

Raise the limit on income and house price cap

THE recent announcement of My First Home Scheme by Prime Minister Datuk Seri Najib Tun Razak, allowing 100% financing for first time homebuyers earning less than RM3,000 a month has been well-received by property players and the public in general.

It is estimated that 40% of Malaysian households earn less than RM3,000 per month, indicating strong demand for affordable houses. Statistics show that about 35% of the total population in Malaysia fall within the age group of 25 to 49 years, the segment with the highest demand for houses. The main target of My First Home Scheme, those aged between 25 and 34 years consist about 15.4% (4.3 million) of the total population.

The scheme is expected to provide greater opportunity for younger housebuyers to acquire homes costing from RM100,000 to RM220,000 with a repayment period of up to 30 years with 100% financing from 25 financial institutions that have agreed to participate in this scheme.

Several key initiatives under this scheme include government collaboration with national mortgage company Cagamas Bhd to bear the 10% initial downpayment costs for the houses. In addition, first time home buyers will also be given stamp duty exemption of 50% on instrument transfer on a house priced not more than RM350,000 and another 50% exemption on loan agreement instruments to finance



REALTY CHECK

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the home. The Stamp Act 1949 had also been amended to expedite property registration process by the Valuation and Property Services Department from 30 days to one day.

However, there have been debates over the house price cap of RM220,000 and the income cap of RM3,000 per month, especially for those working in the Klang Valley and planning to own homes nearby their workplaces. Are there houses available at this price in the Klang Valley and can a person earning RM3,000 per month afford a house at this price?

Answering the second question is quite straight forward. At a price of RM220,000, with a loan period of 25 years and interest rate of 4.4%, the monthly installment is RM908, which is about a third of a person's monthly income (or household) of RM3,000. Thus, assuming there are houses at this price in the Klang Valley, eligibility to get loan would not be an issue.

A more interesting issue to be addressed is the price cap. Are there enough houses available priced between RM100,000 and RM220,000, especially in the Klang Valley?

Statistics show that while the

national average household income for the middle 40% of households rose by 31% from RM2,250 in 2000 to RM 2,957 in 2008, the Malaysian House Price Index data shows average price for all houses increased by 27% during the same period from RM140,288 to RM178,632.

However, in Kuala Lumpur and Selangor, the average price increased by 45.6% from RM265,142 to RM386,047 and 24.7% from RM212,963 to RM265,564 respectively. As of the third quarter of 2010, the estimated average prices for all houses in Malaysia, Kuala Lumpur and Selangor were RM196,022, RM432,181 and RM290,481 respectively, reflecting an increase of 41.5%, 63.0%, and 36.4% from prices in 2000 respectively.

In the first half of 2010, according to data provided by the Valuation and Property Service Department, about 14% and 10% of the total residential units transacted in Kuala Lumpur were priced between RM150,000 and RM200,000 and RM200,001 and RM250,000 respectively and the majority of these transactions were condominiums and apartments concentrated in Cheras, Bukit Jalil and Bandar Baru Petaling. Similar pattern was also recorded in Selangor, where transactions for both price ranges constituted about 14% and 10% of the total residential transactions, mainly terraced houses, condominiums and apartments concentrated in Kota Damansara, Bandar Sri

Damansara, Seri Kembangan, Serdang and Puchong.

On the other hand, new residential launches in the Klang Valley, especially for the most demanded landed properties – double-storey terraced houses, prices vary depending on location and built-up area. For example, newly launched double-storey terraced houses in areas such as Bandar Saujana Putra and Taman Puchong Utama, prices are between RM213,800 and RM450,000 per unit with built-up area ranging from 968 sq ft to 1,900 sq ft.

In the secondary market, prices for older houses in these areas range from RM140,000 to RM450,000 per unit for similar types of property with built-up area ranging from 968 sq ft to 1,733 sq ft. Prices in Serdang, Rawang and Kota Damansara for similar types of property start from as low as RM270,000 per unit to as high as RM940,000 per unit. Meanwhile, in Klang, prices of newly launched single-storey terraced houses are priced between RM130,000 and RM240,000 per unit.

From the evidence that we have gathered, we conclude that there are currently houses available within the price range of RM150,000 to RM250,000 but the supply for houses between RM200,000 and RM220,000 could be very limited looking at prices of the newly-launched projects.

To further understand the practicality of setting the cap at

RM220,000, we conducted two hypothetical scenarios based on 20 acres of land area for double-storey terraced development projects in the Klang Valley at two sites where the difference in land values is about 50% – Site A (lower land value) and Site B (higher land value). Based on our estimate, for a developer to achieve a fair return on their investment, good quality double-storey houses with built-up area of 1,980 sq ft and land area of 1,500 sq ft in areas like Site A and Site B would have to be sold at RM390,000 and RM488,000 respectively. A recent survey conducted by Rehda reveals that the average prices of newly-developed property are expected to rise by 13% this year compared to last year due to rising raw material prices. Thus, house prices will definitely be higher in the future, especially for future home buyers in the Klang Valley.

In line with the Government's effort to increase home ownership among young working Malaysians, perhaps the limit on income should be raised to RM5,000 so that more young buyers would benefit from the scheme and the house price cap should be raised to RM300,000 so that these potential homebuyers could afford not only to own homes, but decent homes where the living environment would be conducive for their children to grow up in.

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