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EC views that the transfer and mortgage fee cut will have a limited impact on the housing market recovery.

The government recently issued a stimulus measure that included a cut of transfer and mortgage fees for new housing with unit prices of THB 3 million maximum. The housing units with the mentioned conditions are mainly condominiums and townhouses, especially in the outer skirt of Bangkok and in upcountry. Groups of people that will benefit from this new measure are low-income individuals and developers with a high proportion of housing units under THB 3 million. These developers will bear lower costs and could use the costs saved to boost other promotional offers instead. However, regarding housing market recovery, the measure should not be as effective as similar measures used in the past due to 3 of the following limitations: (1) criteria regarding housing price cap (no price cap in the past) (2) fragile economic conditions that suppress consumer purchasing power and (3) confined borrowing ability due to high household debt levels amid stricter loan approvals and tightened LTV conditions.

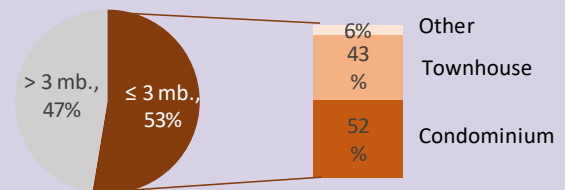
Event

- The cabinet recently approved a stimulus measure that included a cut of transfer and mortgage fees for new housing with unit prices of THB 3 million maximum. According to the stimulus, the government will slash housing transfer fees from 2% to 0.01% and mortgage fees from 1% to 0.01%. For new property with land and new condominium units valued under THB 3 million, ownership transfer and mortgage must be carried out at the same time. The stimulus will be effective until December 24, 2020. Furthermore, the cabinet approved low-interest loans, which will be conducted via the Government Housing Bank (GHB). GHB will offer loans at 2.5% interest for the first 3 years for housing units of THB 3 million maximum and with a total of THB 50,000 million budget allocated.

Analysis

- New ready-for-transfer housing units with pricing under THB 3 million will benefit from the stimulus. These units are the majority in the market and are mainly condominiums and townhouses in the outer skirt of Bangkok and upcountry.** According to the government's stimulus, new housing units with pricing below THB 3 million will benefit, which are the majority in the market. Information compiled by AREA for residential units in the Bangkok Metropolitan Region (BMR) as of mid-2019 revealed that unsold housing units (under construction and completed units) with prices under THB 3 million accumulated to 107,646 units or accounted for 53% of total unsold units. Of the unsold units with prices under 3 million, 52% were condominiums and 43% were townhouses. As per location, the unsold units were clustered in the outer skirts of Bangkok such as in the Rangsit Klong 1-16, Bang Bua Thong, Bangna km 10-30, Outer ring road- Petchkasem area and Rattana Thibet.

Figure 1: Unsold housing units in the Bangkok and Vicinity area as of mid-2019



Source: EIC analysis based on data from AREA

- The recent stimulus is only applicable for new housing with pricing under THB 3 million, meanwhile, the prior stimulus in 2015 allowed transfer and mortgage fee reductions for all housing with no capped price. The current measure accommodated a huge portion of housing units and is a continuation of the prior real estate market stimulus issued during the second quarter this year. However, the conditions set by the measure regarding unit pricing could limit the stimulus' effectiveness, especially when compared to similar measures issued during 2008 and 2015 that did not limit unit pricing. Furthermore, the measure that was issued in 2015 also included stimulus for allocated and unallocated housing developments, in addition to allocated land plots.

Figure 2: Transfer and mortgage fee stimulus measures implemented during 2008-2019

Transfer and mortgage fee cut from 2% and 1% to 0.01%			Other measures implemented during the same period as the transfer rate cut	Ownership transfer units in BMR	
Duration of the measure	Housing type	Before implementation		Post implementation	
29 Mar 2008 – 28 Mar 2010	12M with 12M extension	Allocated land plots House + allocated land plots Condominium		-9%YoY	+13.6%YoY
29 Oct 2015 – 30 Apr 2016	6M	House + allocated/ unallocated housing development Condominium Allocated land plots	Maximum 600,000 per 5 tax years tax deduction or up to 20% of actual expense incurred from buying residential units, eligible only for first homebuyers with unit price under 3 million	+9.4%YoY	+51.0%YoY
31 May 2019 – 30 May 2020	12M	Housing price ≤ 1 M (4% on unsold units – finished and under construction in BMR as of 1H19)	Maximum THB 200,000 tax deduction from actual expense incurred from buying residential units, eligible only for first homebuyers with unit price under 5 million (valid until 31 Dec 2019)	-0.4%YoY	+1.3%YoY (Jun-Aug 2019)
Announced effective date by the Ministry of Interior – 24 Dec 2020	13M*	New housing unit price ≤ 3 M (53% on unsold units – finished and under construction in BMR as of 1H19)		-3.5%YoY (May-Aug 2019)	(TBC)

Remarks: *Preliminary information from relevant government agencies states that the government may take approximately 1 month to prepare the Ministry of Interior's announcement, hence the stimulus should be effective since late November – early December

Source: EIC analysis based on data from REIC, FPO, and BOT

- The effective date of the measure has not been announced, which could delay transfer and mortgage of residential units with price under THB 3 million in the short term. The government has approved the transfer and mortgage fee cut stimulus, though an effective date for the stimulus has not been set, causing eligible homebuyers that will benefit from the scheme to postpone transfer and mortgage of their housing units. If the announced effective date is delayed, real estate activity postponement could occur and reduce the number of residential unit ownership transfer in the 4th quarter. However, according to preliminary information from relevant government agencies, the government may take approximately 1 month to prepare the Ministry of Interior's notification issuance. Hence, the stimulus could be effective since late November or early December 2019.

Implication

- EIC evaluates that the issued transfer and mortgage fee cut stimulus will only mitigate the effects of the economic slowdown and LTV in the short term. However, it will not have as high an impact on the housing market recovery as previous measures as (1) This year's stimulus has narrower impact compared to the ones in 2008 and 2015 which covered housing at all price levels, (2) The global economic growth, including Thailand's should slow hence suppressing foreigners and Thais purchasing power, especially of low-middle income individuals that is fragile to the fluctuating economy, (3) High household debt as per Bank of Thailand's (BOT) household debt to disposable income of higher than 150% when compared to 2008's rate that was lower than 100% . Meanwhile, debt to income ratio of homebuyers are still high, although it has somewhat decreased after the LTV measure came into effect, hence household's ability to create new debt is still limited, (4) Financial institutions are more stringent in approving home loans as reflected by BOT's quarterly survey that revealed lower mortgage loan approval rates and stricter home loan standards, and (5) Issuance of tighter LTV criteria that reduces consumers' ability to purchase housing. Consumers can no longer receive high loan amounts as before and co-borrowing is more difficult than in the past before the new LTV measure (BOT relaxed LTV criteria for joint borrowers, although only in the case where the joint borrower will not have ownership in the property, which is a small proportion). Moreover, GHB's special low-interest loan measure may not be enough to recover the housing market due to its low credit limit, which accounts for 5-7% of new housing loans in each year.

Figure 3: Comparison of economic and financial conditions during the different rounds of transfer and mortgage fee reduction stimulus

Economic and financial conditions before the measure become effective						
Effective date	GDP (%YoY, 6MMA)	Household debt (% of disposable income)	Loan to income (times)	Mortgage approval (Diffusion Index)*	Loan standards (Diffusion Index)*	LTV conditions
28 Mar 2008	3.92 (4Q07-1Q08)	88% (1Q08)	n.a.	27.4 (1Q08)	-3.3 (1Q08)	LTV limit at 70% for house price greater than 10M
29 Oct 2015	3.18 (2Q-3Q15)	145% (3Q15)	3.25 (3Q15)	7.0 (3Q15)	-14.4 (3Q15)	LTV threshold 90-95% RW for houses priced under 10M and 80% RW for houses priced over 10M
24 Oct 2019	2.59 (1Q-2Q19)	148% (1Q19)	3.80 (Jul-19)	-4.0 (2Q19)	-25.0 (2Q19)	LTV threshold 90-95% RW for first-home priced under 10M and LTV limit at 70-90% for second home and above/ houses priced over 10M

Remarks: * Data from BoT's quarterly credit condition survey that reviews opinions of senior loan officers from 52 financial institutions
 Diffusion index > 0 means loan approval grew from the previous quarter/ loan standards eased from previous quarter
 Diffusion index < 0 means loan approval declined from the previous quarter/ loan standards stricter than previous quarter
 Source: EIC analysis based on data from BOT, CEIC, and NESDB

- Though the effect on overall housing market recovery may not be significant, low-end home buyers and low-end developers will benefit from the stimulus. Individuals who buy new homes with price under 3 million will save transfer and mortgage fees of up to THB 90,000 maximum, which could cause expedited ownership transfers to reap benefits from the measure. Meanwhile, developers with high proportion of below 3 million backlog units will also benefit from advertisement cost savings. Advertisements for lower transfer and mortgage fees that are popular among these developers can be replaced with other promotions to boost sales and accelerate the clearance of unsold units.
- The housing market would need 1 to 2 years to adjust to the new LTV measure. Nevertheless, economic and consumer confidence needs to recover in tandem also. Even though the government continually issued various tax deduction measures to help support the real estate market, consumers still need time to adjust to the new LTV measure. A significant push from economic and consumer confidence will help accelerate purchasing power increase to replace declining purchasing power from the new LTV.

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