at all because there would be no demand for it due to its impracticability."

"This is the whole basis of the differences between value and cost. It is the forces of demand and supply which determine price and value," she said.

As at the first quarter ending March 31, 2019, completed unsold stock of residential housing, serviced apartments and small offices home offices (SoHos) stood at



**Home plan:** Zuraida says the Malaysia My Second Home programme will help to restore the country's economy.

47,486 units, valued at RM30.9bil, according to the National Property Information Centre (Napic).

Housing and Local Government Minister Zuraida Kamaruddin, quoting Real Estate Housing Developers Association statistics, put Malaysia's unsold properties at about RM100bil.

Hence, her proposal to help developers to reduce their units under the Malaysia My Second Home programme will help to restore the economy.

"So by liquidating the economy with the sale of the houses, the banks will be getting repayments from developers, this will activate economic activities and create employment," Zuraida told *Bernama* recently.

Panelist at the same event Khazanah Research Institute research director Dr Suraya Ismail and property consultancy VPC Malaysia director Datuk Mani Usilappan concurred that there is a need to look beyond the number of the unsold units and value if the issue is to be resolved.

How and why these unsold stock keep on ballooning are issues the government must scrutinise. The root cause needs to be addressed.

An industry source at the event puts it aptly: "Why is there this huge stock of unsold properties?

We may succeed in selling some of these to foreigners but sometime down the road, the number of unsold units will recur unless some measures are taken to prevent a repeat."

The thrust of his argument is that developers are capitalists. They seek after profit margins. Local and state authorities approve their projects. Banks fund them.

This coming Monday, the government will be releasing figures for the April-May second quarter and it is very likely, all eyes will be on the overhang.

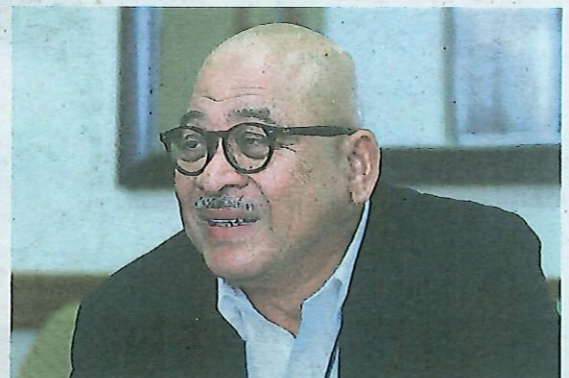
### Tackling housing issues

There are many concerns regarding the housing market, as admitted by Ahmad Zailan.

Namely, "the overhang and unsold situation, affordable housing and housing affordability, which relates to the issue of mismatch, oversupply and over-pricing of housing."

The government will have to put much effort and initiatives to tackle these issues, with the support from private sector, Zailan says.

The pressing thing today is how developers price their units. The primary market where buyers buy directly from developers make up about 20% of the overall housing



**Market concerns:** Ahmad Zailan says there are many concerns regarding the housing market such as the overhang and affordability issues.

transactions. The remaining 80% transactions are between buyer and house owner.

Datuk Siders Sittampalam, a moderator at the event said there is an urgent need for real and actual prices to be quoted in the primary market.

In the current practice, only the developer and the buyer are privy to the actual price. "There has to be price discovery and transparency in the market," said Siders, who was moderating at the event.

"There is no law or mandatory requirement for the primary market to reveal the actual price," said Siders.

He said developers are giving discounts, rebates and other forms of freebies which are imputed into the price of the house.

Siders said this situation has been ongoing for quite some time now and is distorting the market.

Siders said there should be laws introduced to govern this current practice.

In the event the house buyer defaults on his mortgage and the bank decides to go for an auction,

the bank would not get the price it had based the loan on, Siders says.

This impacts the bank and the overall banking system because the banks are in danger of "not seeing their collateral mortgaged sum," Siders says.

The actual price of the house may be RM800,000, but the developer formalise it on the sales and purchase agreement as RM1mil. The buyers base his loan on RM1mil.

Banks are aware of this unhealthy practice. To safe guard themselves, some are seeking independent valuation reports in order to find out what is the "real" price and to base the loan on the real price.

When this lack of transparency takes place in the primary market, the secondary market is also affected because house-owners would then base the price of their house on the current prevailing market price, without realising that the house is not RM1mil but RM800,000. Prices would keep going up unrealistically in the country's overall property market.

## Gradual price rise deemed more realistic and sustainable

NATIONAL Property Information Centre director Aina Edayu Ahmad tells participants at the Housing and Valuation Conference 2019 that it is more realistic and sustainable to have prices gradually rise at less than 5% instead of the double-digit growth seen at the peak of the property market in 2012/2013.

Aina says that on a very broad basis, a double-storey terraced house in Kuala Lumpur is 2.6 times the price of a Johor unit, and twice the price of one in Sabah. (see chart)

If one were to zero in onto the exact location, the double-storey terraced in KL central is RM1.12mil, the Gombak unit is RM460,891... the difference is wide.

In high-rise housing, the unit

located in the city is 1.8 times that of Selangor, 1.4 times the unit in Penang, and 1.4 times the Sabah unit.

In both market segments, Kuala Lumpur's prices are the highest, 5.4 times higher than a landed unit in Melaka.

But to be noted is Sabah's high rise, which is on par with Penang's. Also Sarawak's landed is on par with Johor's.

"What determines the price of housing? It is supply and demand."

Aina says the Home Ownership Campaign has helped developers to clear their unsold stock, but more importantly, it has helped those who wanted to own their own houses.

Sabah and Sarawak prices are

rather high. How did prices in these two states come to this level?

Sabah's high-rise housing is even higher than Sarawak's.

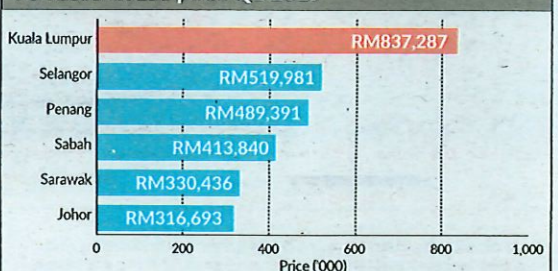
At this rate, where is the demand going to come from, Aina asks.

Had the campaign included the secondary market, where buyers buy directly from house owners, that would have opened up the market further and this would have had a positive effect on the market, she says.

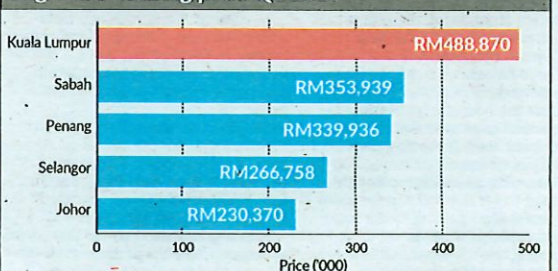
In view of the coming Budget 2020, she calls on real estate professionals to give their opinion collectively.

"This will help the government to implement a policy that is practical, progressive and measurable."

### Terraced house price Q1 2019



### High-rise housing price Q1 2019



Source: Napic

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