

Knight Frank: Budget 2019, a boon to first time homebuyers that will spur the affordable housing market

8 November 2018, Malaysia – Knight Frank Malaysia would like to congratulate the Pakatan Harapan Government for tabling its well-rounded Budget 2019, which lives up to their social responsibility of securing the nation’s wellbeing by promoting economic growth while reducing fiscal deficit.

Sarkunan Subramaniam, Managing Director of Knight Frank Malaysia says, “The exemptions and initiatives, in particular the waiver of stamp duty on the instrument of transfer and loan agreement for residential homes valued up to RM300,000 for a 2-year period and the 6-month waiver of stamp duty charges for properties priced from RM300,001 to RM1.0 million, are expected to kick-start the housing market moving into 2019 and beyond.

“On the supply side, it was announced that there is commitment from the Real Estate Housing Developers Association (REHDA) to reduce house prices by 10% for new projects that are not subjected to price control following the Sales and Services Tax (SST) exemption on construction services and building material costs. While the commitment by REHDA members is neither binding nor enforceable but in the spirit of Malaysia Baru, they (the members) are likely support the aspiration of the Government to promote the National Home Ownership Campaign.”

A. FIRST TIME HOMEBUYERS / LOWER INCOME GROUP: EXEMPTIONS & FUNDINGS

The first homebuyers / lower income group are one of the beneficiaries of Budget 2019.

The benefits include:

Beneficiary	Property Threshold	Benefits	Duration / Remarks
First time homebuyer (earning not more than RM2,300 per month)	up to RM150,000	Concessionary financing rate as low as 3.5% per annum via participating financial institutions	Duration of two years from 1 January 2019 or until the allocation of RM1 billion established by Bank Negara is used up.
First time homebuyer (earning RM5,000 or less)	Unspecified	Cost savings to the home buyer (circa 7% to 11%) through mortgage guarantees.	The Government will allocate RM25 million to Cagamas Berhad to provide mortgage guarantees to enable borrower to obtain higher financing, inclusive of down payment support.
First time homebuyer	up to RM500,000	Stamp duty waiver for residential homes valued up to RM300,000 on the instrument of transfer and loan agreement.	Duration of two years until December 2020.
First time homebuyer	RM300,001 to RM1.0 mil	Waived stamp duty charges. Developer will offer a minimum price discount of 10% for overhang properties.	For duration of six months starting January 2019.
First tome homebuyer	Unspecified	Alternative source of financing under the crowdfunding / peer-to-peer framework to be regulated by the Securities Commission.	
Civil Servant	Unspecified	Extended loan repayment period from: ✓ 30 to 35 years for the first loan ✓ 25 to 30 years for the second loan	

B. CROWDFUNDING

The Government will be approving private sector driven 'Property Crowdfunding' platforms which are seen as an alternative source of financing for first time homebuyers. These platforms will enable institutional and private investors to provide funding in exchange for potential appreciation in value of the property over a period of time.

Sarkunan Subramaniam applauds such innovative financing to increase the country's home ownership rate, he comments, "The availability of Property Crowdfunding platforms will make property more accessible for first time homebuyers who may not easily qualify for bank loans. However, there is concern that this may fuel overly lenient lending policies, potentially leading to future subprime situation, a lesson drawn from the United States where homebuyers with inadequate financial capacities were able to secure mortgages.

"Therefore, we urge the Securities Commission to ensure fund managers are stringent in evaluating the profiles of borrowers in the entire ecosystem of Property Crowdfunding platforms.

"There is also a need to prevent fund managers who may be tempted to quickly build a portfolio by lending to borrowers with compromised credibility, possibly disrupting the Property Crowdfunding platforms.

"Subsequently, the funds' portfolios shall be reviewed regularly to ensure that the investors' investments are secured."

C. PROPERTY TAXES: RPGT AND STAMP DUTY

The two key announcements directly impacting the property sector are the review of rates for Real Property Gains Tax (RPGT) and stamp duty.

RPGT

The Real Property Gains Tax (RPGT) rates will be revised for disposals of properties (including shares in property holding companies) after the 5th year as follows:

Real Property Gains Tax (RPGT)

Year of Disposal	Current Rates			Budget 2019		
	Individual	Company	Non-Citizen / Permanent Resident	Individual	Company	Non-Citizen / Permanent Resident
Within three years	30%	30%	30%	30%	30%	30%
In 4 th year	20%	20%	30%	20%	20%	30%
In 5 th year	15%	15%	30%	15%	15%	30%
After the 5 th year	0%	5%	5%	5%	10%	10%

Source: Real Property Gains Tax Act 1976 (Act 169) & Order / Budget 2019

However, disposal of low cost, low-medium cost and affordable housing with prices below RM200,000, will be exempted.

Stamp Duty

The stamp duty on the transfer of property valued at more than RM1,000,000 will increase from 3% to 4%.

Stamp Duty Rate

Value of Property	Current Rates	Budget 2019
RM1 to RM100,000	1%	1%
RM100,001 to RM500,000	2%	2%
RM500,001 and RM1,000,000	3%	3%
Above RM1,000,000	3%	4%

Source: Stamp Act 1949 (Act 378) / Budget 2019

For first time homebuyers, stamp duty waiver up to RM300,000 on sale and purchase agreements, as well as loan agreements for a period of two years until December 2020, for those purchasing residential properties priced up to RM500,000.

Sarkunan Subramaniam comments, “Although the review of property taxes will increase the disposal and transfer costs, the impact towards the property market is insignificant.”

Illustrations:

- ✓ Stamp duty on the transfer of property valued at RM2,000,000 will be RM54,000 prior to the revised rate and RM64,000 after the revised rate.
- ✓ As for the first time home buyers purchasing a RM300,000 property, there will be savings of circa RM5,000 on the stamp duty on the instrument of transfer.

D. MANUFACTURING

Sarkunan Subramaniam says, “The developments tabled in budget 2019 will create tremendous opportunities for Selangor as the strategic blend of ports, free trade zones, aerospace hubs and airports can transform the state into a logistics hub in the region. Also, the measures proposed to embrace Industrial 4.0 will allow Malaysia’s manufacturing sector to remain competitive by moving their operations up the value chain.”

The Government intends to convert 380 acres of land in Pulau Indah into a new Free Trade Zone to support and boost shipping and logistics activities. The Free Trade Zone will serve as a natural extension of the existing Port Klang Free Zone. Meanwhile, the sovereign wealth fund Khazanah will lead and develop 80 acres of land in Subang into a world class aerospace hub.

In addition, proactive steps have been announced to accelerate the adoption of smart technologies among manufacturers in the country. For example, the allocation of RM210 million to assist 500 SMEs to migrate to Industry 4.0 platforms and the creation of a RM3 billion Industry Digitalization Transformation Fund with subsidized interest rate of 2% are among initiatives, which will propel Malaysia to be a prime destination for high-tech industries.

E. GST AND INCOME TAX REFUNDS

Sarkunan Subramaniam comments, "This phenomenon shall not be overlooked as private consumption constitutes a significant portion of Malaysia's GDP. As of 2017, private consumption commands a 53.7% share of GDP. Henceforth, the repatriation of funds from the Government back to the people of Malaysia and Malaysian companies will potentially be a bazooka that will provide the Malaysian economy with a much needed boost moving into 2019."

The Government has pledged to return Goods and Services Tax (GST) and Income Tax refunds, totaling RM35.4 billion, which was previously held up by the previous administration back to their rightful owners. This significant cash infusion will enhance the money supply in the market, which will in turn will lead to increased consumer spending and business investments among private consumers and businesses alike.

END

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