Housing remains a clouded issue

It is left to be seen if crowdfunding will be the panacea

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AMONG the property-related measures in Budget 2019, the attention grabber has been the property crowdfunding platform. The government's willingness to explore technology-enabled platforms as an alternative source of financing for first-time house buyers generated strong emotions.

The launch of FundMyHome two days later heightened excitement, with even the former Prime Minister Datuk Seri Najib Tun Razak – despite his many personal woes – pitching in.

The scheme enables buyers to begin the house ownership journey with 20% of the house price. The balance 80% will be fulfilled by potential investors via a peer-to-peer property crowdfunding exchange.

The financial innovation, said to be the first in the world, is expected to begin in 2019.

According to research house Kenanga, this scheme could be a swing-factor for the sector. Maybank Kim Eng calls it "a game changer" and it will help developers to achieve better sales and reduce unsold units.

Since Jan 1, 2014, sales have slowed after the banning of the highly-popular interest bearing scheme.

But it was from 2016 that developers began to whine and howl as inventory built up and unbilled sales decreased.

The crux of today's housing woes is high house prices and low household income.

Some developers have lowered prices, but the move is not enough to support demand while raising income will take time.

The crowdfunding platform, an alternative source of funding, circumvents strict lending guidelines and is a lot simplified than the traditional way of funding.

Who are its target audience?

It is open to first-time Malaysian house buyers 18 years and above. It connects buyers with institutional investors. Participants, or buyers, can own a house by paying 20% of the price. The balance 80% is funded by participating institutions like Maybank and CIMB.

Who is the main driver?

Malaysia's first privately-driven house buying crowdfunding platform FundMyHome is driven by the EdgeProp Sdn Bhd, a subsidiary of The Edge Media Group. The Securities Commission (SC) will review the proposed structure and guidelines to facilitate its establishment.

How does it work?

A one-time payment, amounting to 20% of the house price is required. The buyer need not pay anything for five years. The remaining 80% is funded by institutional investors.

The buyer can rent-stay during the five years. Six months before the fifth-year ends, the property is valued independently to determine its market price. So far, there is no mention of who pays for the valuation report. The buyer can opt to sell or refinance the house.

If the price has appreciated, the developer takes the first bite of 20% of the gain. The balance is shared between buyer and investors.

If the price has decreased, the buyer bears the first 20% before it hits the investor.

If he wants to go through with the deal, he can roll over the scheme again through the portal, or buy up the remaining 80% at the then-prevailing market price.

What is the role of Maybank and CIMB?

They contribute to the 80% of the home price, so they share the returns, or losses from the changes in the future value of the house. They may play the role of financier if the buyer decides to refinance the house after five years.

Who are the investors?

For now, there are only institutional investors. The annual return is 5%, with capital gains after five years when the property is sold or refinanced.

If price depreciates, the buyer is the first to bear the loss.

Who are the developers?

About 1,000 units priced below RM500,000 have been completed or are nearing completion from nine developers namely EcoWorld, UM Land, IOI, Mah Sing, PKNS, PNB Development, Sunway, Trinity Group and UEM-Sunrise.

How is it that FundMyHome can be launched just two days after Budget 2019?

In an open letter to former Prime Minister Najib, EdgeProp Sdn Bhd chairman Tong Kooi Ong said the company had "thought long and hard in the past few years about finding a solution to help Malaysians, especially those with young families, who desire to own a home instead of renting.

"After crystallising our idea, we took it to the government and have been engaging the various regulators in the past several months, culminating in having the idea included when the budget was tabled in parliament on Nov 2.

"FundMyHome does not require regulatory approval as the financing of the scheme is open only to institutions and not the retail public. Approval for retail public participation as investors will be required and we will work with regulators to have this done by the first quarter of 2019."

Maybank's rent-to-own scheme HouzKEY has been compared with FundMyHome. Under HouzKEY, the bank owns the house.

If there is repayment issue, it is the bank's property and remains so until the customer "migrates" to being a Maybank mortgage customer.

Customers enter this rent-to-own scheme with the aim they will be the owner later on, although some may decide not to.

Divided views

Views are clearly divided. Irrespective of which side one is on, almost everyone is waiting for the details in anticipation.

Suresh (not his real name), a 20-something earning about RM3,000 a month awaits in eager anticipation.

He has set his sight on a house which cost about RM500,000. If he were to be guided by the three-times-his-income calculation (3,000 x12x3) he can only buy a RM108,000 unit. Even a public housing apartment costs more than that today.

He has the initial 20% of RM100,000 for the RM500,000. His father will help him.

After five years, his father reckons his son's salary would double or triple.

"If it does not, there must be something wrong," says his father.

Johor Baru-based VPC Malaysia property consultant Bruce Lee says the model is "more efficient and cost effective because it bypasses the banking system."

A drawback is ownership. "It is difficult to define who is the owner," says Lee.

Institute for Democracy and Economic Affairs (Ideas) fellow and economist Carmelo Ferlito says the scheme has to be understood as an investment scheme, not an ownership facilitator.

"So far, the product has been mismarketed. People has to understand that they do not become owner with 20%. They still need to get the money to pay the remaining 80%, after five years, if they want full ownership," he says.

"It is necessary to present the product for what it is, and there is a need to help people to understand the scheme and what they will face (later on).

"The government should also clarify the legal and institutional framework surrounding the scheme," Ferlito says.

He divides three groups who are for it.

"Those with a high propensity for risk. The scheme is an investment scheme, rather than an ownership. The second group are those who are unable to get a loan now, but they have positive expectations for the future and they believe they will be able to do so in five years.

"The third group are speculators who may be interested not only in buying the 20%, but also in financing the 80%. They are betting on market evolution," Ferlito says.

The Association of Valuers, Property Managers, Estate Agents and Property Consultants in the Private Sector Malaysia (PEPS) says the entire premise of the scheme makes capital appreciation a fact.

"Over the longer term of 10 to 15 years, that has shown to be the case in Malaysia, although in some countries, prices of properties have known to have fallen and remain weak for a long time," says PEPS president Datuk Siders Sittampalam.

Instead of viewing a house as a basic need, to provide a roof over one's head and to house the family, it has become an investment tool offering a 5% yield for investors with further potential upside, says Siders.

A source says the scheme smacks of "new untested risk".

"When a developer takes the risk to build, whether it is residential or commercial space, he must also bear the risk. Instead, what we are seeing is the proposal to have an alternative way to fund a purchase without addressing the fact that house prices are too high.

"Instead, it is created to help a group of people who cannot get a normal housing loan to buy and this is were the 'untested risks' come in," the source says.

Maybank Kim Eng Research says the crowdfunding platform would help to boost sales and would be a catalyst for the sector over the short-term.

RPGT a damper

While the FundMyHome platform has whipped up a whirlwind, the rise in real property gains tax (RPGT) is expected to be a damper on the market.

Siders says raising the RPGT is "not sending the right signal to the market. If you are buying a property for own occupation, you will not be bothered but this will discourage investors," he says.

There are two issues. First, the need to reduce the huge overhang of RM22bil. Second, the RPGT frustrates the investors' market. Over the longer term, there will be less units for rental, which affects the rental market.

Siders says the rationale behind RPGT is to curb speculation.

"We have gotten rid of that with the removal of interest bearing schemes, so there is no need to fiddle with RPGT," he says.

Maybank Kim Eng says they were "negatively surprised" by the imposition of an additional 5% on RPGT for the disposal of properties/shares in property holding companies after the fifth year.

It says the additional 1% in stamp duty on the transfer of property valued at more than RM1mil is milder-than-expected and it should not affect foreign buying in Malaysia significantly.

Kenanga says "such measures (RPGT) do cast a slightly negative sentiment on property investments, particularly for the higher-end market which are typically foreigner/investors-driven and this market has been rather soft for quite a few years now."

Outlook for 2019

Analysts and property consultants concur there will not be many changes in terms of the market picking up next year, although political sentiment remains largely positive.

"The focus will remain on affordable housing. Bank Negara is setting up a RM1bil fund to help those buying houses costing RM150,000 and below. So the government is serious about helping. At the same time, realism and reality has set in.

"Prices are no longer set by developers. The market is setting the price now," says Siders.

The market will readjust given time. This will not be easy, but give it time, he says.

As to whether the budget is good for the sector, the general consensus is that "it is as good as it can get."

Real Property Gains Tax (RPGT)

Year of disposal	Current rates (%)			Budget 2019 (%)		
	Individual	Company	Non-citizen/ permanent resident	Individual	Company	Non-citizen/ permanent resident
Within three years	30	30	30	30	30	30
In 4th year	20	20	30	20	20	30
In 5th year	15	15	30	15	15	30
After the 5th year	0	5	5	**5**	**10**	**10**

Source: Real Property Gains Tax Act 1976 (Act 169) & Order/ Budget 2019

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