Exciting times ahead
Saturday, May 12, 2007 - Star BizWeek, The Star
By Teh Lip Kim

The time taken for property development approvals has been a perpetual bugbear for purchasers and developers. Hence the recent sweeping changes announced to reduce approval times to six months have rightly been described as a milestone by the real estate industry association, REHDA. As we all know, time is money, so the quicker approvals are obtained, the lower the holding costs for developers and such savings can be expected to be passed on to prospective purchasers.

What's New?
It is clear that the property sector is going through an evolution. Not only has the approval time for a development project been reduced, the abolition of real property gains tax (RPGT) has also been much welcomed. This tax, introduced in the late 1990s to prevent property speculation and overheating of the economy, has been imposed on properties sold within two years of acquisition. As the Malaysian property market has never been speculative and the industry has been relatively stable over the last decade, this move is timely indeed.

Within Malaysia, we have had two different business models for property developers, BTS (build-then-sell) and STB (sell-then-build). The proposed changes strongly favour the BTS concept, which is generally employed in most "developed" countries. Whilst developers are still free to use the STB model, a fast-track approval of four months will be given to developers who opt for the BTS method, involving approvals for change in land use, sub division, planning and the submission of the building plan.

Even better news is the replacement of the highly bureauaucratic, time-consuming and error-prone certificate of fitness for occupancy (CFO) with a professionally managed certificate of completion and compliance (CCC). The fast-track approval system is to be implemented by a one-stop centre (OSC) in each state, and it is genuinely hoped that this body can fulfill its role with a level of professionalism and expertise that will satisfy buyers, investors and developers alike.

Developers who employ the BTS method whereby the purchaser pays an initial deposit of typically 10% prior to development commencing are to be given incentives. They will be exempted from paying the RM200,000 deposit fee for the housing development license and will be exempted from the low-cost homes construction quota, which will be a great relief to many developers.

Will it work?

Although the BTS model translates to higher holding costs for developers which may be passed on to purchasers, it requires a commitment from both parties and therefore, a financial willingness and cooperation to succeed.

As cost does play a significant role for developers the BTS model may not be feasible for some. However, should market or regulatory pressure result in BTS being the dominant option, this may eventually lead to the consolidation of the property industry, especially amongst the small players.

As the idea of BTS is still new, the property sector will see a transitional period, as the developers gradually adapt to the changes.

In Singapore, some developers actually use a combination of the BTS and STB models in the same development. In other words, they give purchasers a choice of methods of payment – either the deferred payment method where a purchaser pays a down payment of 20% of the purchase price and pays the balance when the house is ready; or a progressive payment where the purchaser is billed stage-by-stage, according to the work completed.

Those who choose the progressive payment method end up paying less for their house while those who choose the deferred payment method are charged more for making the lump-sum balance of 80% payment when the house is fully completed.

The deferred payment method also tends to encourage speculation punters just pay the first 20%, wait for the house to be ready and on-sell once it is completed.

Whilst the planned reforms look very exciting, it is up to the industry to work in partnership with the Government to take advantage.

The changes may look good on paper but their implementation may prove to be troublesome and it is up to the industry bodies and the government to work together to realise the necessary efficiencies which are the backbone of these proposals.

With the new rules, the development planning committees of the state governments and local authorities find themselves freed of considerable responsibilities, and may need some time to get used to the new regulations. Indeed, PEMUDAH, which is tasked with overseeing these reforms, should be vigilant to ensure that the planned reforms are not frustrated by the passive resistance of officialdom.

On the other hand, rather than simply trying to profit from the new regulations, developers must act responsibly and uphold sound business practices while banking on their reputation for quality and value to build market share.

Similarly, the professional institutes – including the Institute of Architects (PAM) and Institute of Engineers (IEM) – on whose shoulders the new certification regime falls, will now come under greater scrutiny for ensuring quality and timeliness in delivery. These goals should not be taken for granted, since some 12% of complaints against developments concern late delivery and defects. The new processes and practices should assist in alleviating these issues.

Another important factor will be the readiness of the banking industry to embrace the financial implications inherent in these changes. The structure of financing may need to be reviewed in order to enable the developer to function without having his capital overextended. The structure of borrowings for the purchaser may also have to be reviewed depending on the amount of deposits required and the repayment periods agreed.

These reservations notwithstanding, house buyers who are worried about paying for homes that never see completion, or taking possession of homes that do not match up to promised quality and standards will surely welcome these moves.

However, quality and reliability will always prevail and property buyers must therefore equip themselves with necessary knowledge to evaluate cost against value so as to get the best return. As always, it will be the end consumer that dictates the direction the market takes.

As cost plays a significant role for developers, BTS model may not be feasible for some.

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