

Time to adopt Rent-To-Own?

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THERE is this constant lament among middle-income Malaysians that they just can't afford to own a home within a reasonable time frame. When and how can their predicament be fixed? For genuine homebuyers, one solution could be Rent-To-Own (RTO) schemes.

But first of all, why is it that many Malaysians claim they cannot afford to buy their first home? Executive director of Socio-economic Research Centre (SERC) of The Associated Chinese Chamber of Commerce and Industry Malaysia Lee Heng Guie says the rising cost of running a middle-income household is an often cited reason.

[* VIDEO: What is Rent-to-Own all about?](#)

[* Dabbling with RTO](#)

"The low and middle-income households have to cope with higher cost of living with expenses on essentials rising. Child care or even elder-care expenses, transportation cost, food cost and other things are also rising, leaving them with little savings. This means that they can't have large financial commitments such as getting a loan to buy a house," Lee tells EdgeProp.my.

Meanwhile, house prices have risen at a faster pace relative to income growth. According to Bank Negara Malaysia's (BNM) latest data, house prices have jumped 17.6%, outpacing growth in household income of 12.4% during 2012 to 2014.

The housing affordability ratio (the ratio of median house price to the median household income) in 2014 was 4.4, worsening from 4.02 in 2009 — indicating that houses in Malaysia as a whole, were "seriously unaffordable". A ratio of 3.0 and below is considered "affordable".

"There's also a lack of inventory in the market, especially smaller and lower-cost homes, thus exacerbating the supply and demand imbalances, with majority of property launches in the price categories above RM250,000," he adds.

Sunway University Business School economics professor Dr Yeah Kim Leng opines that the widening income-price gap caused by the escalation in house price is a major barrier to home ownership.

"Housing prices have increased by double-digits during the 2011 to 2014 period while annual income growth averaged around 5% to 6%. The rising cost of living has also contributed to reduced individual savings, thereby accentuating the difficulties faced by first-time homebuyers," he explains.

He stresses that without adequate savings to pay for the remainder of the 80% to 90% loan-to-house value (LTV) and without sufficient income to service the monthly mortgage payments, owning a home is beyond the reach of many low- and middle-income households.

How does the RTO work?

To address this issue, both economists concur that the RTO concept may be a viable way to help middle-income earners purchase their first homes.

Interestingly, the newly announced Budget 2018 has put emphasis on boosting the residential rental market. It proposed a 50% tax exemption on rental income for residential properties up to RM2,000 a month to Malaysian residents residing in Malaysia. The government also proposed the formulation of a Residential Rental Act to protect both tenants and owners.

Yeah believes the current timing is right for the rollout of RTO or similar schemes in view of high housing prices and unaffordability to many Malaysians saving to acquire their first home.

“It will expand the financing channels for more homebuyers and facilitate access to home ownership to a broader segment of the population,” Yeah adds.

Meanwhile, Lee says an RTO programme could be a feasible option to help those with little savings for a down payment on a home.

The RTO mechanism could simply entail a buyer entering into a rent-to-buy contract with a seller (property developer), whereby he or she can rent for a specific period and then, has the option to purchase the property at a pre-determined agreed sales price at the end of the rental period. A portion of the rent is often credited to the sales price.

Such plans are appealing to those who are unable to fork out the initial down payment, as they could slowly accumulate their savings and qualify for mortgages later.

On the feasibility of RTO, the Association of Valuers, Property Managers, Estate Agents and Property Consultants in the Private Sector Malaysia (PEPS) president Foo Gee Jen notes that such a concept has its pros and cons for both parties — the companies that introduce the scheme as well as for the buyers/borrowers.

“It would only work when housing prices are trending up. During this time, it could offer an option for the young wage earners who don’t have good credit standing to lock up a unit at current price levels,” he says.

He opines that the current market may indeed welcome the introduction of RTO schemes as the market has ample supply of empty residential units due to the current slowdown brought on by cooling measures and global economic uncertainties.

“There is a need for tenants to come in to fill in the empty houses. However, the majority of us may prefer to own and not just rent, hence the RTO could be a viable way for potential buyers who can’t secure a housing loan to ‘own’ a house via renting it initially while building up their credit score in the next two to three years,” he explains.

“RTO will be a good initiative to help city dwellers to own a home in the current ‘unaffordability’ situation. But it will be better if it’s government-driven so [that] the majority of the middle-income earners could be taken care of,” he stresses.

Foo adds that an RTO scheme could also be a catalyst to the recovery of the property market.

Although RTO schemes could help identify genuine homebuyers as well as help the middle-income group own a house easier, Foo points out that such schemes could involve heavy financing and may be more effective if it is led by the government.

Government, developers and banks

A few property developers have already introduced RTO schemes to the market, hoping to rope in potential buyers. However, Foo notes that RTO schemes may not be a favourable option for developers as it will impact their cash flow and it could be quite risky to homebuyers, especially if the scheme is introduced by unestablished developers without a good track record.

Lee from SERC suggests that the authorities could possibly work in tandem with the private sector to make an RTO scheme viable. For instance, the government-initiated affordable housing programme backed by a panel of banks can kick-start the RTO concept as a pilot scheme.

“The banks are likely to participate in the scheme as long as it does not impair their asset quality. Perhaps, the developers with a strong financial balance sheet can work out the RTO scheme with their bankers to help facilitate such a plan to those eligible house buyers,” he says.

However, he also advises all parties, including buyers, sellers and financiers, to protect their interests through legal contracts, by making sure they understand the specific provisions and risks the contracts entail.

In terms of implementation, Yeah from Sunway University says the government, developers and the financial institutions should be exploring RTO programmes, both individually and in partnership, to see how best they can serve the different market segments and housing needs of the people.

Developers with large capital reserves may be attracted to take part in such a scheme to facilitate sales as well as to fulfil the government's clarion call for developers and banks to assist in raising the country's homeownership rate, especially among the low and middle-income groups.

Yeah also notes that the benefits and costs of the RTO option will have to be clearly defined and understood by all stakeholders, particularly the young salary earners.

"A properly designed RTO scheme will enable first-time house buyers to afford homes without exposing them to excessive financial risks and unexpected events that could disrupt their income and spending patterns," he emphasises.