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A need for consistency

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THE relaxation of the Foreign Investment Committee (FIC) guidelines by the government on foreign purchase of local properties is a good first step towards liberalising the property market. But in order to attract foreigners on a long term basis more needs to be done.

Market analyst S.F. Wong said the relaxation "is a step in the right direction".

"The reins over the property market are no longer as tight and foreigners can now take part in influencing the market forces in the local market," added Wong.

With the relaxation, foreigners can now purchase residential, commercial and industrial properties so long as they are priced more than RM250,000 whether new or in the secondary market. Foreigners can also own office space worth more than RM250,000 without equity conditions or restrictions in terms of the number of units of such properties.

The previous set of guidelines only allowed foreigners to purchase residential, commercial and shophouse units that are newly completed or at least 50 per cent completed and priced above RM250,000. Aside from this, foreigners were prohibited from modifying the existing design or structure of the building with the intention of increasing the value to more than RM250,000 and were restricted to obtaining financing from overseas financial institutions only.

The financing restriction has been removed under the new guidelines and foreigners are now allowed to finance their purchases with loans obtained from local banks. According to Wong, this will no doubt help banks meet the eight per cent loan growth target that has been set.

Notwithstanding this, Wong said "banks should give priority to loan applications coming from the local market".

The relaxation of the FIC guidelines also saw a shift in the reporting onus, moving from that of the purchaser to that of the vendor. Under the new guidelines Prime Minister Datuk Seri Dr Mahathir Mohamad said companies and individuals selling properties under RM20 million are only required to report the transactions to the FIC Secretariat for record purposes only. The new guidelines also exempt locals buying properties more than RM10 million from obtaining FIC approval. Under the old guidelines, locals were only exempt from obtaining approval for transactions below RM5 million.

Though the relaxation has been lauded by most quarters, Wong is of the opinion that more can be done to open up the market for foreigners and to ensure consistency in the policies.

"The government should study the proposal to create a separate category of titles for foreigners," said Wong.

The Real Estate and Housing Developers Association had in response to the government's announcement of the relaxation of the guidelines urged state governments to issue a new form of document of title known as "International Titles" to enable foreigners to freely transact these category of properties. Rehda's view on the issue is that such a move will help both local and foreign property owners in their subsequent transactions. With this category, the element of uncertain or inconsistent policies will be removed.

Some quarters though lauding the move have taken the view that the impact of the relaxation may not be as great as expected. The relaxation

has to be looked at in the light of foreigners' concern about the lack of consistency in the country's policy on this matter. Perhaps more needs to be done to allay the fears that may exist.

Another consideration is the reason for the existing overhang. Many of the unsold properties are said to be located in undesirable locations. Pricing too, is said to be another factor, which in the larger scheme of things may not be as competitive as our neighbours.

That being the case, the relaxation may not have the effect of turning around the performance and the outlook of the market.

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