

Should Tabung Haji sell hot potato TRX land?

MalaysiaKini.com

May 15, 2015

By Adrian Wong

Days after admitting that it purchased a 1.56-acre plot of land at 1Malaysia Development Bhd's Tun Razak Exchange (TRX), Lembaga Tabung Haji buckled to public pressure and announced it would sell the land.

Although the decision was based on Prime Minister Najib Abdul Razak's advice, Najib said the pilgrims' fund would be shooting itself in the foot by letting go of what could potentially rake in profits of up to RM170 million.

Is the prime minister right? Was Tabung Haji right on the money when it paid RM188.5 million, or RM2,773 per square foot (psf), for the land 1MDB got from the government at a mere RM64psf only four years ago, in 2011?

Was the buying price right?

1. No

Most industry experts believe Tabung Haji overpaid between RM773psf and RM1,386psf for the land, which is up to half of what it had paid 1MDB.

"That place is in Jalan Tun Razak. Yes, it is developing, but it is not Jalan Sultan Ismail. It should be RM90 million overall, RM100 million at most, so it is overpaid," Ernest Cheong PTL Chartered Surveyors founder Ernest YY Cheong said.

Jalan Sultan Ismail in central Kuala Lumpur is part of the Golden Triangle and runs into Jalan Bukit Bintang, which is packed with shopping malls and entertainment outlets.

TRX sits on the far edge of the KLCC/Petronas Twin Towers central business district area, where land goes for about RM3,000psf.

"It is a Kampung Pandan location," said another valuer who declined to be named, citing the political nature of the deal.

2. Maybe...

The land will grow in value upon completion of a 40-storey residential tower.

"To me, it is slightly above the market price in that area. I don't think that area is worth RM2,773psf, but there have also been transactions at even RM3,000psf and above in the KLCC area.

"Thus it (the price Tabung Haji paid) is a high price, but I won't say it is extremely high,"

Investor and Freeman regional property coach Micheal Tan said.

But given that the land was originally bought at RM64psf, Tabung Haji could have pushed for a steeper discount than the reported three percent, another analyst, who declined to be named, said.

Keep or sell?

1. Sell, but to the right buyer

Given that Tabung Haji has already bought the land, the best decision now is to sell fast to recoup the entire RM188.5 million paid.

"It should never risk the money of depositors. This is a high-risk venture. If this happens in the United Kingdom, United States or Australia, they will go to jail. They have their fiduciary duty, they have no business to buy the land (at such high cost)," chartered surveyor Cheong said.

Tabung Haji should seek a non-fund institute to dispose of the land before the economy sinks further, he added.

This is to avoid further depression in the market, which is likely to be exacerbated by an oversupply of office and retail space.

"Are you going to build something to compete with KLCC? Plus Bandar Malaysia is coming up, (and) it is less than two kilometres away.

"That will be another mega project. And, with all these shopping malls and offices, is there a sufficient population to sustain these places?

"Given the lack of confidence in the current government, who will dare to put money in this country now?" another real estate analyst, who spoke on condition that he is not named, said.

2. Keep

The cost of selling might hinder Tabung Haji from recouping its money. According to the law, any resale of property within the first three years will be hit with a 30 percent real property gains tax (RPGT), industry players point out.

Those familiar with Tabung Haji's syariah compliance requirements also note that selling so soon could be classified as speculation and therefore, not syariah compliant.

Tabung Haji's investments are vetted by a syariah compliance committee, headed by National Fatwa Council chairperson Abdul Shukor Husin.

Shukor told a press conference last Saturday that the purchase of the 1MDB land complied with syariah terms.

According to an analyst, Tabung Haji, from a long-term perspective, stands to gain a lot more if it sells once the project is completed.

“(You buy) land at RM1,000psf or RM2,000psf, but if you have (a building with) 100 levels, you will make a lot of money.

“Or, you have an institutional buyer coming in, and upon completion of the project, then the price of the land is definitely worthwhile.”

What’s the cost of selling?

If Tabung Haji is to sell the land, it will have to pay RPGT, stamp duty, goods and services tax (GST) and legal fees, among others.

The exact costs vary depending on the final selling price.

Assuming that Tabung Haji sells the land at the same price it bought from 1MDB, Cheong estimates the cost will be follows:

Legal fees: RM500,000 to RM1 million (for both buyer and seller)

Stamp duty: RM2 million to RM3 million (both buyer and seller)

GST: RM11.31 million (at six percent of the total transaction)

RPGT: 30 percent of gains from total transaction (no gains tax if sale made at same price)