



International Union for Housing Finance



# THE HOUSING DELIVERY SYSTEM IN MALAYSIA

## “OPPORTUNITIES & CHALLENGES”

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# A. ABOUT REHDA

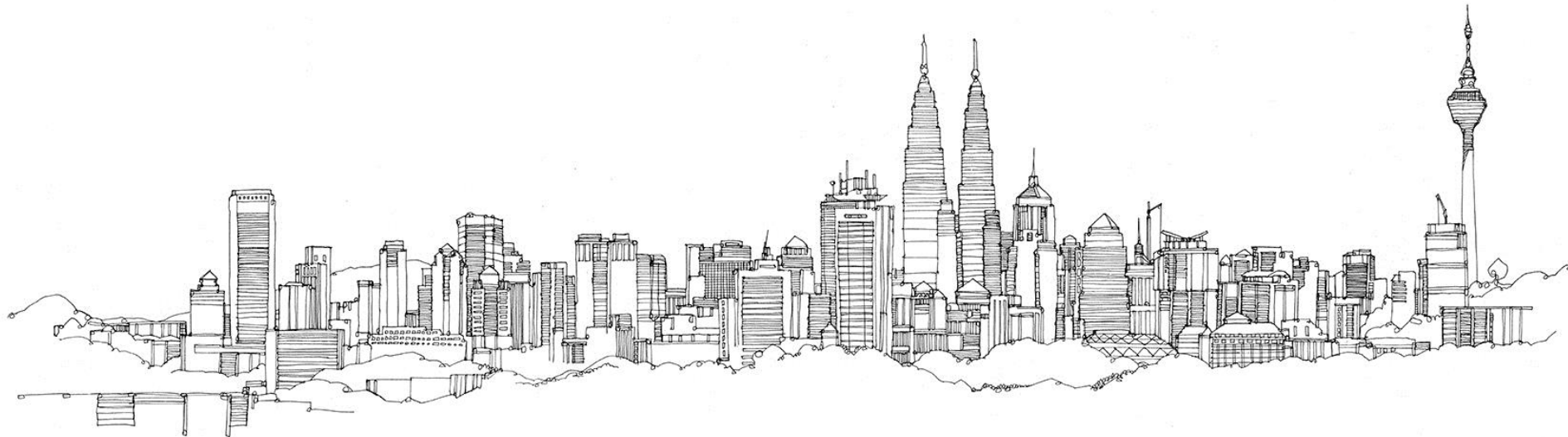
- The representative body of private sector property developers.
- Established in 1970 as the Housing Developers' Association (HDA) and renamed **Real Estate and Housing Developers' Association (REHDA)** in 2000.
- Recognized as the **leading voice** of advocacy and governance of the real estate and housing industry
- Provides leadership to property developers in **building quality housing and real estate for the nation** to achieve the highest standards of performance and professionalism.
- Members involvement in residential, industrial and township development. Also commercial, shopping complexes, golf course and leisure, hotels and resorts etc.
- Established a green rating tool known as GreenRE which benchmarks energy efficiency and sustainability in developments.
- Undertakes various training programmes and research activities for its members under its training and research arm, REHDA Institute, in order to encourage the continued progress of the industry and contribute higher value to the economy as a whole.
- Members of REHDA have built more than **4.7 mil housing units** to date and contributed in excess of **RM20 bil annually** to Malaysia's GDP, impacting **140 upstream and downstream** industries.



# WISMA REHDA



# B. EVOLUTION OF THE HOUSING INDUSTRY IN MALAYSIA



# MALAYSIA – EVOLUTION OF THE HOUSING INDUSTRY

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## **THE 60'S - Infant Years of the Housing Industry**

- Mass housing development goes back about 50 years ago.
- Formal and structured housing programs were undertaken in 1966.
- The Government saw housing as a component of social services to meet the needs of lower income group.
- Private sector developers purchased land and developed properties with active participation by the State Government.

## **THE 70'S - A Decade of Steady Growth**

- Housing policy embraces 2-prong objectives of the New Economic Policy of eradicating poverty and restructuring societies.
- Private sector developers involved in the development of medium and high end housing.
- Witnessed growing interest in the housing sector, led by:
  - a. Increase in purchasing power of the population;
  - b. Growing economic prosperity of the country
- Government agenda to create a housing democracy.



# MALAYSIA – EVOLUTION OF THE HOUSING INDUSTRY (*cont'*)

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## **THE 80'S - A Decade of Consolidation**

- Housing programmes in urban areas were accelerated with greater emphasis on low cost and social housing.
- Mandatory requirement for private sector developers to build at least 30% low cost social houses.
- Between 1981 & 1983, tighter credit control for property development and collapse in primary commodities' prices in 1983 & 1984 impacted the housing industry adversely.

## **THE 90'S - A Period of Maturation**

- Growing maturity in terms of quality and range of products.
- Rapid development and scarcity of prime land led developers to build condominiums and develop large townships.
- In 1997, no Malaysians are without a home.
- In 1998, Home Ownership Campaign was launched by the Prime Minister to help clear existing housing stock due to slow sales during the 1997 Asian financial crisis.



# MALAYSIA – EVOLUTION OF THE HOUSING INDUSTRY (*cont'*)

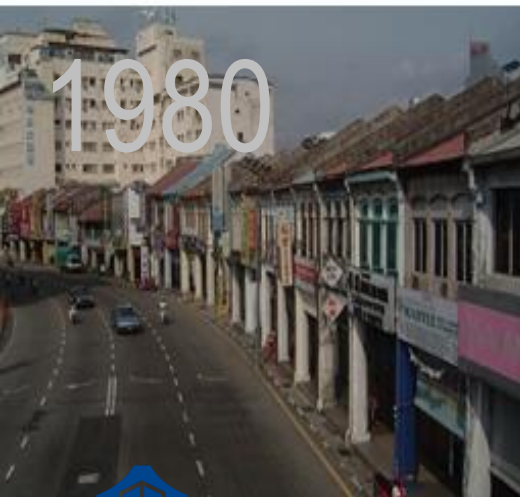


## **THE 2000'S - The New Era**

- Growing population, change in socio economic demographics, increase urban migration.
- Holistic development plan to ensure adequate affordable housing and provision of infrastructures and services.
- Bigger developers began venturing offshore, reflecting the growing maturity of the industry.



# MALAYSIAN REAL ESTATE REVOLUTION



# MALAYSIAN REAL ESTATE REVOLUTION



2000

# MALAYSIAN REAL ESTATE REVOLUTION

# 2010



# MALAYSIAN REAL ESTATE REVOLUTION

# 2010



# C. PROPERTY & HOUSING INDUSTRY IN MALAYSIA

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# Malaysia: Quick Facts



AREA	sq km
MALAYSIA	330,252

# Malaysia: Quick Facts

Estimated **30.1 mil** population in 2014 with average population growth of 1.4%

GDP growth of 5.8% in 2013 and 6.3% in H1 2014

Income per capita (current) **US\$ 10,898**

Low & stable unemployment rate : **3.1%** as of 2014

*Source: Economic Planning Unit*



# Malaysia: Quick Facts

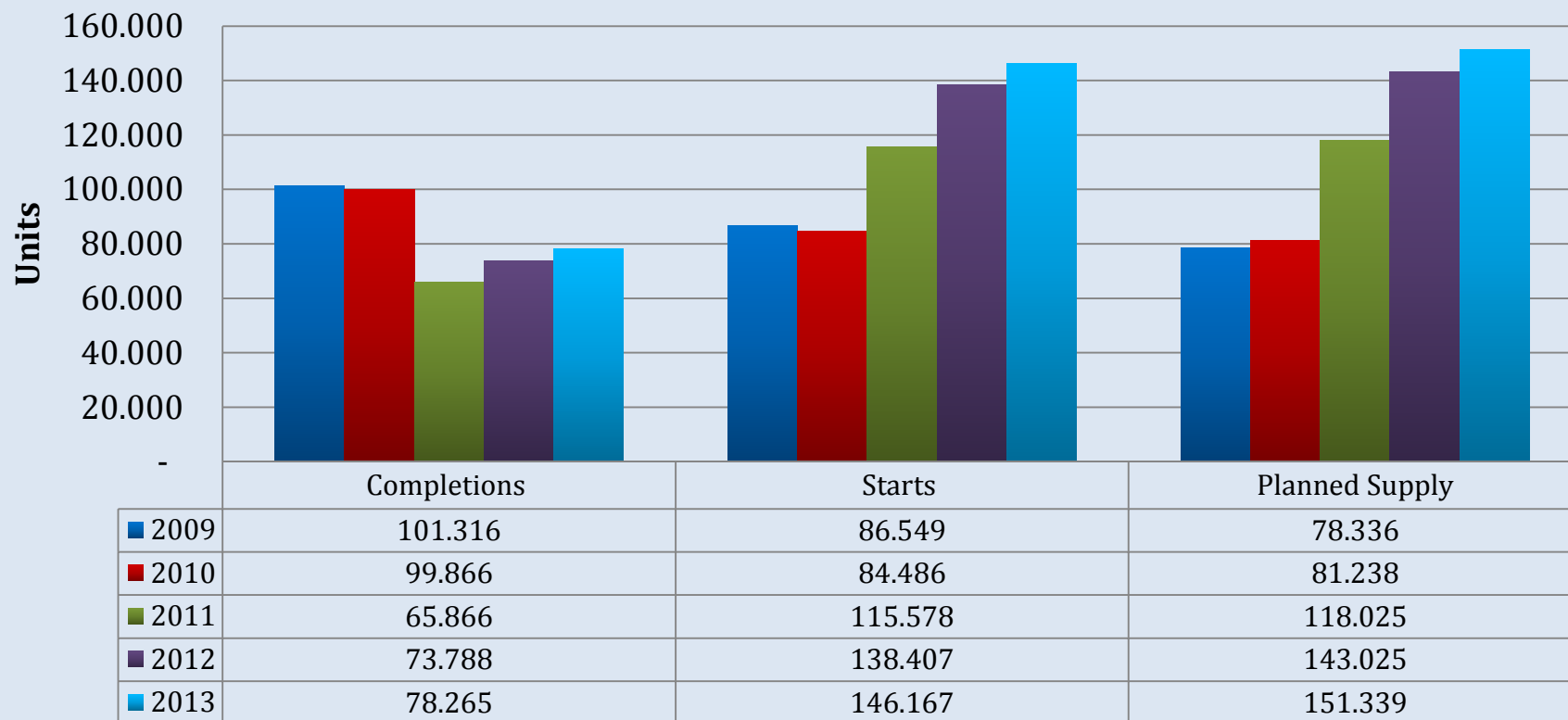


- ✓ 3<sup>rd</sup> largest economy in ASEAN
- ✓ Stable political environment
- ✓ Rule and enforceability of law
- ✓ Business-friendly environment
- ✓ Lack of natural disaster
- ✓ High Connectivity
- ✓ Easiest to get credit
- ✓ Easy access to funding
- ✓ Sound banking system
- ✓ Consistent and healthy growth economies
- ✓ Healthy international reserves
- ✓ Low budget deficits and debt



# Residential Supply in Malaysia (from 2009 to 2013)

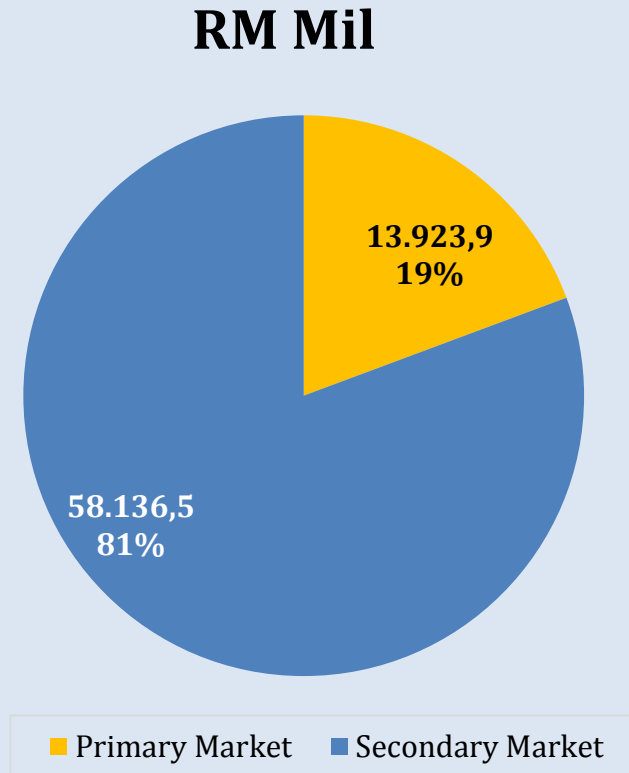
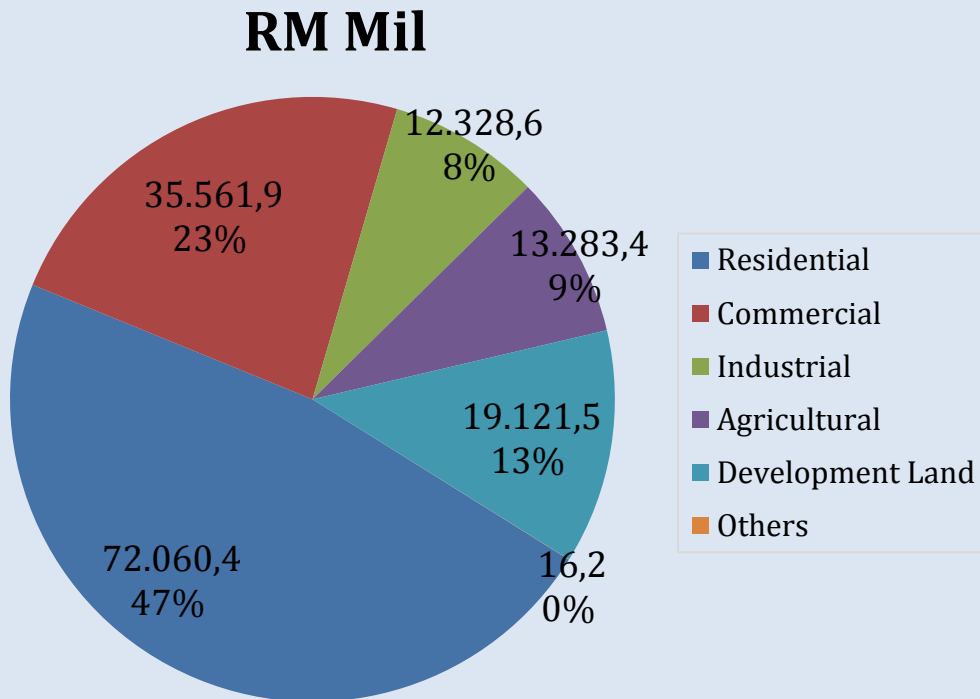
## Completions, Starts and Planned Supply



Source : Property Market Report 2013, Valuation and Property Services Department

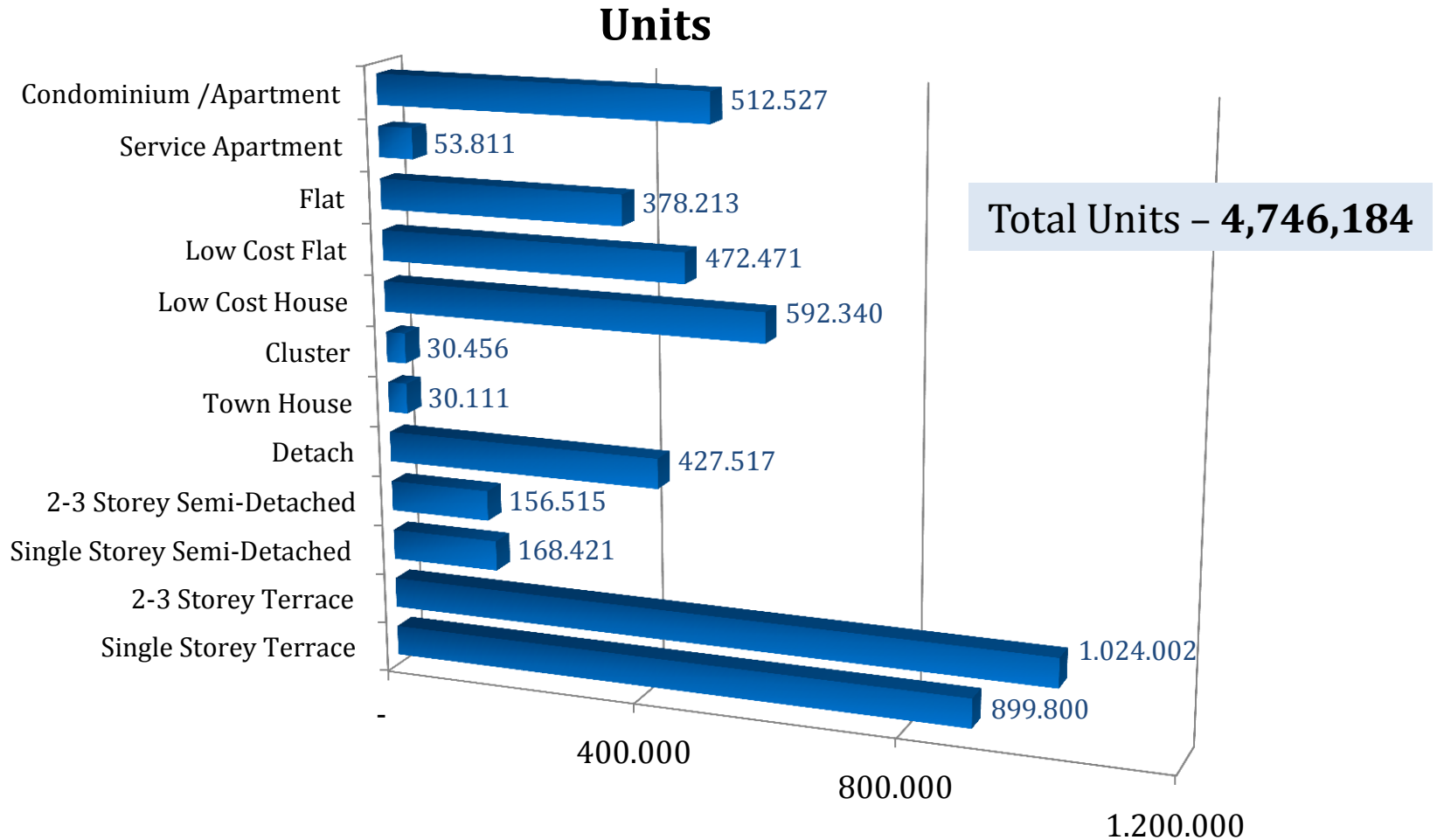
## VALUE OF PROPERTY TRANSACTIONS BY SECTORS (2013)

## VALUE OF PROPERTY TRANSACTION BY CATEGORY (2013)



Source : Property Market Report 2013, Valuation and Property Services Department

# Summary of Supply of Housing Stock by Units and Types (as at Q1 2014)



Source : Property Market Report 2013, Valuation and Property Services Department

# Low Cost Houses

- Low cost units defined as housing units sold at the controlled price of RM45,000 and below
- For 60 sq mtr built-up space and 3 bedrooms with separate WC / bathrooms
- Approximately 1 million units of low cost houses and flats built to date
- >80% provided by private sectors/developers



# Cross Subsidy

- Ability of industry to provide the low cost housing is by way of CROSS SUBSIDY by private sectors/developers
- Malaysia has unique housing policies which not only need to deliver average 150,000 housing residential units per annum to meet forecast demand, they also meet prescribed conditions for the supply of social housing in the form of low cost as well as social engineering in the form of Bumiputera discounts.
- ***Low Cost Housing Policy***
  - ❑ Generally 30% of low cost housing of total development
  - ❑ KL levy @ RM42,000 per unit
- ***Bumiputera Quota***
  - ❑ Average 30% - 40% Bumiputra quota with 5% discount per unit
- ***Major Infrastructure and Services***
  - ❑ Provision of infrastructure : highways, roads, drains, sewage treatment plants, reservoirs, substations, telecommunications services, playground etc.
- The above policies are successful with the current Sell-Then-Build (STB) delivery system



# Sell-Then-Build (STB) Delivery System

- Unique delivery system.
- Governed by Housing Development (Control and Licensing) Act 1966.
- House buyers buy units off-plan.
- House buyers pay for the units based on the schedule of payment enacted in the act.
- Practicality of STB delivery system for developing country where banks are not highly capitalized & risk adversed to single customer exposure.
- Economies of scale of production increasing supply to meet burgeoning demand.



# SCHEDULE H (For highrise / strata properties)

## THIRD SCHEDULE

(Clause 4 )

### SCHEDULE OF PAYMENT OF PURCHASE PRICE

	<b>Instalments Payable</b>	<b>%</b>	<b>Amount</b>
1.	Immediately upon the signing of this Agreement	10	RM
2.	Within twenty one (21) working days after receipt by the Purchaser of the Vendor 's written notice of the completion of:—		
	(a) the work below ground level of the said Building comprising the said Parcel including foundation of the said Building	10	RM
	(b) the structural framework of the said Parcel	15	RM
	(c) the walls of the said Parcel with door and window frames placed in position	10	RM
	(d) the roofing, electrical wiring, plumbing (without fittings), gas piping (if any)and internal telephone trunking and cabling to the said Parcel	10	RM
	(e) the internal and external finishes of the said Parcel including the wall finishes	10	RM
	(f) the sewerage works serving the said Building	5	RM
	(g) the drains serving the said Building	5	RM
	(h) the roads serving the said Building	5	RM
3.	On the date the Purchaser takes vacant possession of the said Parcel with water and electricity supply ready for connection	12.5	RM
4.	On the date the Purchaser takes vacant possession of the said Parcel as in item 3 and to be held by the Vendor's solicitors as stakeholder for payment to the Vendor within twenty-one (21) working days after the receipt by the Purchaser of the written confirmation of the *Proprietor/Vendor's submission to and acceptance by the Appropriate Authority of the application for subdivision of the said Building or Land, as the case may be	2.5	RM
5.	On the date the Purchaser takes vacant possession of the said Parcel as in item 3 and to be held by the Vendor 's solicitor as stakeholder for payment to the Vendor as follows —	5	RM
	[(5) Am. P.U.(A) 190/2008]		
	(a) two point five per centum (2.5%)at the expiry of eight (8) months after the date the Purchaser takes vacant possession of the said Parcel		RM
	(b) two point five per centum (2.5%)at the expiry of twenty-four (24)months after the date the Purchaser takes vacant possession of the said Parcel		RM
	<b>TOTAL</b>	<b>100</b>	<b>RM</b>





# HOUSING DEVELOPMENT PROCESS

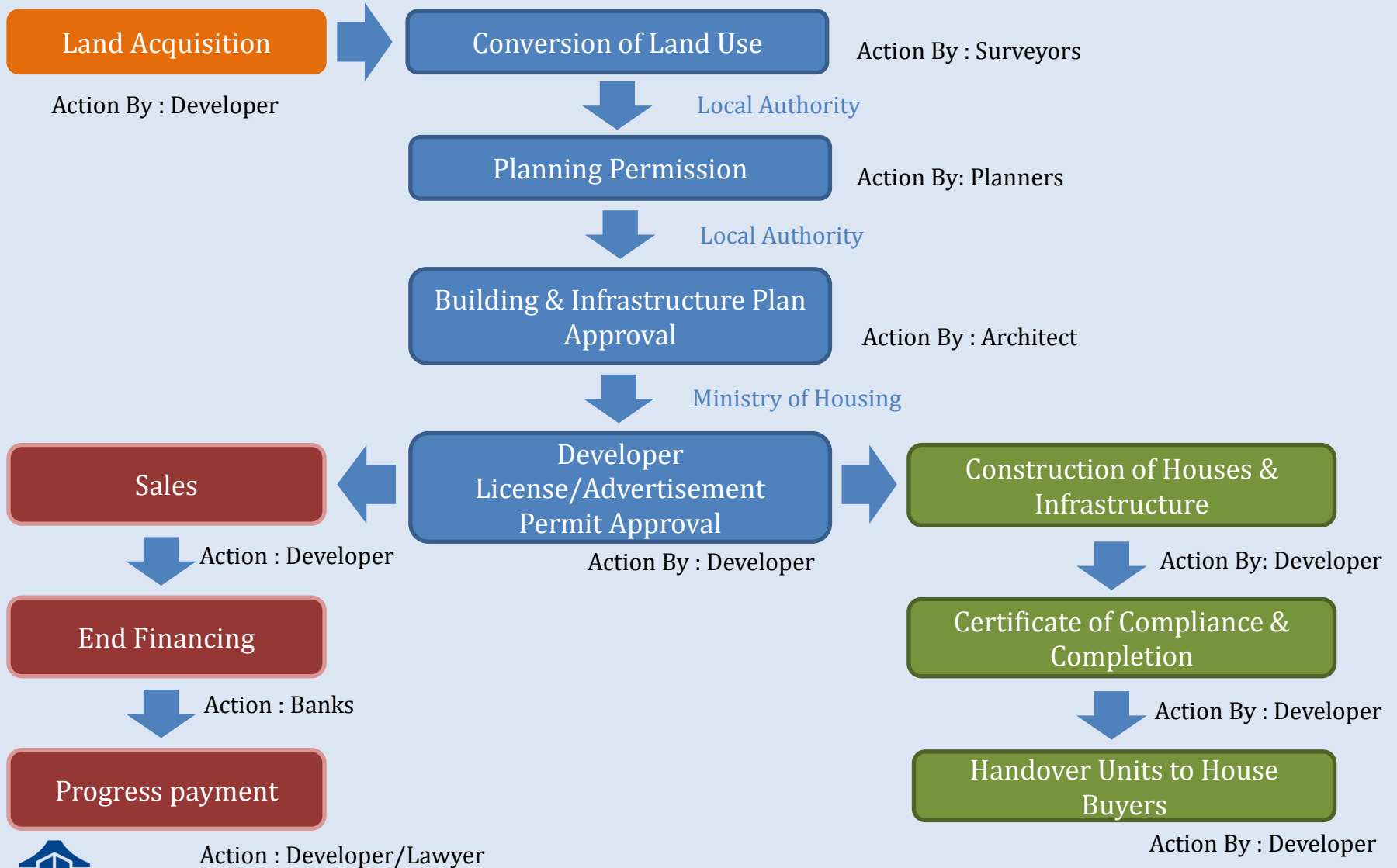
Pre Development

Construction Stage

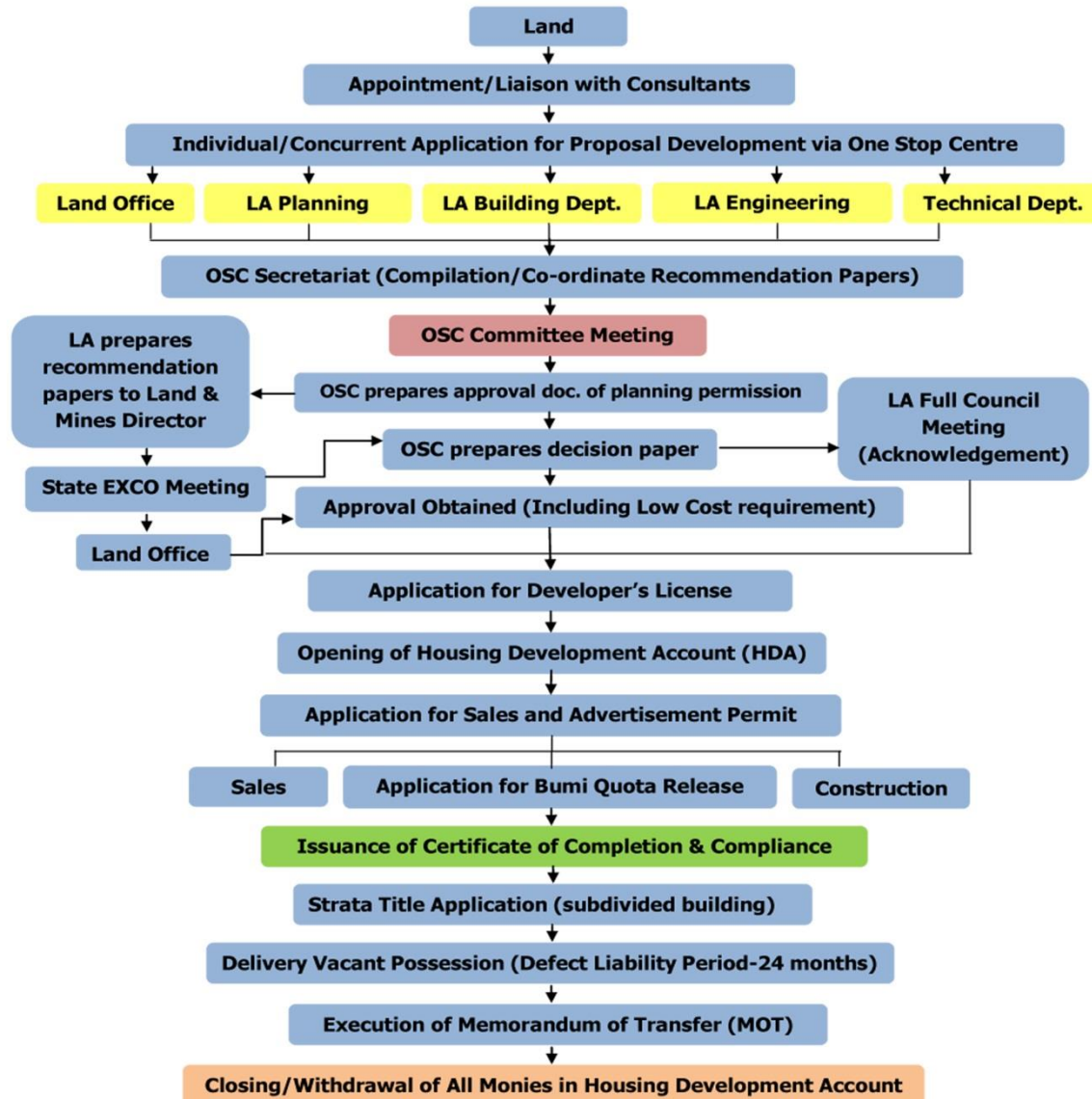
Post Construction Stage



# FLOWCHART OF HOUSING DEVELOPMENT PROCESS



# PLANNING AND BUILDING APPROVAL AND LICENSING AND DELIVERY PROCESS



## **D. HOUSING FINANCE**

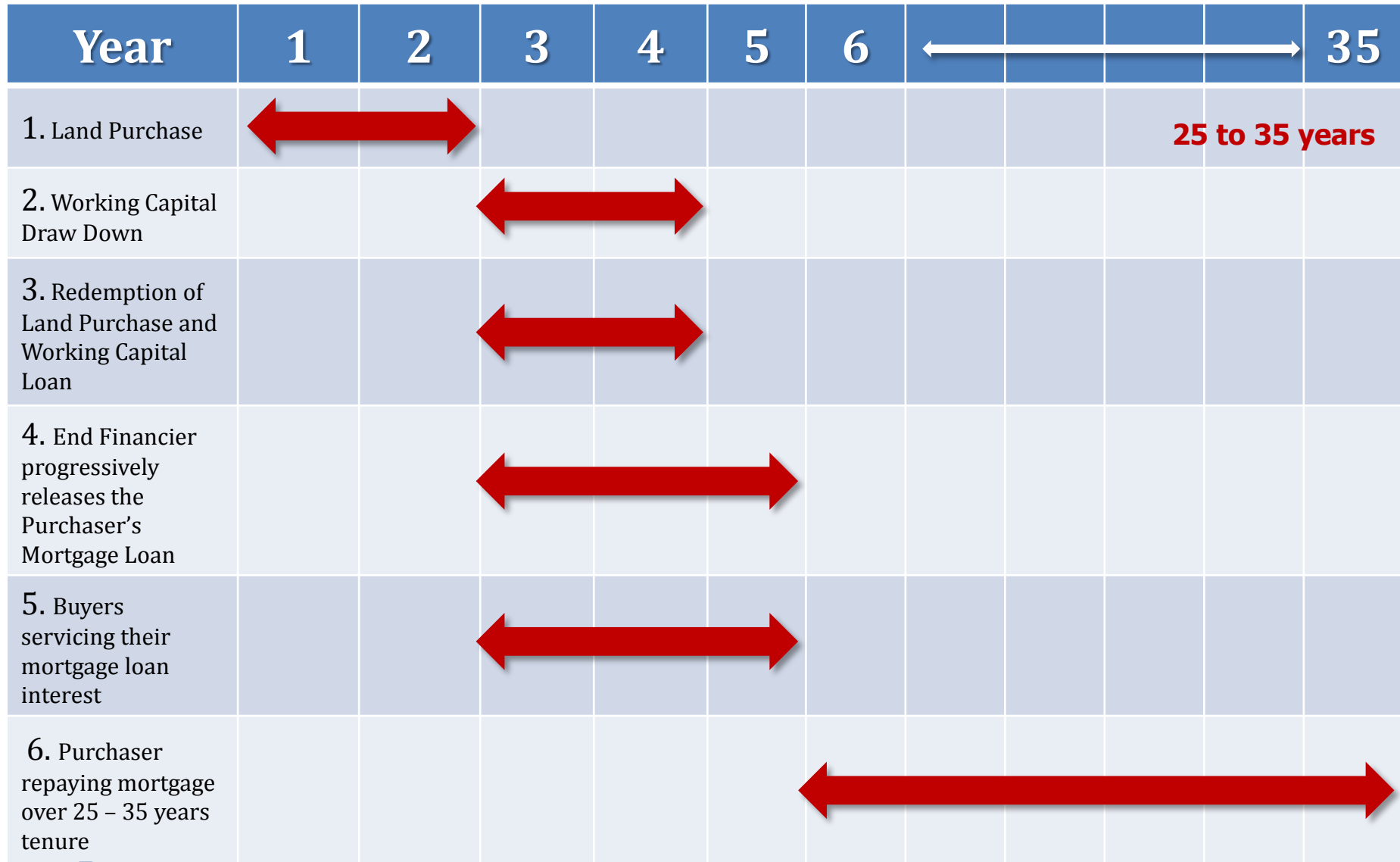
**LOAN FOR LAND PURCHASE, WORKING CAPITAL FOR INITIAL CONSTRUCTION PHASE AND END FINANCING (MORTGAGE) FOR PURCHASERS.**



# How the loan for Land Purchase and Working Capital works is now illustrated on a parcel of land based on the following assumptions:-

- Parcel of land bought for RM5mil per acre (4 acres = RM20mil)
- Upon receiving the planning approval and building approval, land value enhanced to RM40mil
- Assuming :
  - Total of 100 units of apartments, each unit sold at RM2mil
  - 80 units or 80% sales as no development can achieve 100% sales at the initial stage
  - Loan-to-Value ratio of 80%.

# LOAN FOR LAND PURCHASE, WORKING CAPITAL FOR INITIAL CONSTRUCTION PHASE AND END FINANCING (MORTGAGE) FOR PURCHASERS.



# LOAN FOR LAND PURCHASE, WORKING CAPITAL FOR INITIAL CONSTRUCTION PHASE AND END FINANCING (MORTGAGE) FOR PURCHASERS.

## 1. LOAN OF LAND PURCHASE

Purchase of Land

Original Land Price = RM 20 mil  
 Developer pays = RM 10 mil  
 Bank lends Developer = RM 10 mil

Land Revalue (after receiving development approval)

= RM 40 mil

Working Capital for Initial Construction

= RM 10 mil

Total Loan to Developer – RM20 mil (50% of revalued land price of RM 40mil)

= RM 10 mil (+ interest) + RM 10 mil working capital

Total Sales Value

= 100 units x RM 2 mil per unit  
 = RM 200 mil

Progressive Billing of say 10 instalments

= RM 200,000 average per payment by purchaser

Redemption Amount payable by developer

- RM 20 mil/100 units = RM 200,000 but assume 80% sales only, then RM20mil/80 units = RM250,000 per unit
- RM250,000 redemption sum per unit settled over 5 instalment payments = RM50,000 per instalment to be deducted from progress payment.

Bank usually specifies:-

- Repayment terms of 24 months interest payments only and 24 months principal + interest to settle land purchase loan.

## 2. WORKING CAPITAL FOR INITIAL CONSTRUCTION

# LOAN FOR LAND PURCHASE, WORKING CAPITAL FOR INITIAL CONSTRUCTION PHASE AND END FINANCING (MORTGAGE) FOR PURCHASERS.

## 3. REDEMPTION OF LOAN BY DEVELOPER FOR LAND PURCHASE AND WORKING CAPITAL

Pay down on bridging loan and substituted by mortgage bank

- Normally when developer invoices for 2<sup>nd</sup> and subsequent progressive payment, 20% of RM250,000 is redeemed progressively and paid to settle bridging financier.
- The 1<sup>st</sup> charge by bridging financier would be discharged after 5 progressive payment (RM50,000 x 5 payments)

## 4. END FINANCING TO HOUSE BUYERS

End Financing for Purchaser

- Usually bank lends only 80% LTV ratio (80% of RM2mil = RM1.6mil)
- Purchaser need to deposit RM400,000 and bank to lend RM1.6mil.
- Assuming purchaser secures loan of RM1.6mil from bank on this RM2mil unit, he needs to pay the first RM400,000 over 2 progressive payment before end financing bank pays balance of RM1.6mil progressively over the construction period.
- Purchaser services interest based on amount of progressive drawdown during construction period. Upon completion of project, purchaser services interest and principal over a 25 years to 35 years loan tenure.



- **Cagamas Berhad (Cagamas)**, the National Mortgage Corporation of Malaysia, was established in 1986 to promote the broader spread of house ownership and growth of the secondary mortgage market.
- It issues debt securities to finance the purchase of housing loans from financial institutions and non-financial institutions.
- The provision of liquidity to financial institutions at a reasonable cost to the primary lenders of housing loans encourages further expansion of financing for houses at an affordable cost.







## Housing Loans

- Cagamas purchases conventional housing loans granted for the purchase of residential houses originated by the financial institutions. In addition, staff housing loans originated by the Government and selected corporations are also purchased by the Company.
- The selling institutions are required to execute a Master Sale and Purchase Agreement with Cagamas. The housing loans are purchased at their book value i.e. the principal balance outstanding on a date which is closest to the purchase date but not earlier than the end of the month preceding the purchase date. The selling institutions are required to pay instalments (known as "Cagamas Instalments") to the Company at regular intervals. The required rate of return for the Company, which is based on the Cagamas Rate, forms the basis for determining the Cagamas Instalments.
- **To be eligible for sale to Cagamas, the housing loans must:**
  - be for financing or refinancing the purchase, construction or renovation of residential properties;
  - be fully disbursed;
  - not be more than 3 months in arrears at the time of sale; and
  - have a remaining life which expires on or after the Review Date.

# E. CHALLENGES OF THE INDUSTRY

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# INCREASE COST OF DOING BUSINESS

## THE **FIVE** COMPONENTS

THAT MAKE UP COST TO THE CONSUMER/PRICE SOLD BY DEVELOPER



All subject to cost pressures and on an upward trajectory

# 1. Land Price

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- Scarcity of land especially those serviced by roads, infrastructure and services
- Land cost – including conversion premium, development charges, quit rent and stamp duty
- State government alienated land is not cheap and sold at market price
- Federal government land not cheaply available either.



## 2. Construction Cost (The 6 Ms)

- ❑ Manpower - shortage in quantity & quality
- ❑ Material - increasing demand, lack of supply
- ❑ Machinery & Plant - high upfront CAPEX, import duties & taxes
- ❑ Money - interest rate (7%-8%) rising impacting holding costs
- ❑ Method - Industrialised Building System (IBS), high initial investment, economies of scale
- ❑ Management - lacking in numbers & competency, poor compensation



## Construction costs\* for selected Asian cities (US\$/sqm)

RESIDENTIAL	KUALA LUMPUR	BANGKOK	JAKARTA	MANILA	SINGAPORE	BEIJING
Apartment high rise (average standard)	<b>410-610</b>	694-884	880-940	1,560-1,760	1,560-1,760	670-735
Apartment high rise (high end)	<b>1,010-1,175</b>	1,010-1,199	880-1,000	1,200-1,250	2,360-3,520	1,650-1,875
Terraced house (average standard)	<b>284-410</b>	505-631	340-440	620-700	2,000-2,240	490-570
Detached houses (high end)	<b>955-1,170</b>	852-1,041	920-1,120	1,300-1,410	2,520-3,360	735-815

\* Construction cost : is the cost of construction excluding land, contribution, compliance & profit of the developer

Source : MBAM (The Edge)

# 3. Compliance Cost

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- Surrender of land for amenities
- Main infrastructure and services
- Contribution to utility companies
- Cross subsidy for low cost, low medium cost, medium cost, Bumiputra quota & discounts
- Higher specs dictated by utility companies
- Lengthy approval process

# Low Cost Housing

- Increase in construction cost has made cross-subsidization model for provision of low cost housing unsustainable
  - Cost of building low cost housing (including land cost)
    - **Strata RM120,000 – RM180,000 (USD 37,800 – USD 56,700)**
    - **Landed RM150,000 – RM 250,000 (USD 47,240 – USD 78,730)**
- Both the above are sold at a controlled price of RM42,000 maximum.
- Reality is that developer has to spread the RM100,000 average subsidy on each low cost house to the non-low cost units, thus increasing the free market units pricing borne by other buyers.

## Bumiputera Quota

- Low demand by targeted market segment (bumiputera)
- High quota, differs from state to state
- Discounts – lead to cross subsidy
- Uncertainties in release mechanism of unsold units

*Currency : RM 10 = USD 3.10*



## 4. Financing Cost

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- Money to buy land for development
- Opportunity cost/interest cost on holding land 12 months/24 months before launch
- 7%- 8% commercial rate over 2 years holding cost of land will increase land cost by 16.5%
- Cost of bridging finance early in the project and funding gaps if sales are slow



# 5. Profit Margin or Return on Investment

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## □ Risk Vs Reward

- Depending on asset class, profit on sales of between **10% to 15%** for landed terrace type housing and **15% to 20%** for high rise strata property
- Fair return for the risk and wait for the withdrawal of excess cash at the back end of the project

# F. OPPORTUNITIES

- ❑ Healthy population growth – 1.4% of the 30.1 million population. More than 51% of population below the age of 26 years
- ❑ Urbanization rate of 71%
- ❑ Favourable GDP growth of 5% average for the last 10 years
- ❑ Economic Transformation Programme (ETP) objective of US\$ 15,000 per capita in year 2020 is on track
- ❑ To meet demand of 160,000 to 180,000 units annually
- ❑ Sell-Then-Build (STB) is an efficient and effective delivery system
- ❑ To ensure adequate supply of housing production to cater for growing population, urbanization & migration
- ❑ Non-performing loan is well under 1.6% - Safe lending



