Budget 2012 boost to property and construction sectors

Realty Check

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THE RM232.8bil budget tabled by Prime Minister Datuk Seri Najib Tun Razak on Oct 7 was formulated with the theme *National Transformation Policy: Welfare for the rakyat; well-being of the nation*".

It aims to implement development plans such as projects and programmes under the Second Rolling Plan (RP2), National Key Economic Areas (NKEA), National Key Result Areas (NKRA) and Strategic Reform Initiatives (SRIs) focusing on the well-being of the general population and aiming at stimulating the domestic economy.

The Government is targeting GDP growth of between 5.5% and 6.0% for 2012. However, our external environment has become increasingly challenging with the economic slowdown in the United States, Europe and Japan, inflationary pressures due to rising commodity prices, and the European debt crisis.

The International Monetary Fund revised its projected world economic growth to 4% and world trade to 5.8%. The Malaysian Institute of Economic Research (Mier) has revised the country's gross domestic product (GDP) growth to 4.6% this year compared with an earlier forecast of 5.2% due to slowing exports and weaker domestic demand stemming from a volatile global outlook.

Next year's GDP has also been revised to 5% from 5.5%. In view of these challenges, it is critical that the Government implement measures to stimulate the domestic economy, both public and private investments.

The momentum for the construction industry is expected to accelerate with various projects to be implemented under Budget 2012. While contribution of the construction industry to GDP has always been small, it is projected to grow by 7% in 2012, the highest growth compared with all other sectors.

Its multiplier effect has always been large, involving 146 sub-sectors. Therefore, we expect the special stimulus package worth RM6bil for the construction industry to have positive effects on the economy. The construction projects announced by the Government will benefit not only big players but also the entire value chain including small players.

The RM40bil MRT project is expected to stimulate property development along the MRT line with some developers trying to take this advantage by building affordable homes in the suburbs near the MRT line. It was announced recently that Mah Sing has entered into a share sale agreement to acquire the entire stake in Semai Meranti Sdn Bhd, which is the beneficial owner of a piece of freehold development land (with development order) in Rawang, measuring 225.7 acres, at a total purchase consideration of RM92mil.

The land will be developed into a self-contained township named M Residence@Rawang, offering entry level homes priced from RM390,000. SP Setia has also recently announced its second land deal in the Semenyih-Kajang corridor buyinga 269.3ha site for RM381.26mil in Ulu Langat to be developed into a township with an estimated gross development value (GDV) of RM4bil.

The land is adjacent to its current development, the Beranang Land with an estimated RM3.5bil GDV. The site is about 13km south of Kajang town and homebuyers are expected to benefit from the proposed MRT station in Kajang. SP Setia plans to build affordable homes to cater to first time home buyers.

The Federal Government's proposal to liberalise 17 services subsectors in phases next year has also received positive reactions from investors. This liberalisation will benefit private hospital services, medical and dental specialist services, engineering, accounting and taxation, and legal services. Looking at the real estate side, we expect more new township developers will include private hospitals and other medical services as part of their development components in their effort to create self-contained townships.

The implementation of main projects under RP2 such as Gemas-Johor Bahru double track rail project, Lebuhraya Pantai Timur Jabor-Kuala Terengganu, Lebuhraya Pantai Barat Banting-Taiping, Lebuhraya Segamat-Tangkak and Lebuhraya Central Spine as well as the construction of Kota Marudu-Ranau road will create greater accessibility to less developed areas in Malaysia, which will then spur development in these areas.

The RM978mil allocated to implement projects such as Johor Bahru-Nusa Jaya coastal highway in Iskandar, Johor, heritage tourism development in Taiping in the Northern Corridor, agropolitan scheme in Besut in the East Coast Economic Region, palm oil industrial cluster project in Lahad Datu in Sabah Development Corridor and Samalaju water supply in the Sarawak Corridor of Renewable Energy is expected to accelerate development in the five regional corridors and this will help the Government to achieve its development objective of creating more balanced regional development in the country.

Incentives offered to KLIFD-status companies not only emphasise the Government's effort to turn Kuala Lumpur into a global financial centre but also attract more investors to participate in the development of the project.

The project is aimed at enabling Malaysia to capitalise on its international Islamic financial products and and this is further strengthened with measures proposed in the budget to stimulate the sukuk market and provide the seed money for shariah-compliant exchange traded funds (ETFs).

The incentives are a 100% income tax exemption for a period of 10 years and stamp duty exemption on loan and service agreements for KLIFD-status companies, an industrial building allowance and accelerated capital allowance for KLIFD Marquee Status Companies; and income tax exemption of 70% for a period of five years for property developers in KLIFD. It is hoped that with these incentives, KLIFD will be able to compete with other financial centres in Asia.

The real property gains tax (RPGT) is also proposed to be revised as one of the measures to cool the property market. In Budget 2012, it was proposed that the RPGT on properties held and disposed of within two years be raised from 5% to 10%, 5% tax to be maintained for properties disposed after three to five years and no tax for properties disposed after the fifth year.

From a macro-economy perspective, a higher RPGT will reduce speculative buying, which will then stabilise property prices and this will avoid "property bubbles" from bursting. This step is necessary as property prices, especially in prime areas such as in Klang Valley, Penang and Johor have increased over the last two years between 30% and 50%, depending on location and type of property. This measure is considered "mild" compared with more stringent measures imposed by other countries such as Singapore, which imposes a lower loan-to-value ratio (60%) for borrowers with more than one outstanding loan and higher seller's stamp duty.

As one of the NKEAs, the tourism industry will also receive a shot in the arm. For example, RM420mil will be allocated to launch the Langkawi Five Year Tourism Development Master Plan. Among the initiatives to be undertaken are the restructuring of the Langkawi Development Authority, setting up a park rangers unit, upgrading museums, beaches and small businesses as well as providing a more efficient transportation system.

In my view, to create a more supportive environment for the tourism industry, it is of high importance for the Government to also re-look at current restrictions on buying and investing in properties in Langkawi. The island has great potential; however, more needs to be done to attract hotel operators as well as investment in tourist-related activities as the current regulations are considered as "unfriendly" to foreign buyers or investors.

In an effort to attract high-spending tourists and to encourage investment in hotels at par with international standard, the Government also proposed that 4- star and 5-star hotel operators in Peninsular Malaysia be given pioneer status with income tax exemption of 70% or investment tax allowance of 60% for 5 years.

This incentive is expected to encourage more hotel development, which many hesitate to venture into because the payback period is normally as long as 10 to 15 years.

Overall, I would conclude that Budget 2012 is very comprehensive and the Government has focused on every aspect that will stimulate the country's economy considering the many external challenges that we are facing now.

● *Senator Datuk Abdul Rahim Rahman is the executive chairman of Rahim & Co group of companies.*