

Negative effects of rebates, discounts

PROPERTY

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HBA honorary secretary-general Datuk Chang Kim Loong said the act of increasing the price and then offering a rebate, say, of up to 10% appears to help buyers, but this actually “does more harm than good in the long run”.

PETALING JAYA: There are negative consequences arising from the official sanctioning of rebates and discounts in the property market, according to the National House Buyers' Association (HBA).

HBA was responding to the news report “Banks aware of ‘discounts’ given by developers” in StarBiz last Friday (May 29, 2020).

Its honorary secretary-general Datuk Chang Kim Loong said the act of increasing the price and then

Chang said the rebates and discounts actually lead to higher costs for the buyer because stamp duty for property transfer and loan agreements are based on a regulated percentage of the property value or loan.

“The higher the price or loan, the higher the stamp duty,” Chang said.

“If a property is valued at RM450,000 and the developer wants to offer a 10% rebate, he inflates the price to RM500,000.

“Then he offers a 10% rebate, or less RM50,000. So the house buyer would get a full loan of RM450,000.”

But an artificial rise of RM50,000 will result in a higher stamp duty on the property transfer of RM1,000 and loan agreement of RM250.

The second drawback is higher interest, as the buyer is taking a bigger loan.

“In our current example, the total loan repayment for a loan of RM450,000 versus a loan of RM405,000 (RM450,000 at 90%) for a typical 30-year loan is higher by RM83,000,” said Chang.

Third, rebates and discounts also cause prices of existing properties and launched units to rise. Prices of the secondary market, where buyers buy from owners, are interlinked with new developers’ units, or the primary market.

“When prices of new units ‘rise’, owners (from the secondary market) also raise their prices,” he said, creating a vicious cycle of price increases.

The fourth drawback is speculation, which the market saw some years ago. Because a buyer only needs to pay the ancillary cost to buy the property and service some interest during construction, he will try to flip it on completion for a quick gain, he said.

The prices stated in the sale and purchase agreements (SPA) are declared as the “transacted price” to the government, that is, the Valuation and Property Services Department when they are not the true prices.

Hence, when valuations are made, the false information exacerbates price discovery.

This leads to ever spiralling valuations.

These actions make true price discovery difficult, he said.

Chang said Bank Negara had instructed banks to offer a maximum 90% end-financing based on the net selling price of the property, after deducting all discounts and rebates.



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HBA hopes that commercial banks will take measures to ensure that the end-financing amount is reflective of the true value of the property and adopt a responsible lending process, Chang said.

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