COVER STORY

THE EDGE FILE PIX

Easier route to owning homes

A 2015 report by non-profit organisation Khazanah Research Institute said the housing market in Malaysia was 'severely unaffordable'

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Jessica Ng, 35, purchased her first home — a terraced house in Shah Alam — early last year and she is pretty excited about finally owning a property. The journey was long and hard as she spent months looking for a home she could afford and it took years of saving for the down payment, legal fees, basic renovations and furnishing.

"I had to consider the monthly bank payments, other expenses and unexpected ones as well. I wish I could afford to do a massive renovation but I have to be realistic about it. Maybe in another two to three years. It's going to be financially tight for me as it is but I'm glad to finally own a home," Ng says.

Indeed, Malaysia's housing market remains unaffordable to the masses despite its property prices being among the lowest in Southeast Asia.

A 2015 report by non-profit organisation Khazanah Research Institute said the housing market was "severely unaffordable" as the median house price was 4.4 times the median annual household income. An "affordable market" is one where the median house price is three times the median annual household income.

As household income has not caught up with soaring property prices, it can be a challenge for many prospective homebuyers in the country to fork out thousands of ringgit for the down payment. Without incentives offered by developers or financial help from their families, few can afford to get their own home.

A *City & Country* feature titled "Purchasing a property in your twenties" in February last year points out that when one buys a RM400,000 apartment and manages to obtain a 90% bank loan to be serviced over 30 years, the down payment would be RM48,800. This excludes other expenses, such as for moving, renovation and purchase of furniture and fittings.

The estimated compulsory monthly payment would be RM2,040, comprising the housing loan instalment of RM1,840 (interest rate: 4.5% per annum) and maintenance fee of RM200 (25 sen psf). Other monthly expenses would be utility and internet access bills.

Many, not just those in the low-income group but also those in the middle class, have called for more rent-to-own (RTO) housing schemes. These traditionally involve low-cost properties, such as those under the People's Housing Project (PPR) and 1Malaysia People's Housing Scheme (PR1MA). Both schemes are offered by the federal government.

It is generally believed that RTO schemes create a win-win situation — the developers get to clear their inventory while prospective homebuyers can afford their own house without having to pay a hefty amount of money in advance.

In its 3Q2017 Quarterly Bulletin, Bank Negara Malaysia said that the total property overhang stood at 130,690 units in 1Q2017. These include units that are completed and under construction as well as small offices/home offices and serviced apartments.

VPC Alliance (M) Sdn Bhd managing director James Wong notes that the implementation of RTO schemes will increase the demand for housing targeted at people who cannot come up with a big sum of money up front, and that it would take up the oversupply of residential units and restore equilibrium in the long term.

"The mismatch between household prices and incomes is very serious," he says. "According to Khazanah Research, at the national level in 2014, the median house price was 4.4 times the median annual household income. According to global standards, this signifies a 'seriously unaffordable' housing market. An 'affordable' market should have a 'median multiple' of 3.0 times."

According to the Bank Negara annual report for 2016, Wong adds, the increase in household incomes of 12.4% was slower than the increase in housing prices of 17.6%. Scarcity of land in the cities also increased its value, directly increasing residential property prices.

"Red tape and the high compliance cost that developers have to pay have also contributed to the high property prices, making them unaffordable," he says. "In my opinion, there are no disadvantages to RTO schemes for Malaysians as they are given an opportunity to own their first home instead of renting, so long as they are introduced and the public is educated on the schemes."

MOHD IZWAN MOHD NAZAM/THE EDGE

Wong: The mismatch between household prices and incomes is very serious

LOW YEN YENG/EDGEPROP.MY

Ho says Mah Sing's scheme only requires a 10% deposit

Developers' own RTO schemes

Property developers such as UEM Sunrise Bhd, Mah Sing Group Bhd, Tan & Tan Developments Bhd and Selangor Dredging Bhd have come up with their own RTO schemes to facilitate easy property ownership.

Mah Sing, for example, has its own RTO scheme for the retail shops and small offices/flexible offices at its Garden Plaza development in Cyberjaya. CEO Datuk Ho Hon Sang says the scheme only requires a 10% deposit, which acts as a non-refundable upfront fee lease option.

"Apart from that, buyers can enjoy a zero-interest instalment of four months for the deposit," he adds. "They need to sign a two-year sales and purchase agreement (SPA) with the option to buy the property at or before the end of the agreed period. All payments for rent and deposits will be considered as partial payment of the purchase price. This is very relevant for business operators because they are not required to fork out a big capital outlay to start operations."

UEM Sunrise's RTO scheme, meanwhile, is known as UEM Sunrise Easy Own Plan. Launched in August last year concurrently with its Third Signature Selection Campaign Road To Russia 2018, the plan has three main schemes — Easy Entry, which allows potential buyers to own selected properties at a low down-payment amount; Easy Plan, which consists of the RTO scheme and an easy financing scheme; and Easy Privileges, which offers buyers loyalty benefits, an extended defect liability period and free maintenance.

Managing director and CEO Anwar Syahrin Abdul Ajib notes that the money-lending licence the developer secured from the Ministry of Urban Wellbeing, Housing and Local Government in August last year also allows it to launch a differential sum loan scheme under the Easy Financing scheme for selected products where the developer offers a 30% loan coverage of the total purchase price (provided that the buyers secure a minimum of 60% end-financing) with an interest rate of 5.5% and loan tenure of 36 months. Interest is to be paid monthly while the principal is to be paid at the end of the loan's tenure.

"This RTO scheme only applies to completed units of our selected properties," he explains. "Tenants or potential buyers may rent the selected property from UEM Sunrise for two years at the rental market rate with an option to own it by exercising their right to purchase the property within the rental period. We will not sell the said property within the rental period. The price is locked upon the signing of the rental agreement and any price appreciation within the rental period is for the benefit of the potential buyer."

Anwar adds that potential buyers will need to place a deposit of 2.5% of the property's purchase price, which is refundable after deducting for any repair cost, if they decide not to exercise the option