

Headline	Momentum builds for rent-to-own schemes
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Momentum builds for rent-to-own schemes

- **Maybank Islamic** allows an applicant to rent and choose between purchasing a property at a later date, and benefit from its capital appreciation
- **Scheme** limited to properties in KL and Selangor but there are plans to expand to other states



by
Ang Hui Hsien

RENT-to-own (RTO) schemes are not a novelty in the property scene. Government agencies such as 1Malaysia People's Housing Programme (PR1MA) had introduced



Canal Link which sits within Mah Sing's M Residence in Rawang is one of the projects listed under the HouzKEY scheme



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such a mechanism in 2014, and allows tenants the option to buy the property after five or 10 years at a predetermined price.

On the private sector side, developers have also been launching variants of the deferred home ownership scheme. Selangor Dredging Bhd launched "Reside and Purchase" in 2016 while IOI Properties Group Bhd is offering a "Stay Now and Buy Later" package.

Financial institutions have also been hopping onto the RTO bandwagon, with Maybank Islamic Bhd being the first in the nation to do so when it launched HouzKEY last November.

Featuring the participation of five property developers, it

The scheme provides a buffer period for potential homeowners to sort out their finances, says Ho



that the scheme is presently only eligible for certain properties in Selangor and Kuala Lumpur. However, it will eventually be made available to those in other states as well.

Mah Sing Group Bhd CEO Datuk Ho Hon Sang views these mechanisms as particularly helpful to those wanting to buy a property but cannot secure a loan.

"RTO will provide the necessary buffer period for potential home buyers to sort out their personal finances. For example, this would be a good option to young families finding it difficult raising the initial down payment," he points out.

was welcomed as a measure to help first-time home buyers and upgraders own their desired property.

However, the drawback is

Apply and rent

Initially made available to Maybank employees only, applications were opened to the public on Jan 17, by which time the participating list of developers had grown to 12.

Based on the concept of *ijarah* – a lease agreement in Islamic finance – HouzKEY locks in the purchase price of the property and does not require any down payment.

The rules of eligibility are simple. Buyers must be citizens or are permanent residents of Malaysia aged from 18 to 65 years old bearing not more than one housing loan to their names.

Maybank managing director of real estate ventures Sally Lye

clarifies there is no maximum set for the combined household income of applicants, but it must be at least RM5,000 and above.

Those who do not meet the minimum amount are allowed to rope in up to three guarantors who must be immediate family members.

Contract period

To apply, purchasers merely need to select from the list of participating properties and submit the relevant documents – all of which can be done online via the maybank2own portal.

Upon approval – which can be obtained within one working day – successful applicants and their guarantors will have seven days to pay the three-month rental as security deposit and sign the lease agreement.

The contract period runs for a minimum of five years, with an option to renew every three years for a maximum of up to 30 years.

Rental for the first five years will be fixed at a flat rate, but should the tenant decide to go for the renewal option, there will be an annual 2% increase in the rent.

After servicing a 12-month rental period, tenants can choose to exercise the option to purchase by migrating to a mortgage facility.

"The property price is locked from day one and the rental amount paid will reduce a portion of the property price [akin to mortgage repayment] hence, the optional purchase price at the later date will be lower than day one's property price," says Lye.

This would explain why the rental payments are higher than the monthly repayments for housing loans, as the down payment is already bundled into the rent.

Differences between HouzKEY, mortgage and renting structures

	MORTGAGE	RENTING	HouzKEY
Structure/ownership of property	Outright purchase of the property by the applicant with the title charged to the bank as financing collateral. Landlord has the full discretion to sell the	Landlord is the owner of the property with obligation to rent out the property to the tenant according to the rental agreement, or at a nominal fee or RM1 at end of tenure, property as and when required.	* Applicant rents the property with an undertaking by the bank as owner to sell the property based on the pre-agreed price
Opportunity for wealth creation	Property price appreciation is enjoyed by the applicant.	Property price appreciation is enjoyed by the landlord.	Property price appreciation is enjoyed by the applicant.
Tenure	Up to 30 years.	Typically two years with option to renew. Landlord has the discretion to terminate the contract at any time.	Minimum five years with renewal options up to 30 years.
Certainty on payment amount in long run	Payment over entire tenure is based on effective rate, pegged to bank's base rate.	Certainty during tenure of contract only; Renewal of terms at market rate.	Payment over entire tenure is based on effective rate, pegged to bank's base rate.
Upfront cost	-15% of property price (10% downpayment + transactional cost (+5%).	** Security deposit of three months' rental.	Refundable security deposit of three months rental.

*Pre-agreed price is subject to any changes in the base rate and after servicing 12 months' rental
 ** Security deposit indicated above is based on the average market offering

Source: Maybank Islamic Bhd

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HouzKEY also offers a Cash Out option for tenants who decide not to purchase the property after the 12-month period, allowing them to earn some cash based on the property's capital appreciation.

This works by having the tenant buy the property on paper before selling it off to another buyer – which Maybank can assist in finding – at the current market price.

If the selling price is higher than the purchase price which was locked in when the tenant signed the agreement at the start of the lease tenure, he or she benefits by pocketing the difference.

A third option exists for tenants who can choose to walk away from the scheme at the end of the five-year tenure without any penalties and still get a full refund of the three-month deposit.

Replacement tenant

If they exit before the first five years is up, tenants will be required to continue paying rent for the rest of their tenure.

However, the remaining rental payments can be waived if a replacement tenant can be found, which Maybank can assist with.

Aside from flexibility, HouzKEY also sets itself apart from the usual mortgage plans with benefits such as stamp duty exemption for purchasers who buy properties under the scheme.

In addition, the acquisition of



The focus now is to serve the Klang Valley which makes up a majority of the demand for properties, says Lye

the property starts from the day applicants sign the lease agreement with Maybank instead of the usual practice of calculating from the day buyers sign the sale and purchase agreement.

This means the purchasers will not have to pay as much Real Property Gains Tax should they decide to sell the property down the road.

As of now, only projects within Selangor and Kuala Lumpur are listed under the scheme, but Lye says Maybank is looking to open it up to developments in other areas as well.

“The plan to expand to other states is in the pipeline but we wish to first focus on serving the Klang Valley demand that is about 70% to 80% of the total market demand for properties,” she reveals.

On the response to HouzKEY so far, Lye declined to disclose exact figures, adding “the business progress will be shared in due course”.

As one of the participating developers, Ho says Mah Sing's collaboration with Maybank is in line with its tagline to “Reinvent Spaces, Enhance Life” which encompasses helping the public to own a property.

“HouzKEY will go a long way in helping those who cannot secure a mortgage still be able to own a home. With HouzKEY, they are able to first afford the rent and eventually own the property,” he points out.

One of the properties applied under the scheme is Mah Sing's Canal Link comprising two-and-a-half-storey link homes sitting within 91ha freehold residential development M Residence in Rawang.

Ho explains the developer elected to apply HouzKEY to the project because it realises there is a healthy demand for properties in the area. “We chose M Residence because our presence spans 480 acres [194ha] between three townships in Rawang.



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Comparison on the potential costs to be borne by customers

	HouzKEY	MORTGAGE
Property Amount		
SPA purchase price	RM500,000	RM500,000
Financing amount ¹ / lease value	RM517,500	RM450,000
Transactional Costs		
At year 0:		
Deposit (10%)	N/A	RM50,000
Transactional costs (legal, stamp duty, etc) ²	N/A	RM17,500
Security deposit (3 months rental)	RM8,192	N/A
Total Initial Cost per Customer	RM8,192	RM67,500
Initial cost as a % of SPA purchase price	2%	14%
Total Payment for the First 5 Years		
Monthly rent/ instalment	RM2,731	RM2,280
5 years accumulated payments	RM163,848	RM136,805
Total Payments in 5 Years	RM172,041	RM204,305
Initial Savings under HouzKEY	RM32,264	

Note: The above costs do not include any other expenses related to the individual properties such as quit rent, assessment fee, maintenance fee that would vary from one property to another.

¹Financing amount for RTO includes transactions costs on the property value

²Transactional costs of 3.5% above is based on the average cost for individual title property

³Mortgage profit rate at 4.5%

Source: Maybank Islamic Bhd

Smart Financing CEO Gary Chua says HouzKEY allows applicants the chance to improve their financial profile and to think over their options before making their purchasing decisions.

He advises applicants to review their own finances before rushing into any decision. "RTO

gives both advantages and disadvantages to buyers. We will need to understand our own financial profile before embarking into any property purchase. Equip yourself with the right knowledge before deciding to buy or to rent a property," he says. **FocusM**