Why alternative solutions like FundMyHome are worth considering

BY **CINDY YEAP**

High home prices are an issue even in developed countries where the average wage earner is paid a lot more than Malaysians.

Malaysia's RM5,228 median household income in 2016 means RM188,208 should be the maximum affordable house price, using Demographia International's Median Multiple (MM) method, where a house is considered affordable if it is less than three times the household median annual income — a level Malaysia and many parts of the world has not seen since 2004.

The bottom 40% of households (B40) can only afford homes priced up to RM108,000 each while the middle 40% households (M40) can afford up to RM225,900, based on their median monthly household income of RM3,000 and RM6,275 respectively.

That is some way below Malaysia's average all-house price of RM387,258 as at end-2016, according to data from the Valuation and Property Services Department (JPPH), *The Edge* wrote in October 2017.

Some 41% or 2.23 million urban households earn less than RM5,000 a month but Malaysians would have to earn RM10,757 a month for the average house price of RM387,258 at end-2016 to be "affordable" under the MM method, instead of being "severely unaffordable" at 6.17 times income.

As it is, households earning below RM2,000 a month spend 94.8% of their income and only have RM76 left over for emergencies or savings at the end of the month, according to a recent report by Khazanah Research Institute.

The same study found that households earning below RM3,000 a month spend over 80% of their monthly income while those earning below RM5,000 a month spend at least 70% of their income on necessities in 2016. While those earning above the median household income of RM5,228 have a bit more flexibility with up to 67% going to household expenditure, their residual income is actually lower after taking into account income paid as taxes and compulsory social security schemes.

A key takeaway from the Khazanah research is that housing and housing-related items take up the largest share of household expenditure at 28.2%, way above the 18% for food at home and 13.7% for transport. All three take away six out of every 10 ringgit earned every month.

Raising disposable income

Income can only increase over time and has to come with higher productivity, which results from education, training and reskilling.

Reducing the cost of housing and transport, which makes up 42% of household expenses, can also help increase disposable income for people who do not have much money left over after accounting for rent/mortgage, food and transport.

This concept was highlighted in Budget 2019 and addressed through a fixed monthly transport card as well as the private sector-driven property crowdfunding platform, which Finance Minister Lim Guan Eng said only serves as an alternative source of financing for first-time home buyers.

The government "will continue to support the construction and completion of affordable homes", with RM1.5 billion allocated for that in Budget 2019. Bank Negara Malaysia is setting up a RM1 billion fund to help those earning below RM2,300 a month become first-time homebuyers for houses up to RM150,000 at lower than market financing rate of 3.5% per annum. First-time homebuyers buying residential properties under RM500,000 will also be exempted from paying stamp duty on sales and purchase and loan agreements for up to RM300,000 through December 2020, Lim said when tabling Budget 2019 on Nov 2.

The government also wants property developers to pass on to consumers the benefits of cost savings from the Sales and Services Tax (SST) exemptions given to construction and building materials by reducing the prices of new homes. Certainly, there is always room for improvement.

An example of a private-sector driven property crowdfunding platform is FundMyHome, which hopes to help Malaysians, especially those with young families, own their homes instead of renting.

It "will not require government funding, concession or guarantees", says Tong Kooi Ong, chairman of EdgeProp Sdn Bhd, in an open letter to former prime minister Datuk Seri Najib Razak. Tong is also chairman of The Edge Media Group, which owns *The Edge*.

Under FundMyHome, investors (currently institutions and not individuals) pay 80% of the property price, gets 5% guaranteed yield on their investment a year for five years, and have 80% share of the upside in property price if it appreciates after five years.

Buyers pay 20% of the property purchase price but gain full utilisation of the property for five years, thus saving on rent and may even earn some rent towards a down payment or take a mortgage after five years.

The buyer also gets 20% share of the gains if the property appreciates.

If buyers can afford to pay 20% of the house price, there is nothing stopping them from getting a loan for the whole house instead of opting to get an 80% financial partner under FundMyHome. The government has also said it will continue to fund affordable homes.

A key difference between FundMyHome and conventional home mortgage is the size of the loan the home buyer commits to on day one. Someone earning RM3,000 a month, for example, is more likely to be given a RM60,000 loan (20% of RM300,000) versus a RM300,000 loan.

A RM60,000 personal loan at 5% interest over five years would cost RM1,250 a month, and incur interest of RM15,000 over five years. The RM60,000 loan would only need RM1,000 a month to service at zero interest.

FundMyHome gives the option for someone already paying that much on rent every month to pay towards a 20% share of the property instead of contributing to someone else's. Alternatively, the buyer would also have a property with which to earn rental income for five years.

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Increased disposal income will free up resources to raise savings or boost consumption

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What about the step-up financing scheme offered by Perbadanan PR1MA Malaysia when 60% of PR1MA home buyers could not get conventional loans approved?

Under the Special PR1MA End Financing (SPEF), someone earning RM3,000 a month would only be able to get a RM187,000 loan under conventional financing but would be able to borrow up to RM283,200 under the step-up financing scheme plus withdrawals from Employees Provident Fund (EPF) savings.

Based on PR1MA's illustrative monthly payment of RM1,096 (Year 1 to 5) and RM1,615 (Year 6 to 35) for a 35-year SPEF loan of RM238,200, the total interest cost would come up to RM363,993, bringing the total loan cost to RM647,193, or 18 years annual income for someone earning RM3,000 a month.

While real estate is generally seen as an appreciating asset, there is no guarantee the value will go up. Not tapping one's EPF savings to help fund a larger mortgage than what one's salary can currently afford also allows the compounding effect and EPF dividend to work earlier towards old-age savings.

To be sure, if a RM300,000 property under FundMyHome appreciates by 20% after five years, the owner would still have to take a RM300,000 mortgage to buyout the 80% investor because the property would now be worth RM360,000.

But someone earning RM3,000 a month today would also be earning closer to RM4,000 a month in five years, if his or her salary grows by 5% a year, and he can better afford a larger loan. The knowledge that one would have to save enough money to afford a loan for the 80% after five years can also be an added motivation for savings and more prudent spending.

The property can also go under another five years of FundMyHome if investors are interested to continue, with the buyer only needing to top up if the value if his or her share is not enough to cover 20% equity.

As a loan for the 20% share of the property is based on one's current income, the issue of subprime does not arise as the loan for 20% of the property is not a mortgage and is not a debt the buyer cannot afford.

That said, even a 20% stake comes with some risk, as with any investment. If the value of the RM300,000 house falls by up to 20%, the buyer's RM60,000 equity share of the house will be lost in proportion to the decline and he or she would still need to buy out the investor's 80% share at RM240,000 after five years, or walk away from the deal. If the house price falls by 30%, or RM90,000, to RM210,000 after five years, the buyer would only need to take a RM210,000 loan to buy out the 80% investor, or walk away.

The homeowner will bear all third-party costs, such as agent fees related to the sale, including the cost of the valuation of the property after 4½ years, according to details on the FundMyHome website.

For now, concerns that the platform could fuel property speculation may be tempered by the fact that FundMyHome is for first-time homebuyers and properties priced below RM500,000. Only institutions can be the 80% investor, pending details from the Securities Commission of Malaysia on the peer-to-peer financing framework that is being finalised to enable the wider public to come in as investors.

In the meantime, the increased disposable income for buyers as a result of having to spend less on home mortgage in the first five years will free up resources that can help raise national savings or private consumption to boost the nation's economy. E

Property price (RM)	Market value of property in Year 5 (RM)	Change in value after 5 years (RM)	How proceeds are distributed if property is sold after 5 years			Amount to refinance if buyer stays on after 5 years (RM)	Buyer's share of the change in value from paying 20% of the property price (RM60,000) after 5 years, excluding any rent income or savings (RM)	Investor's total gain from paying 80% of the property price (RM240,000) after 5 years, including 5% yield per annum (RM60,000) (RM)
			Buyer (RM)	Investor (RM)	Property developer (RM)			
300,000	450,000	150,000	78,000	312,000	60,000	372,000	+18,000	+132,000
		+50%						
300,000	420,000	120,000	72,000	288,000	60,000	348,000	+12,000	+108,000
		+40%						
300,000	390,000	90,000	66,000	264,000	60,000	324,000	+6,000	+84,000
		+30%						
300,000	360,000	60,000	60,000	240,000	60,000	300,000	0	+60,000
		+20%						
300,000	330,000	30,000	60,000	240,000	30,000	270,000	0	+60,000
		+10%						
300,000	300,000	0	60,000	240,000	0	240,000	0	+60,000
300,000	270,000	-30,000	30,000	240,000	0	240,000	-30,000	+60,000
		-10%						
300,000	240,000	-60,000	0	240,000	0	240,000	-60,000	+60,000
		-20%						
300,000	210,000	-90,000	0	210,000	0	210,000	-60,000	+30,000
		-30%						
300,000	180,000	-120,000	0	180,000	0	180,000	-60,000	0
		-40%						
300,000	150,000	-150,000	0	150,000	0	150,000	-60,000	-30,000
		-50%						

MOHD IZWAN MOHD NAZAM/THE EDGE

Prime Minister Tun Dr Mahathir Mohamad, The Edge Media Group chairman Tong Kooi Ong (second from right) and Eco World Development Group Bhd founder Tan Sri Rashid Abdul Manaf (third from left) with the first FundMyHome homebuyers (from left) Abdul Fattah Ahmad, Joanna (representing Aileen Ooi) and Iyliasani Ahmad Kamal Shukri