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Real Property Gains Tax and the Malaysian Housing Market



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INTRODUCTION

The importance of property sector:

a tool to drive and regulate the economy

Government home-ownership campaign

The role of RPGT:

one of the tool to regulate the property sector

Increase government revenue??

The objective of this paper:

to discuss the trends in the housing market in the past decade against the backdrop of government intervention via RPGT.

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MALAYSIA BRIEF FACTS

A rapidly developing economy in Asia.

An open economy where the economic activities involve both domestic and international community

An upper-income country

MALAYSIA : BASIC STATISTICS

	2011	2012	2013 ^(e)
Population (million)	29.0	29.3	29.7
Labour force (million)	12.6	12.9	13.2
Employment (million)	12.3	12.5	12.8
Unemployment rate (%)	3.1	3.2	3.1
Nominal GDP (RM billion)	884.5	941.2	1008.2
Nominal GNI (RM billion)	862.6	905.2	981.0
Real GDP growth rate (%)	5.1	5.6	5.0-6.0
Per capita income RM	29,783	30,859	33,010
Per capita income US\$	9,733	9,991	10,687
Per capita income PPP (US\$)	15,190	15,676	16,499
Inflation (% p.a)	3.2	1.6	2.0-3.0
Merchandise exports (RM billion)	699.6	703.2	713.1
Merchandise imports (RM billion)	548.0	577.6	610.8
Current account of BOP (% of GNI)	11.9	6.3	4.4
Exchange rate (RM/US\$)	3.06	3.09	3.09 *

Notes: ^(e) Estimate ^(f) Forecast * Data for Jan-July 2013

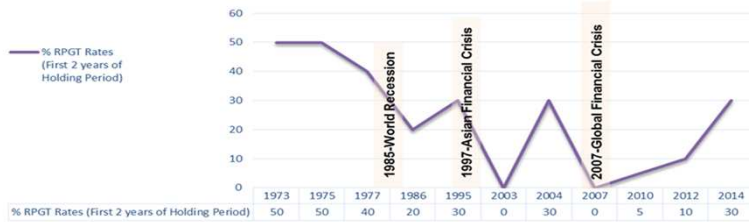
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BACKGROUND – REAL PROPERTY GAIN TAX IN MALAYSIA

- RPGT – a tax on all capital gains made on the disposal of property, interest or rights in property within stipulated period

Figure 2: Real Property Gain Tax Rates Timeline & The Economic Crisis



Source: adapted from Abdullah, 2011)

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MALYSIAN HOUSING MARKET TREND

The important role of housing in the property market.

Table 3: Property and Housing Transaction Number and Value in Malaysia 2000-2013

Year	Property Transaction (number)	Property Transaction Value (RM'm)	Housing Transaction (number)	Housing Transaction Value (RM'm)	% share of Housing Transactions Against Property Transaction	% share of Housing Transactions Value Against Property Transaction Value
2000	239,981	39,196	170,927	21,939.31	71.2	56.0
2001	242,634	38,635	176,208	22,199.24	72.6	57.5
2002	231,383	38,642	162,258	21,135.66	70.1	54.7
2003	243,376	43,435	164,723	23,011.23	67.7	53.0
2004	293,318	60,012	195,338	29,335.90	66.6	48.9
2005	276,508	56,782	181,762	28,407.34	65.7	50.0
2005	283,897	61,599	182,555	29,446.88	64.3	47.8
2007	309,455	77,143	199,482	36,490.61	64.5	47.3
2008	340,240	88,342	216,702	41,303.97	63.7	46.8
2009	337,859	80,996	211,599	41,840.91	62.6	51.7
2010	376,582	107,440	226,874	50,654.16	60.2	47.1
2011	430,403	137,828	269,789	61,831.56	62.7	44.9
2012	427,520	142,845	272,669	67,762.20	63.8	47.4
2013	381,130	152,372	246,225	72,060.41	64.6	47.3

Source: NAPIC, 2004-2014)

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MALAYSIAN HOUSING MARKET TREND

RPGT is charged on gains made from sub-sales of housing units i.e. from the secondary property market,



Table 4: Property and Housing Transaction Number and Value in Malaysia 2000-2013

Year	Housing Transaction (number)			% share of the Total	
	Ist Transfer	Others transfer	Total	Ist Transfer	Others transfer
2001	77,540	98,668	176,208	44.0	56.0
2002	58,110	104,148	162,258	35.8	64.2
2003	41,311	123,412	164,723	25.1	74.9
2004	50,570	144,768	195,338	25.9	74.1
2005	49,706	132,056	181,762	27.3	72.7
2006	48,896	133,659	182,555	26.8	73.2
2007	58,953	140,529	199,482	29.6	70.4
2008	44,811	171,891	216,702	20.7	79.3
2009	27,512	184,087	211,599	13.0	87.0
2010	31,239	195,635	226,874	13.8	86.2
2011	58,751	211,038	269,789	21.8	78.2
2012	64,054	208,615	272,669	23.5	76.5
2013	42,445	203,780	246,225	17.2	82.8

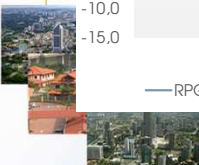
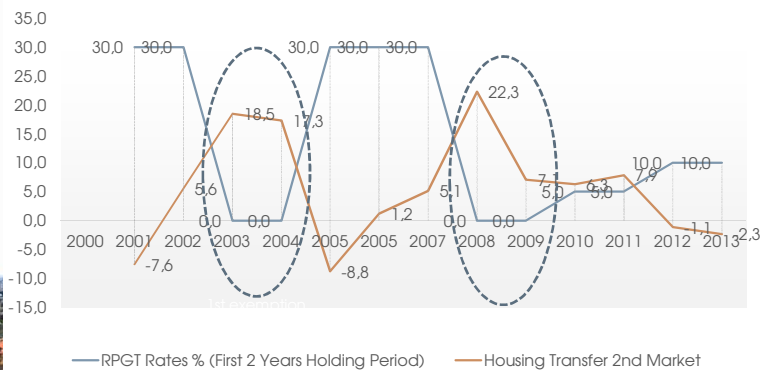
(Source; NAPIC, 2004 - 2014)

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MALAYSIAN HOUSING MARKET TREND

Figure 3: Annual % Change of the Secondary Housing Market Activity Vs RPGA Rates 2001 - 2013



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MALAYSIAN HOUSING MARKET TREND

On the house price perspective, there is always escalation of house prices in the market,



Table 6: The Malaysia Price Index, Annual % Change and Average House Price 2000-2013

Year	Index	% Changes	All Houses Price
2000	100.0	5.9	140,690
2001	101.1	1.1	142,011
2002	103.6	2.5	148,832
2003	107.9	4.2	154,389
2004	113.2	4.9	158,636
2005	115.9	2.4	162,699
2006	118.4	2.2	170,522
2007	123.9	4.6	174,401
2008	129.9	4.8	178,632
2009	131.9	1.5	188,529
2010	140.7	6.7	203,496
2011	154.6	9.9	224,218
2012	172.8	11.8	251,731
2013	192.9	11.6	272,168

(Source: NAPIC, 2014)

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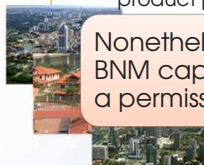
GOVERNMENT INTERVENTION IN THE HOUSING SECTOR

Property is said to support 140 other industries in the economy.

The central to this role is property finance.

- bridging finance to housing sector following Bank Negara Malaysia (BNM) directives to support government policy of home-ownership.
- end-financing, the Malaysian housing delivery system of sell-then-build or off-plan sales make this financial product as a relatively less-risk adverse product particularly in an environment of healthy economic growth.

Nonetheless when there signs of overheating in the market, BNM caps the exposure of local banks to property loans to a permissible level.



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GOVERNMENT INTERVENTION IN THE HOUSING SECTOR

Table 5 : Total Loans in the Banking System 2003 -2013

Sector	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	RM Million										
Construction	29,495.7	29,951.0	29,986.1	31,091.2	32,140.5	34,591.7	36,554.0	38,476.3	39,928	44,153.0	49,837.3
Purchase of Residential Property	116,326.0	128,338.9	148,654.4	161,876.5	173,191.3	191,140.7	209,700.7	237,457.5	268,845	303,369.2	344,295.9
Housing loans sold to Cagamas	229.1	932.8	544.1	504.0	1,165.7	1,044.4	385.1	368.5	351.4	549.9	537.8
Purchase of Non-residential Property	28,799.9	30,325.7	35,123.3	45,979.0	54,961.9	66,540.8	73,954.3	90,738.4	109,964	131,375.0	154,641.3
Real Estates	13,888.4	13,600.3	14,684.1	16,907.1	20,317.1	25,498.9	32,008.8	38,829.2	50,825	62,437.7	71,022.8
Total Loans to Property Sectors	188,739.1	203,148.8	228,992.0	256,357.9	281,776.5	318,816.5	352,602.8	405,869.9	469,913	541,885.2	620,335.0
Total Loans to Non-Property Sectors	285,242.5	245,204.7	297,784.0	336,656.1	362,457.4	407,731.8	430,797.9	554,733.2	533,604	566,098.3	605,430.0
Total Loans to All Sectors	473,981.6	448,353.5	526,776.0	593,014.0	644,233.8	726,548.3	783,400.8	883,607.8	1,003,517	1,107,983.5	1,225,765.1

(Source: Bank Negara Malaysia, 2004 - 2014)

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Conclusion

The housing market performance reacts on an opposite direction against the RPGT rates.

During the two RPGT exemptions in 2003-2004 and 2007-2010 periods, the market responds positively as indicated by higher transaction volume and value.

In the other hand, market dips when higher RPGT rates are imposed as can be seen by softening of the market activities between 2011 and 2013.

Simultaneously, accommodative financial environment facilitate the market to sustain the house prices even when the RPGT rates peak at 30 percent. Average House Price from MHPI moves positively annually in the past 10 years.

Hence, housing sector needs certain levels of government intervention to ensure a healthy economic growth and for the well-being of the people. For the past 10 years, RPGT has been one of those players with a strong support from banking sector.

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**THANK YOU
Q & A**

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