Chapter 7

Multiple-Choice Questions

1. **C**
2. **D**
3. **D**
4. **B**
5. **C**
6. **A**
7. **B**
8. **C**
9. **C**
10. **B**

Short-Answer Questions

Question 1

(a)

Stamp Duty on SPA					
First	100,000	100,000		1.00%	1,000
Next	400,000	400,000		2.00%	8,000
Next	500,000	250,000		3.00%	7,500
Balance				4.00%	-
		750,000			16,500
Stamp duty on loan agreement					
		675,000		0.50%	3,375
	Total stamp duties				19,875

(b)

Legal fees on SPA				
First	500,000	500000	1.00%	5,000
Next	500,000	250000	0.80%	2,000
Next	2,000,000			-
Next	2,000,000			-
				7,000

(c) The total acquisition cost = 750,000 + 19,875 + 7,000 = 776,875

(d) Other upfront costs may include legal fees for the loan agreement, real estate agent fees, insurance (MRTA) and renovation costs.

Question 2

		RM
Gross rental income (April to December 2018)	4,500 × 9	40,500
Less : Allowable Expenses		
Quit rent and assessment		(1,300)
Maintenance fees (210 X 9)		(1,890)
Interest on loan instalment		(2,650)
Statutory rental income for year of assessment 2018		34,660

Question 3
Suggested answers include:
- The bulk of the income of the REITs company come from rental (which is generally passive and fixed) rather than from capital appreciation.
- This fixed income tend to make the earnings of REIT companies less volatile.
- Any other relevant answer.

Question 4
Suggested answers include:
- For freehold properties the land on which the property is built has been sold by the state authority to an individual in perpetuity (i.e. forever).
- For leasehold properties, the lease is for a finite period for instance 30, 60,99 years.
  - Upon the expiry of the lease, the ownership of the land and any construction attached to it reverts to the state land authority. The state government could convert the type of lease from a residential to commercial purposes. Thus, making it unsuitable for the purpose intended by the tenant. In any case, renewal is very expensive as the tenant as to pay up the lump sum of the future lease payments (e.g. 99 years)
  - The state authority has the right to terminate the lease if the tenant is found to be unfit, the lease may be terminated and the remaining monies forfeited due top non-performance of lease terms.
- For the reasons above, leasehold property prices tend to get cheaper the closer to the maturity of the lease. Buyers need to be aware of this.

Discussion Questions

Question 1

	REITs	Property Related Company
Corporate structure	Trust fund	Company (e.g. SP Setia, Ecoworld, Sime Darby Properties, Gamuda etc)
Governance	Management company approved by Securities Commission Trustee	Board of Directors under the Companies Act
Scope	Defined investment policy – restricted to management of portfolio of real estate for income generation	Business not restricted to property investment and development.
Fees	Investor is subjected to management fees (inclusive of fund and property management). Trustee fee	Not applicable
Tax	Individual investors are only subject to 10% withholding tax for dividends if the REITs company pays out 90% of its income as distribution	Dividends are subject to company tax.

Question 2
Pros:
- Pay for the property upon the award of the Certificate of Fitness - No major capital outflow until the completion of the project
- Greater protection to the consumer as it reduces risk of loss caused by project abandonment by the developer.
- End-financing of loans do not start until the completion of the project. Maximum losses subject to

the down-payment paid.

Cons:

(a) It is likely that the developer/seller will pass on some of the borrowing costs to the buyer/investor driving up the price of the completed property

Answers may differ.

<u>Question 3</u>

Pros:

(b) Only need to pay 10% initial down payment and related fees (e.g. legal fees) and balance upon completion of the property. Monthly payments made are just interest on this portion of the loan.
(c) Investor can sell property for potential capital gain upon completion of the project (property flipping)
(d) Progress payments are being disbursed to the developer but the developer bear the interest payments during the construction of the project
(e) Any other relevant answer.

Cons:

- DIBs property are usually priced higher than non-DIBs (up to 20% to 30% more) → Likely to take into account the interest the developers had to "bear" during the construction phase.
- Misleading advertising → DIBs is not the same as Build then Sell (BTS) schemes
- Initial "retail" price often not true cost of the property → Hidden interest cost
- Unlike BTS, investors are still liable to pay for the portion of the loan disbursed if the project is abandoned
- Any other relevant answer.

Likely reasons for DIBs being banned:

- BNM banned DIBs because it prohibited interest capitalization schemes
- Risk of speculation, creating artificial demand and creating a property bubble.
- Any other relevant answer.

Case Study 1

<u>Question 1</u>

The date of the acquisition would be the date of the written sales and purchase agreement. In this case, Desmond Chiang would be deemed to have acquired the land on 15 January 2015.

<u>Question 2</u>

Based on the prescribed rates, the stamp duty and legal fees on the sales and purchase agreement would be RM6,000 and RM 3,500 respectively.

Stamp Duty on SPA

First	100,000	100,000	1.00%	1,000
Next	400,000	250,000	2.00%	5,000
Next	500,000	-	3.00%	-
Balance			4.00%	-
		350,000		6,000

Legal fees on SPA

First	500,000	350000	1.00%	3,500
Next	500,000	-	0.80%	-
Next	2,000,000			-
Next	2,000,000			-
				3,500

<u>Question 3</u>

		RM	RM
Disposal price			
Sales consideration received			680,000
Less : Enhancement costs			
Drainage and electrical works		(20,000)	
Factory building		(75,000)	
Fencing for property		(7,000)	(102,000)
Less : Permitted expenses			
Legal costs of defending title			(7,000)
Less : Incidental costs			
Broker fees		(8,570)	
Valuation fees		(1,750)	
Advertisement fees		(2,000)	(12,320)
Disposal price			558,680
Less: Acquisition Price			
Purchase consideration paid		350,000	
Add: Incidental costs			
Stamp duties	(6,000)		
Legal fees	(3,500)	(9,500)	
Acquisition price			(340,500)
Chargeable gain			218,180
Less : Individual exemption			(21,818)
Net chargeable gain			196,362
RPGT Payable @ 20%			39,272

Question 4

Net RPGT Payable = RPGT Payable - Loss relief b/f = 39,272 – 5,500 = RM33,772