

House price conundrum

BUSINESS NEWS

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RANI went to the Home Ownership Campaign (HOC) in early March. She was interested in a landed unit and the property was only to be launched about a month later.

“It was a 5% rebate, not 10%,” she lamented.

She recalled reading in the papers that developers participating in the ongoing home ownership campaign which runs until June 30, 2019 would be offering a minimum of 10% rebate in their projects. “Why am I entitled to only 5% instead of 10%?” she asks.

In another case, a father said his son bought a house directly from the owner in the secondary market. He was a first-time house buyer.

On signing the sales and purchase agreement (SPA), a lawyer told him that the stamp duty exemptions were only for developers’ units and not for him.

The father who went by the pseudonym LJT wrote to The Star: “What is the rationale in limiting this exemption to only purchases from developers?”

Discount versus rebate

Example 1

5% discount + 8% rebate

List price	RM300,000		
Less: 5% discount	RM15,000		
SPA price	RM285,000	The first 10% of the SPA price	RM28,500
Less: 8% rebate	RM22,800	Less 8% rebate	RM22,800
Nett price	RM262,000	Buyer pays this, SPA formalised	RM5,700

■ Buyer takes a loan based on the SPA price of RM285,000 when the nett price is actually RM262,000

■ Buyer pays RM5,700 only and the first 10% to formalise the SPA is considered paid

■ For the first two billings, a buyer need to only pay RM5,700 for the first 10% payment, and RM28,500 for the second scheduled 10%, a total of RM34,200, instead of RM57,000 if rebates and discounts were not given

Example 2

Rebate of 8% + 5%

List price		RM300,000
1st 10%, the buyer should pay but he is given 8% rebate	RM30,000 RM24,000	
Buyer pays this, the first 10% is considered as paid	RM6,000	
On second billing of 10%, buyer should pay	RM30,000	
But buyer is given 5% rebate	RM15,000	
Buyer need only pay this, and the second 10% is considered paid	RM15,000	
SPA Price	RM300,000	
Less: rebates (24,000 + 15,000)	RM39,000	
Nett price	RM261,000	

■ Buyer takes a loan based on the SPA price of RM300,000

■ For the first two billings of 10% each, the buyer pays RM6,000 (first billing), and RM15,000 (second 10% billing), a total of RM21,000 instead of RM60,000

“Is the government interested in the welfare of the poor or just the developers?”

Helping developers to sell their units, helping the house-buying public, mending a broken housing market are three distinct issues.

They may seem the same as all three come under housing the nation, but as Rani and LJT have found out, the policies and objectives are varied and distinct.

The government-initiated campaign has only one objective – to reduce the unsold completed housing stocks developers are carrying in their books.

If a buyer finds a unit during the ownership campaign and gets to enjoy all the exemptions and rebates that come with the unit, that is secondary.

The over-riding objective of the developer, and the government, is that there is one less overhang unit in the books.

Converting unsold stocks

Developers are, therefore, trying to convert their stocks of unsold completed units into cash, industry sources say.

If the campaign, with all the rebates and government exemptions, succeeds in helping someone to buy a property, that meets a secondary objective; the primary objective is that, it helped the developer to offload his left-on-the-shelf product.

An industry source says: "Someone has to bear the cost of unsold units. If it were a strata development, the developer would bear the cost of its monthly maintenance. When a property is vacant, the degree of deterioration seems faster than if it were lived in."

Every project promoted by a developer has its own unique terms and conditions, as Rani found out. A 5% and a 10% rebate is a difference of RM40,000 for a RM800,000 house. If a project is yet to be launched, it is not part of the overhang. So, although it is being promoted under the HOC, it may not get the 10% rebate as earlier promised in two Real Estate and Housing Developers' Association (Rehda) press conferences.

An industry source says: "A developer has rebates for Project A but not for Project B because A was completed three years ago.

"A developer has to convert these unsold units into cash. Project B is work-in-progress. There is less urgency for him to sell it. That accounts for the 5% discount, and not 10%, or more," she says.

When a developer gives rebates and throws in the extra goodies, he is selling the unit cheaper than when it was first launched. Instead of decreasing his price, he is offering rebates, cash-back and other goodies. An outright decrease in price would upset the initial buyers, she says.

Innovative marketing strategies

The various packages are good indicators of the situation facing the residential sector currently.

- > A change of name to give the project a fresh look
- > Financing has become more flexible – buy now, pay later.

The property costs RM300,000. On the SPA, it is stated as such. The buyer gets a 70% loan for RM210,000. There is a differential sum of RM90,000, which the buyer has to bear. Developers may offer to defer payment of this RM90,000 by X number of years.

Question is will the bank be left holding the baby if the buyer walks away after formalising the SPA?

> Some developers are offering interest-free loans

> Buyers pay booking fees of RM1,000 while some RM5,000. The first 10% – the minimum amount in order to formalised the sale – is waived.

The buyer pays a token sum because the first 10% is waived. He will have to consider where the payment is going to come from.

> Multi-tiered rebates. When a property is sold off-plan, the buyer follows a schedule of payment that goes something like this – the first 10% when the SPA is signed. The sale is formalised. The second payment is another 10%, the third, 15% and the fourth another 10% and so on.

When rebates are given 9% + 1% (tier one), 4% + 6% (tier 2), 3% + 7% (tier 3), this means the buyer pays 1% in order to formalise the sale, 6% when the second scheduled payment is due, and 7% on the third scheduled payment

> Rebates versus discounts

There is a difference between rebates and discounts.

Consider Example 1 and 2 (see chart)

> Buyers rewarded with cash-back offers. This happens when the price stated in the SPA is higher than what the buyer actually has to pay. His loan amount is based on this higher value. So when he gets rebates and gets a high-margin loan, he gets cash in return.

Says an industry source: “Some developers have taken rebates to a new ‘cash-back’ level.”

Malaysia Consumers Movement president Darshan Singh Dhillion related his confusion in his letter to The Star (published April 4). He was interested in a house, which according to his calculation, cost RM658,000.

“... the sales agent said the SPA would be for RM800,000. Upon asking why, a confusing cash-back by percentage formula was disclosed. This cash-back is supposed to help me satisfy the downpayment requirement, or I may use it for renovation purposes. Why is the pricing so complicated?”

“The developer should come clean and stick to one offer price and work it through the entire loan application process in compliance with the established rules and regulations,” he wrote.

Need for transparency

Buyers have to mentally remove layers of confusion to get to the real net price because developers want to “hold on to their prices” instead of an outright price reduction.

This situation, says an industry source, does not serve the Housing Ministry and the banking sector at all.

“Only the developer and the buyer, after removing layers of confusing calculations, know the real nett price,” the source says.

The “real price” is hidden from the banking sector which provides the financing. It is also hidden from the government housing agencies which use the data for research.

The National Property Information Centre, under the Valuation and Property Services Department, monitors house prices.

Each quarter the department, which is under the Housing Ministry, issues quarterly reports about various aspects of the property sector. It also prepares the Malaysia House Price Index.

The department bases its research on the price stated in the Sales & Purchase Agreements (SPAs) and the banking sector approves housing loans based on the SPAs.

The SPA must, therefore, show the nett (or real) price, and not some figure inflated by rebates, free furniture and electrical goods.

There must be transparency in the SPAs, says the source. Or the research done by the government and the Malaysia House Price Index will be distorted.

Over the past several years, rebates, discounts, electrical goods, holidays and furniture have inflated prices in the SPAs.

One may ask, why is all this important? Wrong information is better than no information at all because wrong information leads to distortion.

All information provided by the government for the housing sector, or whatever sectors for that matter, must reflect the true condition and position of the market.