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House ownership drive a boost to property market

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THE month-long Home Ownership Campaign launched last Saturday is not just another campaign. It is a much-needed shot in the arm for the sluggish property market, whose recovery is vital for the national economy.

It is also the result of a lesson that the industry has learnt very well from the country's last great slowdown in the 1980s.

By 1985, when the economy hit a rough patch due to a global recession, the industry committed the costly mistake of not arresting the decline in the property market. The result was a glut, with supply of space of around 17.6 million sq ft far exceeding demand of just 11.8 million sq ft.

Some housing projects had to be abandoned. The Government, through Bank Negara's subsidiary Abandoned Housing Project Rehabilitation Fund (LPPT), had to spend RM2.9 billion to revive abandoned housing projects between 1983 and 1997. This amount was to rehabilitate 295 out of 469 housing projects abandoned during that period.

The crash of the property sector was partly to be blamed when 24 deposit-taking-cooperatives (DTCs) became insolvent in 1986. The White Paper presented by the Government then revealed that these DTCs had invested 19 per cent of total assets in properties, whose value dropped by RM35 million.

While one may argue that there may be no projects that have been abandoned now, the seriousness of the sluggish property sector cannot be under-estimated.

When launching the campaign, Prime Minister Datuk Seri Dr Mahathir Mohamad said that the property sector has an RM80 billion overhang. This overhang is inclusive of unsold commercial space and hotel projects.

This means the numbers are bigger now than they were in 1985.

To allow the property sector to collapse, said Dr Mahathir, will be disastrous to the economy. The number of bankrupt companies will rise and the stability of the banking system will be threatened if financial institutions were to be saddled with non-performing loans from this sector. About 36 per cent of total loans by commercial bank are for the construction sector.

Thus, the property sector has to be revived at all cost.

Demand for residential properties has never ceased, be it in good or bad times, but there is always the question of affordability. The average worker has to put in five to 10 years of work before he can afford to buy a house, which is why most companies in the private sector offer housing loans only to those who have been employed for more than five years.

For many years, houses in urban areas have been priced beyond the reach of the young who are not - unfortunately, it would seem to them - poor enough to qualify for the low-cost houses.

When the economy started to slide, affordability was no longer the sole issue. End-financing became difficult, with banks turning down applications for housing loans, often citing job security of the potential house buyer as the reason for the rejection.

Even if an application was successful, the interest rate was so high that it discouraged consumers from borrowing. To aggravate the situation, some companies, particularly those facing cash flow problems, froze housing loans for their staff.

In short, steep property prices, lack of end-financing and high interest rates were among the culprits for the decline in demand.

The Home Ownership Campaign has been designed to address these issues.

For end-financing, a total of 35 and 19 commercial banks and finance companies respectively are participating in the campaign.

Financing of up to 95 per cent for residential properties below RM250,000 and up to 80 per cent for residential properties between RM250,000 and RM500,000 have also been provided.

Interest rates on loans will be base lending rate (BLR) plus zero per cent during the first year and BLR plus 1.5 per cent for subsequent years.

Developers have been asked to sell residential properties at a minimum 10 per cent discount to current market prices.

Numerous "sweeteners" have been thrown in by participating developers. Nevertheless, it is pertinent to note that the effectiveness of the campaign will depend very much on the participating institutions.

Dr Mahathir expressed his hope that developers would not "cheat" house buyers by selling only "unattractive" units during the one-month campaign, holding back the "better ones" until the market picks up.

He also hopes that the developers do not purposely raise prices to maximise profits.

As for the financial institutions, they will need to be efficient in their credit evaluation. Information between headquarters and respective branches must be properly disseminated so as not to jeopardise the campaign.

A fair-like exhibition on the properties offered, as suggested by the Prime Minister, will also attract potential house buyers.

It is important that the campaign succeeds to give the property sector the surge it needs as well as to provide prospective buyers the facilities and confidence to commit themselves.

Equally, if not more, important is the follow-ups that must be undertaken to keep the momentum going. The industry, individual developers, the financial institutions and the authorities should think of creative long-term measures to help buyers get the best out of their money during these difficult times, and to make owning a house that much easier for every Malaysian.

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