

Home ownership vs debt issues

PROPERTY

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Dream home: Buyers selecting their dream home at the recent Home Ownership Campaign.

FIFTEEN years ago, John contemplated whether he should buy a house or rent. Then in his 40s, he decided to rent.

“The house was about RM250,000 but I simply could not afford it,” he said. He was then in his 40s. For years, debt was like a millstone around his neck and being debt-free was more important than owning a house.

The recently three-day Home Ownership Campaign from March 1 to 3 brought into focus the various issue besetting the property market.

This includes a residential overhang that goes into billions of ringgit, stubbornly high house prices, oversupply of houses in wrong locations and high household debts.

Let us consider the role of the developer in the national economy.

As buying a house is a big-ticket item, people need to borrow from the banks. It is a debt.

The longer the tenure, the more the borrower – in this case, the house buyer – pays. This is the buyer's cost of financing.

John was already in his 40s when he came to the decision to buy or rent.

The role of the developer is to build houses that people need, or want to invest in. In order to mitigate his risk, he surveys the market, builds what he thinks the market will want and is rewarded for taking that risk.

The higher the price of the house, the higher his risk, the higher his rewards. If he makes a wrong judgment, he makes a loss.

This applies to all businesses.

The government, in its attempt to right the market by reducing the overhang, will be giving stamp duty waivers to help developers during this six months until June 30.

This represents a loss to the government at a time when it can ill-afford it.

At the launch of the campaign last Friday, a housing ministry's top official said the stamp waivers were given to help buyers.

"The government is not bailing out developers. It is a win-win situation for the government, the buyer and the developer.

"The government may lose the revenue from stamp duties but it will gain revenue from assessments and taxes later on. The developer gets his revenue from the sale.

"When the buyer moves into his new house, he has to furnish it. Private consumption goes up to oil the economic cycle. The economy grows with the higher velocity of money," the ministry official said.

So from this official's point of view, it is good to help buyers reduce their outgoings by giving stamp duty waivers, although the government will lose that income.

Which takes us to the next question... is focusing on the overhang of about 41,000 units, valued at RM27.38bil including serviced apartments and small offices, homes offices (SoHos) the way to go to solve the housing market problem?

The overhang is just one aspect of the market. There are other issues fragmenting today's housing market.

Says Socio-Economic Research Centre executive director Lee Heng Guie: “Both the supply and demand management are needed to help fix the broken housing market.

“From the supply side, not only clearing the overhang (is necessary), but also the monitoring of the supply of new stocks, including proper planning of housing supply in terms of affordability and location. This would help to rebalance the market.

“Data showed that the bulk of the overhang are priced between RM250,000 and RM700,000,” Lee says in an email.

Although there is a desire to reduce the overhang, pursuing sales should not be done at the expense of loose lending guidelines, or easy credit, says Lee.

“Banks’ lending guidelines should not be compromised in terms of lending risk, asset quality and the borrowers’ financial standing to repay mortgages.

“Both the public and private sectors must work together to prevent an over-adjustment in the property sector as it not only affects other economic sectors but would also drag down the banking system, which has over 30% of total loans portfolio extended for the purchase of residential properties,” Lee says.

As for the government giving stamp exemptions during this six-month period at a time when the country can ill-afford it, Lee says this is “a form of selective policy intervention to ease the overhang situation”.

And this, according to a ministry official, is being done because the government does not want to see any company unwind.

“When a company is forced to unwind, it affects jobs and the economy,” he says.

An industry source who declines to be named says the government is trying its best to resolve the overhang as “excess capacity in the market can pose risks to the wider economy”.

Says the source: “The National Economic Action Council 1999 had identified one of the reasons why the economy of the country suffered badly during the 1997 economic recession was due to overhang and oversupply in the property market.

“The overhang reflects a clear mismatch between demand and supply. This is exacerbated by slower income growth in the country.

“As such, it is important to address the overhang,” he says in an email.

However, he says there should be a holistic view throughout the supply chain that looks into the affordability of the houses and the accessibility to home financing.

“Hence, all parties in the housing market should play their respective parts to ensure no wastage of economic resources,” he says.

As for the balance between bank lending and ensuring developers' sales, the source says financial institutions must "give out housing loans without compromising on their credit standard to preserve resilience and stability of the banking industry.

He says affordability issues and difficulties of securing upfront downpayment are being addressed through various government-supported schemes such as Skim Rumah Pertamaku and Skim Perumahan Belia.

The last decade, house prices have doubled or tripled depending on locations. But most of our salaries did not, coupled with a decline in the purchasing power of the ringgit. So should the government allow house prices to fall, or should it raise salaries? Alliance Bank chief economist Manokaran Mottain says there is no hard and fast rule on whether salaries should go up, or house prices should go down.

"Market forces will help to bring the dynamics to an equilibrium," he says in an email.

Lee of Socio-Economic Research Centre says market forces will rebalance the housing market with some policy intervention to prevent a sharp correction in house prices.

He cites the six-month stamp duty waivers which would help to ease the burden of buyers and also clear existing stocks.

Other measures include MyDeposit and Bank Negara's RM1bil fund.

Hopefully, five years from today, the government will not continue to talk about reducing house prices, clearing residential overhang or building one million affordable units.

While these are important issues, the largest obstacle and probably the most urgent issue is the fact that land is a state matter and there was scant attention on this in the much-hyped and recently launched National Housing Policy 2.0.