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Rent-To-Own

Has the introduction of the RTO helped in re-energising the property market? Do first time home buyers really benefit? All these and more inside.

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INSIDE THIS ISSUE

How Other Countries Approach Rent-To-Own Schemes

A global effort to increase home ownership

By **VIGNESWAR RAJASURIAN**
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THE arguments for owning real estate assets are well established. As time passed and property prices soured, the counter-arguments for renting became more compelling to a generation who found themselves priced out of the market.

Undeniably, owning a home provides greater security, wider powers of use and an appreciating capital asset. Yet, homeownership is a long-term commitment and requires a large deposit in addition to an overbearing mortgage from a financial institution.

Rather than grapple with a binary choice of buying or renting, innovative rent-to-own (RTO) schemes offer the perks of homeownership coupled with a lower barrier to entry and the flexibility of home rental. If contemplating whether to rent or to buy, the question now should be, why not both? Here are how several nations deal with their RTO versions.

ABOVE Apartment blocks overlooking False Creek in Vancouver, Canada.

Canada

Canada takes a more liberalised approach to the RTO program. Its RTO arrangements are made with the owners/landlords so are potentially available for any home in the market. Key components of the arrangement may vary, depending on the terms of the contract between landlords and tenants as well as provincial laws.

Tenants either sign an option-to-purchase agreement or a lease-purchase agreement depending on the landlord's offer. The former is more common and accords a choice to purchase the property at the end of the rental period, whereas the latter is an obligation. Either of these agreements will be supplemented by a lease agreement, much like a typical rental contract that usually lasts between three years and five years.

SEE PAGE 6

EVENT HIGHLIGHTS

Malaysia's got green talent

The StarProperty Gardening Contest has seen an overwhelming response, proving that many Malaysians have green fingers. To reward our participants, 30 winners are in the process of being selected by our panel of judges. Each winner will receive a goodie bag containing a large moulded Pafcal with Pafcal chips and Vegetory seeds to grow a micro radish.

Alongside all these leafy goodness are our sponsors, Midorie and Vegetory, who are instrumental in making this fun activity possible. The winners will be announced next week, so stay tuned for the good news. Also, do hang about in StarProperty's social media page as there are more exciting contests to come.

StarProperty Property Fair is back with bigger and better deals

Year 2020 has been a long year indeed, with the Covid-19 pandemic and subsequent movement control order (MCO) impeding your hunt for that perfect home. But fret not, as StarProperty is back to showcase some of the best properties and projects, all curated by the top developers of the nation.

StarProperty's first fair after the MCO will be held this Sept 24 at the Sunway Velocity Mall, and there are bound to be many fun-filled activities and free prizes to be won. With our 2020's Win Kaw-Kaw, it is a trinity of possibilities. You get to win lucrative prizes simply by visiting, or booking or purchasing a property. It is that easy. And keep your worries in a box. StarProperty is strictly adhering to all the standards of procedures to ensure the safety of you and your family. So, see you there.

Developers interested in participating in the fair can call us at 79671341, or email to events@starproperty.my.

StarProperty
FAIR 2020
SUNWAY VELOCITY
24-27 SEPT
10am-10pm

Don't miss out on our special pullout this August

The Home Ownership Campaign (HOC) has been reintroduced to support homeownership as well as encourage the sales of unsold properties in the market. In conjunction with this campaign, StarProperty.my is releasing a special pullout this August to address all the key highlights and concerns regarding the HOC.

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PULLOUT

HOME OWNERSHIP CAMPAIGN

which ran throughout 2019, has been reintroduced to support particularly first-time homebuyers looking to purchase property and encourage the sales of unsold properties in Malaysia's housing market.

ADVERTISE WITH US

In conjunction with this, StarProperty is publishing a Special HOC Pullout and a booklet to be distributed during its events and fairs as well as those organised by Perfect Livin. In addition, StarProperty will also be launching a HOC 2020 Digital Fair to help developers maximise their leverage on this campaign.

StarProperty firmly believes that HOC, which is expected to carry the same set of benefits as previously, will resuscitate the property industry, especially with the additional incentives given by the Economic Recovery Plan (Penjana).

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SCAN FOR MORE INFO

Is the RTO a white

The scheme has gained momentum as other financial institutions joi

By JOSEPH WONG
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THE rent-to-own (RTO) scheme has been garnering a strong response since its first introduction to the market by Malayan Banking Bhd (Maybank) in 2017.

But it was with Budget 2019 that RTO came to be tauted as one of the main instruments to re-energise the property sector, which since 2012 has experienced a slowdown. One of the plans shared by the government during the Budget announcement was to allow other banks and financial institutions to offer the RTO scheme.

To ensure that first-time homebuyers are able to gain a 100% loan, the government is working with financial institutions for this scheme to assist those who are unable to pay the 10% deposit and to secure the access of home purchase financing.

Under the RTO, these young buyers can rent for the first five years, with the option to buy at the price stated in the RTO agreement.

Coupled with incentives given by the re-introduced Home Ownership Campaign (HOC) 2020, the RTO might prove to be a tempting offer for many first-time homebuyers. Naturally, there are pros and cons (see table).

For example, late payments might cost them to lose their rights to own property. And unlike rented homes, the property upkeep costs like maintenance might have to be covered by the potential buyer.

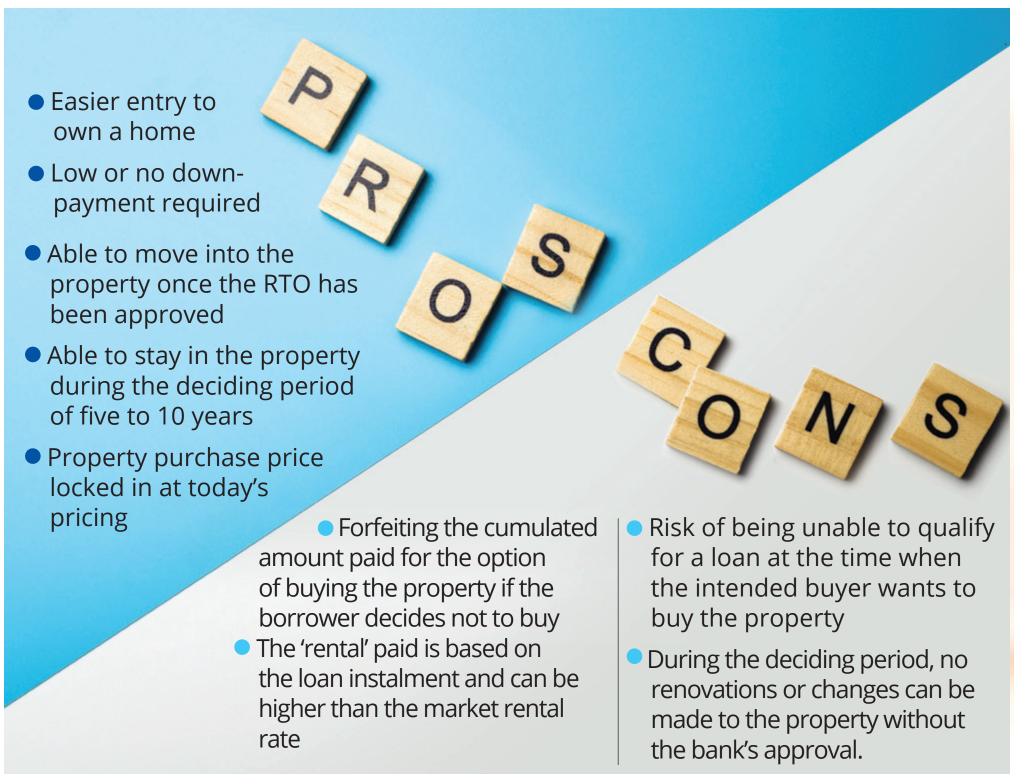
In reality for RTO deals, a certain percentage of the monthly rent paid is supposed to be credited to the property purchase to build up the supposed 10% deposit via the savings accrued over the five or 10-year rental period.

But that is not the case with the RTO scheme offered by the banks. According to a Maybank loan officer, the rental amount is the same as the monthly instalment payment. For example, a RM500,000 home calculated at 4.5% over a 30-year duration equals a RM2,533 monthly instalment.

At the end of the five years, if the potential homebuyer decides to exercise the right to buy the property, the monthly instalment remains the same throughout the remaining 25 years.

More than one scheme

To date, there has been three variants of the RTO schemes in Malaysia. One variant is offered by the banks and another is the FundMyHome scheme. Perbadanan PR1MA Malaysia (PR1MA) used to offer two versions of RTO in the past but these two schemes have ceased.



The RTO operates on a lease-purchase concept between a buyer and a bank. The buyer will rent the property for a duration of five to 10 years with an option to purchase at the end of the contract period.

Buyers be wary

Because of this, the RTO has had its fair share of controversies as unprepared buyers end up being taken advantage of due to the lack of information. Like all contracts, homebuyers need to be careful of the conditions stated in their agreement.

For financial institutions, most will be packaged similarly to Maybank's HouzKEY scheme. Maybank Real Estate Ventures managing director Sally Lye explained that through HouzKEY, buyers are able to lock in today's property prices for the next five years.

"We believe that there is a growing desire for homeownership amongst Malaysians, however, housing unaffordability remains a major hurdle for people intending to own a house. Driven by Maybank's humanising mission, we came up with an inventive home financing solution called HouzKEY."

"HouzKEY is a unique offering that provides customers the ability to own property without burdening them with the high upfront cost. We hope that our product will assist customers to overcome this obstacle and provide them with the opportunity to become a homeowner," she said.

Other financial institutions are joining the fray as they too realise that this market segment has much potential to be tapped.

PR1Ma's RTO scheme was the closest to those practised by other developed nations. Under the now-defunct RTO schemes, those eligible could rent the PR1MA home up to 10 years before deciding on buying it at the end of the fifth and tenth year at a pre-determined price. There were two schemes offered at the time - Basic RTO and Zero RTO. As great as the deals sounded, it is unfortunate the PR1MA RTO schemes have ceased.

FundMyHome works differently as well. With this scheme, potential homebuyers pick a house from the participating developer and pay 20% of its value upfront. Since the scheme is tied in with financial institutions, the remaining 80% is funded by them. After five years, the potential homebuyer has to decide to keep the property or sell it.

For example, for a house that costs RM300,000, the potential homebuyer has to pay RM60,000 and the financial institution will fund the remaining RM240,000 for you. Should the potential homebuyer decides to buy the property at the end of five years, they will have to refinance the differential sum of RM240,000 plus the appreciation value of the property.

Assuming the property appreciates by 30% or RM90,000 in five years, the sum to be refinanced will be RM324,000. This figure is derived from RM390,000 minus RM66,000 (RM6,000 being the share of the change in value plus the initial RM60,000). Should the potential buyer decides to sell the property, then he or she will receive RM66,000 for his or her proceeds.

Currently, though, only a handful of developers are offering homebuyers such a scheme. Most are trying to assist homebuyers by providing loan bridging for the end financing

knight?

in the fray

of the property purchase.

For some, this is a way to come up with the 10% deposit to bridge the 90% financing given by financial institutions, but the National House Buyers Association (HBA) is of a different opinion.

HBA is firmly against developers being allowed to provide loan bridging financing or differential sum financing to house buyers. HBA secretary-general Chang Kim Loong has often describe such financing as "a wolf in sheep's clothing".

The reasoning is that this type of financing scheme will encourage some developers to further sell properties at higher prices to first-time buyers and property speculators as these developers will have additional avenues to 'assist' buyers who cannot get the full 90% financing.

Most of the terms of such differential sum financing require the borrower to service interest for the first three years of the loan, followed by a bullet repayment of the entire sum at the end of the third year.

HBA is concerned that by only having to service the interest and not the principal amount, such scheme only encourages speculation and not genuine homeownership.

In addition, such schemes adds more systematic risk to the banking sector as these forms of financing does not appear in the Central Credit Reference Information System (CCRIS) maintained by Bank Negara.

That's why HBA believed that a wider and more holistic RTO is required to include even the middle-income segment in Malaysia.

While the RTO is not without flaws, if correctly implemented with sufficient units being offered at the right place and at the right price, and with the right selection process, it has the potential to help many first-time homebuyers. Only then, will the RTO be herald as a white knight.

"We believe that there is a growing desire for homeownership amongst Malaysians, however, housing unaffordability remains a major hurdle for people intending to own a house.

– Maybank Real Estate Ventures managing director Sally Lye

FROM PAGE 2

ABOVE Overview of Tin Shun Wai town in Hong Kong.

Under most RTO agreements, tenants pay a non-refundable but negotiable deposit (typically between 2% and 5%) that can contribute in part or whole to the eventual purchase of the home or be forfeited if the option to walk away is exercised. A fixed final asking price is usually included in the agreement although some landlords opt to negotiate the price upon expiry of the lease instead.

Besides working towards ownership, the lease period allows individuals to improve their credit rating over the years then apply for a traditional mortgage as well as save up a sizeable sum. Here is where the program gets interesting - when it comes to the monthly payments, tenants pay the rental fee and an additional sum that contributes to the home equity and eventual downpayment of the property.

Here is a case in point for a three-year lease period (36 months):

Final Asking Price Locked In
C$300,000

Upfront Deposit (2.5%)
C$7,500

Monthly Payments
Rental Fee: C$1,000
Downpayment Sum:C$500
Total: C$1,500

Monthly Downpayment Sum At End Of Rental Term
(C$500 x 36 months)
C$18,000

Remaining Mortgage At End Of Rental Term
(C$300,000 - C$18,000 - C$7,500)
C$274,000

As the three-year lease ends, a prospective homebuyer would have invested C$26,500 by virtue of the upfront deposit and monthly downpayment sum towards the overall value of the property at the cost of giving up C$36,000 in rent.

Unlike an apartment rental, some RTO agreements nevertheless require tenants to handle upkeep and maintenance. Rental fees, combined with other homeowner related costs, may potentially cause the tenant to end up paying more than how much the home is actually worth.

South Africa

South Africa's RTO model is similar to the Canadian approach, although it remains a less conventional way of property ownership. Cost of monthly payments that include sums towards the home downpayments do end up lower than the average mortgage bond.

The arrangement helps potential buyers who are unable to secure a mortgage bond, to work on building up credit health while contributing to lower the purchase price of the home. The difference here is it may seem that repairs and upkeep may still fall under the ambit of the landlord in South Africa. In this instance, landlords and sellers still gain with reduced maintenance costs as tenants with a view on future ownership are more inclined to keep the property in good condition.

Hong Kong

According to statistics portal Statista, Hong Kong remains the most expensive residential property market worldwide with an average property price of US$1.25 mil. The government provides public housing for lower-income residents, so evidently, nearly 45% of the population lives in public housing. It is no surprise then that housing policy measures have also included RTO schemes.

In 1998, the Housing Authority (HA) launched a Tenant Purchase Scheme (TPS) although some news sources do cite variations of RTO schemes in Hong Kong as far back as the 1970s. TPS was introduced as part of a government pledge to aid at least 250,000 families living in public housing to purchase their flats, with the objective of achieving a 70% homeownership rate in Hong Kong by 2007.

The scheme allows tenants to purchase the flats at a discounted price, with special credits given for purchase within the first two years of tenancy. Protection benefits include in-flat maintenance requests being carried out prior to sale and the HA providing a seven-year structural safety guarantee as well as contributions to a maintenance fund.

The scheme also included a safety net where a flat owner who faces sudden changes in family or financial circumstances within five years of the date of reassignment may apply to revert to tenant status upon the sale of the flat to HA. For scenarios taking place five years after the date of reassignment, the owner of the flat which has been taken over by the mortgage bank may apply for compassionate rehousing - whereby the flat owner will resume tenant status at another public rental housing flat. Note that these safety nets are only granted upon approvals from the Welfare Department and Housing Director.

However, the TPS scheme was discontinued in 2005 after major reviews to housing policy took effect, but the option to purchase still applies for tenants under the TPS agreement.

Sweden

While not entirely an RTO scheme per se, the unique Swedish approach to rental and ownership is worthy of mention. For ages Sweden had its homegrown tenancy arrangement dubbed the tenant-ownership model (Bostadsrätt). Arising from an era of rapid industrialisation when local councils were overwhelmed by the migration of people into urban areas that lacked proper town planning, tenants traditionally funded their own housing cooperatives (Bostadsföreningar) that built houses for their members.

To solve the housing issues, the voluntary associations were prescribed legal identities backed by the state. Members leased the property from the association but enjoyed rights near equal to ownership such as the freedom to upkeep and modify interiors, hence the term tenant-owners. The association functioned like management committees, and members collectively attended to issues of maintenance for the external facade and common areas.

Financial charges levied on tenant-owners are moderate with an initial capital contribution and an annual service fee for maintenance or administrative costs. The association may contract the loans for the property, which results in the purchase price excluding the mortgaged part of the property's value. Despite involving individual funds, tenant-owner apartments are heavily sponsored and subsidised by the welfare state, which makes it a variation of public housing.

Owing to its historical origins, tenant-ownership schemes are also usually founded by future tenant-owners as opposed to profit-oriented private developers. These factors mean tenant-owner apartments are consistently cheaper in terms of average monthly cost compared to rented apartments.

As with the complications that arise from strata living, this form of ownership also presents its own distinct challenges. Yet the model is attributed to smoothing social and economic inequalities by providing relative security of title, owner-like powers and low running costs that bring it well within reach of the general population.

All Roads Lead To Rome

Much like the proverb, it can be observed, however, that the RTO approaches vary in other nations despite the common intention of easing homeownership. Be it an innovative mortgage solution, an agreement with landlords that excludes financiers or a part of comprehensive public housing policies - the crux of the matter is that RTO schemes undeniably bring a third alternative to the table and make homeownership a more viable reality for struggling homebuyers.

Ultimately, neither of the approaches discussed here is without its respective risks and rewards. Due diligence is needed before committing to any rental agreement or homeownership scheme.

Types of housing loans available

Borrowers have multiple choices

By **VIKTOR CHONG**
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THERE are many housing loans available in the market other than the much-publicised rent-to-own (RTO) scheme that has been in the market for the last couple of years.

While the RTO is offered only to first-time homebuyers, it does not mean that borrowers will buy into what the RTO scheme is offering.

Those who are not keen to lock in their purchase early with an RTO scheme can explore the multitude of housing loans available to facilitate their purchase. Since these options possess different characteristics, borrowers will have to fit them according to their varying needs or situation.

Moreover, they will have to do their due diligence as each bank may have 'sweeteners' that would provide them with a better match.

Fixed-Rate Loan

Decades ago, the fixed-rate loan is the most common in Malaysia, mainly because the banking system wasn't advanced enough to handle flexible payments. As suggested by its namesake, the interest and loan instalment rates are fixed throughout the loan tenure, effectively removing any form of ambiguity.

However, the rigid structure allows little room for financial manoeuvrability, since borrowers cannot make prepayments to reduce their principal sums. In fact, settling a loan earlier than the agreed period will incur a penalty fee, which averages at around 3%.

Notwithstanding the inflexibility, the fixed-rate loan protects borrowers from a spike in their monthly instalments, which may be affected by a future rise in interest rates.

Due to the flexibility afforded to the borrower, the semi-flexible loan has become more ubiquitous nowadays, replacing its older counterpart.

Semi-flexible loan

Unlike a fixed-rate loan, a semi-flexi loan allows the borrowers to make advance payments to reduce the principal amount payable, thus, saving up on the interest amount. This characteristic makes it rather appealing to borrowers who have additional cash to spare.

Even so, borrowers will incur some hassle when withdrawing cash to settle any unforeseen obligations as they can only extract the excess amount that have been paid in advance.

To extract the additional payment made, borrowers need to make a request to the bank, and this will likely incur some processing fee or penalty charges. Due to the flexibility afforded to the borrower, the semi-flexible loan has become more ubiquitous nowadays, replacing its older counterpart.

Full-Flexi Loan

The full-flexi loan functions similarly like a semi-flexible loan, where borrowers can make advance payments to reduce their interests. But instead, the borrowers' ability to withdraw their money is simplified by having a current account attached to the loan.

Every month, the instalment is deducted from that account, and additional money entered into it can be used to reduce the principal amount outstanding. Also, you do not incur penalty charges when making withdrawals.

Islamic Loan

Islamic loan distinguishes itself from the three conventional loan types by not charging interest, commonly known as Riba in Islam. Instead, the loan operates as a purchase and resale, by buying the asset and leasing them back to the borrower.

Here, each borrower pays the instalments until the end of the tenure. Upon completion, the ownership of the asset is then transferred to the borrower.

Government Loan

Probably the friendliest loan available on the market, but the borrower needs to be a government servant or in some cases, employees in government-linked companies. A government loan provides some of the best attributes, such as lower interest rates and monthly instalments, compared to the loans offered by the banks, not considering special subsidies.

Some government loans even provide 100% margin of financing, meaning that the borrower does not need to pay a down payment. The loan instalment payment is automatically deducted from the salary. Further on, government loans are notorious for being hard to obtain, as there are many criteria to be fulfilled.

Some government loans even provide 100% margin of financing, meaning that the borrower does not need to pay a down payment.