

# MALAYSIAN BUMIPUTERA

## Privileged or Just Plain Unlucky?

Text Lawrence Julius







An aerial view of Kuala Lumpur – a property hotspot and capital of Malaysia.

THE concept of a Bumiputera ethnic group was coined by former Malaysia Prime Minister, Tunku Abdul Rahman in an effort to preserve the rights and privileges of certain races under it. Malaysian Malays and a few more ethnicities who are non-Chinese and Indian are categorized under Bumiputera, including the indigenous of Sabah and Sarawak.

While we certainly found a degree of harmony within the country, one that can still awe foreign visitors, equality issues do creep up once in a while. Race-based privileges are a sensitive matter, though some have been questioned. And one of it correlates to the property industry.

In 1971, the Malaysian New Economic Policy (NEP) was launched as affirmative action. It was in an effort to raise the Bumiputera national wealth share from the then 2.5% to 30%. Although the NEP was replaced by the National Development Policy in 1991, most of the policies founded under the NEP retained its position.

One of the stratagems introduced under the NEP was the Bumiputera Lot Quota Regulation. This policy was implemented to assist the Bumiputera through a 30% minimum mandatory quota as well as a minimum 7% discount on property. All Bumiputera are eligible exclusively.

The quota is a national implementation to promote balanced socio-economic development in the country. It was set in place to encourage more Bumiputera to own houses and promote greater interaction among the various ethnic groups of Malaysia. And more importantly, help lighten the load of those who are not as financially capable as others.

Professor Dr Christopher Shun, Group Managing Director of Capital Sanctuary Sdn Bhd defines it as “a socio mechanism to allow for more equitable sharing of wealth and affordability”.

So the question is: are the rules being implemented effectively?

A formulated debate is within the topic of low-cost versus high-end properties. The issue is on how the Bumiputera quota rule applies to both. At one point, certain voices called out suggesting the rule to be nullified for properties above RM5 million. *Should those able to afford high-end properties be exempted from discounts?* These voices were met with heavy fire from the other side of the fence saying Bumi privileges are not to be touched and existing rights should be preserved.

Another point for argument ties with the nation's goal of becoming a developed nation: The only possible way to achieve this is for us to escape from the middle-income trap. But why have we not been able to make a breakthrough as easily as some of our former peers have? An answer probably lies within our nation's brain drain epidemic. World Bank concluded the same after a recent survey on 200 Malaysians living abroad in February; Malaysia must find a way to stem and overturn the brain drain issue.

Interestingly, we have more than a million Malaysians plying their talents elsewhere. According to the survey two out of 10 tertiary educated Malaysians leave the country to work elsewhere and 87% of respondents





Property developments will have a mandatory quota for Bumiputera.

suggested that “a shift away from race-based towards needs-based affirmative action” may be able to attract a return to Malaysia. This is certainly a blow for the country, one that could use the extra hand to reach its lofty goals.

In March 2010, current Malaysia Prime Minister, Datuk Seri Haji Mohd Najib Tun Haji Abdul Razak unveiled his much-anticipated New Economic Model (NEM) that will act as an improved extension of the NEP. The ultimate goal of the NEM is to lead the economy to become one with high incomes and quality growth by 2020. With it, certain policies were liberalized to advance the nation as Datuk Seri Najib also pledged to roll-back some of the NEP policies to fit present times. However, the government’s social contract to provide certain benefits to the Bumiputera could not be repealed and ultimately retained.

The Bumiputera Lot Allocation Rule was preserved. While few would dispute the rule is appropriate for those in need of financial assistance, there are doubts regarding implementation and its efficiency. This topic has always been heated within the property sphere – a delicate matter as it touches on racial issues and on-going political agendas. But to really understand the benefits, the issues and the consequences, we must dissect and look deeper. At the same time, widen perspectives.

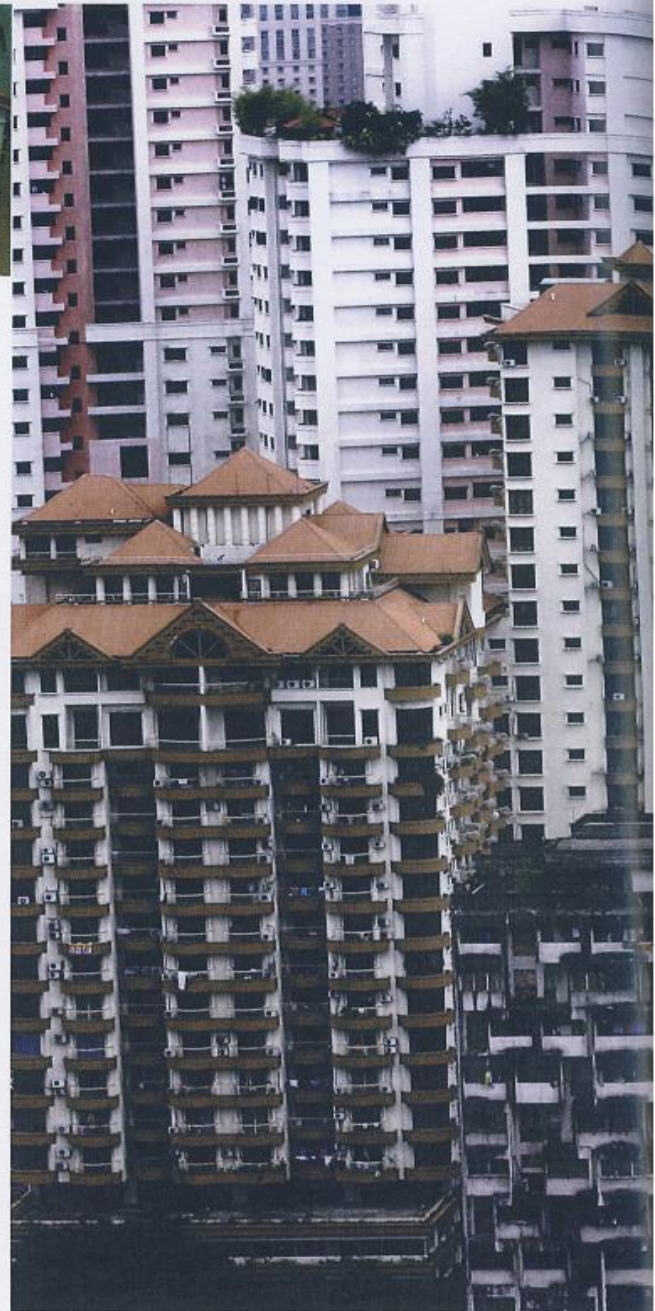
*So what is a Bumi lot?*

#### **The Bumi Lot**

In the Federal Territory of Kuala Lumpur, the Bumiputera housing quota is set at 30%, paired with a 7% discount. These are the Bumi lots. But for the state of Selangor however, the numbers and rules may take on a different shape. Residential properties here are discounted at 7%, while commercial and industrial properties are marked at 10%. There are different sets of rules implied as the state authorities have the ability to fix as seen fit, so some figures may even be higher than others.

*How does this affect the buyers?*

The quota percentage can be as high as 70% in some states. Melaka for example, has its Bumi residential quota set at 60%, and 35% for commercial. The head-



ache for developers here is that the quota is implemented across the board, irrespective of location and local ethnic predominance. For an area, which is predominantly Malay-based, one would think that there’s no need to apply a quota.

However, Dr Christopher explains that it is natural to have higher quotas where there are more Bumiputeras. It all comes down to adjusting with demographics and market data. Melaka has a population of about 60% Malay and 30%





Photo Phalinn Ooi

Bumiputera high-rises may be harder to sell compared to landed properties.

Chinese, in a way it is reflective of the quota. When there are more people who qualify to buy, you'll be able to sell, naturally. But the rule must be set according to the various subdivisions and the dispersion of people within the state. Dr Christopher agrees that this rule is a positive

one, but the issue is on the method and sometimes how it is enforced.

"Each state must look at their demographics and come up with the balanced ratios that meet the needs of the people.

"We must find a way to recalibrate it to the market," says Dr Christopher.

The Klang Valley for example, the property hotspot of the peninsular, comprises various districts and towns. Each of which, belong to its own demographic of people.



## Cover Story Malaysian Bumiputera – Privileged or Just Plain Unlucky?

So for example, a predominantly Chinese area like Maluri in Cheras, a high Bumi quota will lower the chances of these lots being sold-off.

Saleha Yusoff, Head of Research at Rahim & Co Chartered Surveyors Sdn Bhd believes that without the quota, the socio balance away from the Bumiputera.

"Developers, being driven by profit, will only look at the margin they will gain from property development. The government has a role to play in promoting equitable progress among all races, which sometimes can be seen as creating inefficiencies in the delivery system," Saleha explains.

"In a multi-racial country like Malaysia, benefits should not only be justified in terms of economic profitability but also from the perspective of socio-economic equality," says Saleha.

The issue here is not about Bumiputera allocations according to Dr Christopher; it is about social wealth distribution. When the issues are viewed from this angle, there is no need for racial conflicts or political spats; it's about helping those who are in need.

"The issue of the Bumi discount must be revisited and recalibrated in the line of social-economic wealth transfer," says Dr Christopher.

A suggestion would be to base the discount rate on income. Bumiputera privi-



Professor Dr Christopher Shun has vast experience in the property sphere.

leges would still be maintained, but discounts are set higher for those earning less and lower for those earning more.

"Wealth distribution must not be done punitively, in a way that some groups of people feel disadvantaged. This will not make a happy community," says Dr Christopher adding, "we need to give back to the *rakyat* (people) and help those who are less capable. I don't think anyone would have any qualms with this."

### A Balancing Act

It is right to suggest that the best developments, or townships, or communities, are

balanced. But instead of getting the rules right, these locales focus on the people. A "balanced" community, according to Dr Christopher is one that reflects the nation's demographics. This could be one of the best means to increase Bumiputera lot marketability, in fact the development as a whole. One community that comes to mind when mentioning balance is Taman Tun Dr Ismail (TTDI).

"Here we find 60% Bumiputeras, 30% Chinese and 30% Indians. Perfect.

"It reflects Malaysia's general demographic," says Dr Christopher.

It is a challenge to achieve such balance in the Klang Valley, but when the formulas are right, as achieved in TTDI, demand will be strong and the overhang of Bumi lots can be curbed.

One would expect that with the quota and discounts, these lots would be property hotcakes. But in truth, one of the toughest challenges for a developer is selling off Bumi units. In 2010, out of 94,836 completed units in the country that year, 24% was unsold according to the National Property Information Centre (NAPIC). Even for newly launched residential properties, sales performance sat below the 50% mark in 2010 (see **Sales Performance and Value of Unsold Residential Units**).

According to findings from a survey conducted on 135 developers by the Real



Terrace houses below RM300,000 will have less problems selling.



**Sales Performance and Value of Unsold Residential Units**

State	New Launched		Completed		Under Construction		Not Constructed	
	2009	2010	2009	2010	2009	2010	2009	2010
Malaysia			Malaysia					
Units Launched	45,909	47,698	Units Launched 115,904	94,836	110,581	100,320	23,754	23,130
Units Sold	22,005	21,799	Unsold Units 22,592	23,133	42,814	41,478	14,457	14,365
Sales Performance (%)	48.0	45.7	Value (RM Mil) 3,675.75	4,208.39	NA	NA	NA	NA

Source: NAPIC

Estate and Housing Developers' Association Malaysia (REHDA), Bumiputera allocation is the top reason contributing to the overhang. The survey showed 30% voted Bumi lots as the culprit while 18% suggests economic and market conditions being the cause. Tallying it up, it is obvious there are stocks of property that are not selling. It shows that buyer demands are not as competitive as it used to be and there is minimal need to reserve units.

Hj Muztaza Mohamad, Managing Director of Fairview Group feels that Bumi properties sold below RM300,000 will not face much difficulties as oppose to the more luxurious range. Muztaza's experience catering to the Bumiputera market, in areas like Semenyih, shows that low-cost landed housing do well. He singles out terrace-houses as the favorite. High-rises might face some hiccups but landed properties are usually in demand. It is probable those buying to stay will take up the Bumi offer, but doubtful for those seeking to invest.

"The Bumiputera normally wait until the development is completed," says Muztaza.

Professor Dr Hamdan Ismail, Executive Director of Institute Sultan Iskandar, University Technology Malaysia, approaches the subject in a different angle. To him, the problems of attracting buyers for the allocated lots can be solved using "universal values". Green and sustainability, community living, landscaping, park facilities – these are all examples that can promote a successful development, Bumiputera lot included.

"These are not racial issues," says Dr Hamdan, and urges focus to be on the human side of things.

If a developer succeeds in providing these values, Dr Hamdan believes there will be no problems in sales performance. There are actually a number of developers who have implemented the "universal values". SP Setia Bhd, Sunway Bhd, Mah Sing Group, Sime Darby – these are some who have proven the effectiveness of universal values. Even a simple addition to your standard brick and mortar will bear appreciation.

Dr Hamdan says Malaysians of all races have been living together for decades

now and there are no issues; it is a valuable country asset that can be honed to make thriving townships. This eliminates all the worry of lots under-performing. If a developer can create a good environment for residents, it already bears the mark of a good development, the rest will come naturally.

"The developers must do a thorough market study, and not simply build where there's land," says Dr Hamdan.

Those who spend more time and effort in studying data before leaping in may reap the reward of good performance in the long run. Market research and consultations play a vital role in getting things right.

In the initial stages, it is critical to pick the right Bumiputera lots to offer the market. In usual cases, "less-prominent" lots are the ones that are chosen as Bumi, worsening the plight of buyer and developer.

"It's all about doing your job well," Dr Hamdan reminds.

If all entities manage to deliver the best,



The Bumiputera allocation must be flexible in adjusting to the demographics.

Photo: Khairil Faizi



there's no way the market won't be interested. We should first and foremost move away from political agendas, focus on Malaysians and reignite the essence of nation building.

### The Release

The tallest wall to jump now is the stamp on the property itself. If a property is endorsed "Bumiputera" on its title, owners can only sell this lot off to another Bumiputera. Ultimately this affects the selling power and restricts it in the secondary market. Buyers would find it a hard investment, while developers deem it a selling choke-point. The stigma here is that the Bumiputera themselves prefer buying non-Bumiputera lots, as it enables them to access a wider market when needed.

"It shouldn't restrict the Bumiputera," says Dr Christopher. "It is like buying a car, then not being able to sell it off."

But not all states brand the title in this ink. In Perak, there are no endorsements on the title but the Menteri Besar's consent is required when selling off the lots. It depends on the individual rulings of each state government. At least owners are allowed to seek approval from local authorities to resell Bumiputera lots in the open market. But still, the amount of bureaucracy involved can be daunting for some. A number of developers are greatly affected because capital is tied up from holding-on to unsold units, some even for years.

For now, what happens then when these lots are under-performing? For the developers, when Bumi lots are not flying-off the shelf, they can apply for a release and sell the lots off to non-Bumiputeras. In some cases, the state government will buy off these lots at the discounted price and take over the selling responsibilities.

The release mechanism is dependent on the respective state authorities (See **Release Clause in Major States**). The good news is that all states possess some form of release for the allocated Bumi lots, albeit some are more tricky and complicated than others.

For developers within the Federal Territory of Kuala Lumpur, the lots are released on a staggered basis. When construction on a project reaches 50% and all non-Bumi lots are sold, developers can apply for the first release. On approval, only a maximum of 30% of the unsold units may be freed from the allocation. When the development reaches 80% completion, developers may reapply for another percentage of the remaining unsold lots, subject to the Kuala

## Release Clause in Major States

### ➔ Kuala Lumpur

**Quota**, 30%

**Discount**, 5%

**Title**, Decided by Kuala Lumpur City Council (Dewan Bandaraya Kuala Lumpur)

#### Release

##### Stage 1

- Construction progress at 50% and all non-Bumi units sold.
- Advertised (minimum of three advertisements) in Malay and English newspapers, participating in property exhibitions and other promotions.
- DBKL will consider release on a staggered basis on a maximum of 30% of remaining unsold units.
- Required to re-advertise for remaining unsold units.

##### Stage 2

- Developer may re-apply when the construction reaches 80%.
- Re-advertise and participate in DBKL's Bumiputera Property Exhibition.
- DBKL will consider release on a staggered basis.
- Re-advertise remaining unsold units and participate in DBKL's cluster advertisement.

##### Stage 3

- Re-apply upon completion.
- Re-advertised.
- All remaining unsold Bumi can be released within six months from the issuance of Certificate of Fitness (CF).
- Contribution required, equivalent to the Bumiputera discount.

### ➔ Selangor

#### Quota

- Residential area – based on State Constituencies (ADUN), according to the Blueprint Perumahan Negeri Selangor Darul Ehsan (2004-2014) by Lembaga Perumahan dan Hartanah Selangor (LPHS).
- Commercial area, less than 50 units – decided by the Lands and Mines Office.
- Commercial areas of more than 50 units, 60% for low cost (Market Price of RM120,000) and 50% for other pricing.
- Industrial areas less than 10 acres, 40%.
- Industrial more than 10 acres, 50% of low cost (Market price of RM150,000) and 40% for other pricing.

**Discount**, 7% for housing, 10% for commercial (except low cost), 10% for industrial

**Title**, Not endorsed, since 2005 Bumi lots are marked for six months from project launch

#### Release

- Advertised property in LPHS for three months.
- 7% of selling price for residential, 10% for commercial properties as contribution to state government.
- Industrial areas, 10% of the selling price per unit released.

### ➔ Johor

**Quota**, 40%. Conversions approved after Dec 11, 2004, all residential property are subject to the following allocations:

- Selling price less than RM200,000, 40%.
- Selling price RM200,001 – RM300,000, 30%.
- Selling price more than RM300,001, 20%.

**Discount**, 15%

**Title**, Endorsed

**Release**, Upon approval from State Authorities

- Applicable after 65% of the construction has been completed.
- Placed at least six advertisements in newspapers (minimum size of 16cm x 16 cm).
- Placed radio advertisements 14 times in two weeks.
- Registered with PERTAM Properties Sdn Bhd and that the selling price of the units have been certified by the same.
- Paid contribution at 5% to 15% of sales price for Malay Quota Emission (MQE).

### ➔ Penang

**Quota**, 30%

**Discount**, 5%

**Title**, Not endorsed, Bumi units indicated by local authority

#### Release

- Construction at 65% - 85% (95% in some cases).
- Advertised three times in the newspaper within six months from the date of the first advertisement.
- Obtained release letter from the State Housing Department to procure CF (Certificate of Fitness).
- Contribution paid to Bendahari Negeri Pulau Pinang, fixed at 30% of the 5% discount due on any unsold Bumiputera units.

Source: REHDA

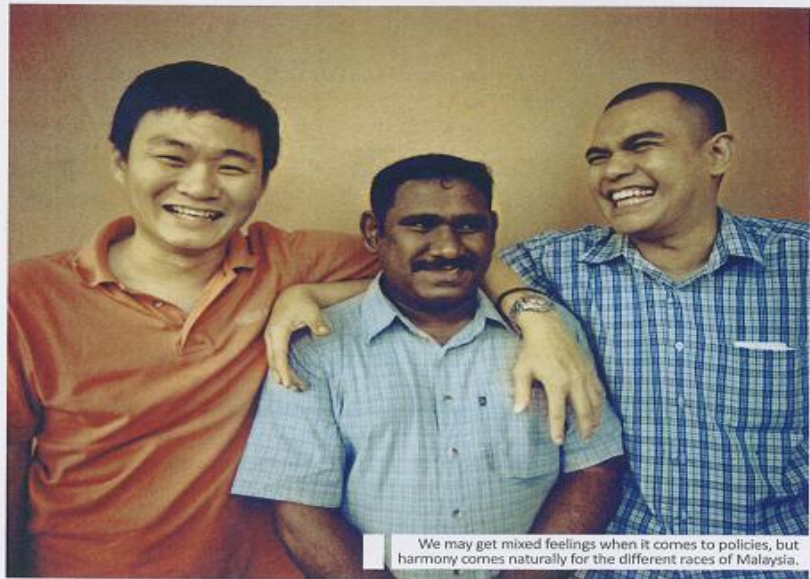


Lumpur City Hall (DBKL). Upon full completion, a final application can be made to release all remaining lots. However, developers are required to contribute a sum equivalent to the Bumiputera discount of each unit to DBKL after the release.

A common requirement in the application process is a show-proof of the developers' marketing efforts. The common criterion is to have advertised in the local papers for a certain period or format before being eligible for the release. Again, the local authorities determine the specs and there is no fixed guideline to follow as one jumps from state to state. The complications associated to the release stipulations may even choke developer interest in an area – hindering growth.

A quick-fix would be to remove the endorsements that make it a re-sell headache. Developers would surely be more than happy to maintain the quota and discounts. Another would be to loosen the release mechanism and make it easier to convert non-performing Bumi lots into normal lots.

Although we all know the Bumiputera Lot Allocation rule will not be going anywhere anytime soon, we do know that there are ways to help overcome its effects. While total abolishment of the privilege is out of the question, it could use a few



We may get mixed feelings when it comes to policies, but harmony comes naturally for the different races of Malaysia.

Photo: Shahdi

tweaks here and there. A balance must be reached, addressed with a clear mindset – and never twisted or made political make-

weights. Whatever the plan may be, solving the strivings of the public should be first order. Let the rules better lives, and create an unencumbered future for all.

*What are your thoughts on the industry? Is the Bumiputera Lot Regulation sustainable in today's property market? Let us know what you think! Email your feedback to [mailbox@homefinder.com.my](mailto:mailbox@homefinder.com.my) along with your details.*

# JOHOR

## A STATE IN FAST FORWARD

Text: Lawrence Julius

JOHOR is one of the nation's fastest growing states in terms of new development. Iskandar Malaysia, launched in 2006 can be deemed as the factor that is spurring such fast-paced movement. This corridor, in the southern part of the state is aiming to become Malaysia's most developed region. And in the process, help the country reach its goals of becoming a developed nation by 2020. The prospects in Johor are spectacular, promising a lot of opportunities as other districts in the state follow in its footsteps.

So what is in store for Malaysia's fifth largest state? And are there any pitfalls that lurk within?

### Johor at a glance

It encompasses a 19,984 sq km area and is three times larger than neighboring Singapore, with a population of about 3.3 mil-

lion. The state ranks third in the property market share of the country after Selangor and Kuala Lumpur according to the National Property Information Centre (NAPIC). The state has contributed 15.2% to the country's overall property transaction value

as of 1Q 2011 (see **State Numbers**). Johor's Gross Domestic Product (GDP) was RM52.5 billion in 2010, equivalent to 6% growth from the previous year. Its main economic contributor remains the manufacturing and service sectors respectively.

State Numbers

	1Q 2011		2010		Population '000	Land Size km <sup>2</sup>
	No. of Transactions	Value of Transactions RM Million	No. of Transactions	Value of Transactions RM Million		
Malaysia	99,147	27,479	375,698	106,882	28,147	329,999
Selangor	22,048	9,405.65	90,414	36,614.49	5,102	7,960
<b>Johor</b>	<b>12,540</b>	<b>3,279.21</b>	<b>48,537</b>	<b>11,807.21</b>	<b>3,305</b>	<b>19,984</b>
Kuala Lumpur	5,839	4,188.67	27,370	20,028.79	1,722	243
Penang	8,362	2,538.45	25,986	9,371.99	1,596	1,031
Melaka	3,654	726.82	11,477	2,189.11	771	1,664