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A Study on Sharing Home Ownership Schemes in Malaysia

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ABSTRACT

The role of a house is more than a shelter, but a place for us to grow and affect us physically and psychologically. In today's world, housing prices are rising faster than wages in many parts of the world. In Malaysia, house prices particularly in urban areas such as Penang and Kuala Lumpur had risen rapidly over the past few years. This situation has caused many people especially the medium and low-income groups unable to afford a house of their own. Through the Malaysia Five-Year Plan, various programs are created and have been undertaken by both government bodies and private agencies in order to help to increase home ownership amongst its citizens. So far, the government of Malaysia has done a job well done in combining the effort of the public and private sectors to build affordability houses for its citizens. In order to enhance the current available housing policies, the government of Malaysia should turn towards other developing countries and learn from their housing program. One particular method that has been explored and adopted by many countries and has been proven to be quite successful is the sharing home ownership. In 2014, Penang became the first state in Malaysia to introduce such scheme. This paper therefore discusses the possibility of implementing sharing home ownership schemes in a higher level throughout Malaysia.

1. Introduction

Due to urbanization and the overall natural growth, today, more than 50 % of the world's populations are living in urban areas (United Nation, 2014). This figure is expected to increase to 66 percent by 2050, with almost 90 % of the increase concentrated on Africa and Asia (United Nation, 2014). The urban population explosion, however, has caused housing shortages, with cities becoming overcrowded (Hassan, 2015). As a result, greater demand for housing will contribute to the increase in house prices (MacDonald, 2011).

In this modern era, housing prices are indeed rising faster than wages in a number of countries

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(International Monetary Fund, 2015) due to several factors thus has caused many people unable to purchase a house. Property prices in Malaysia alone, especially cities like Penang and Kuala Lumpur, has rose by up to 40 % in 2010 (Yeoh, 2012) and will continue to rise in the following years to come (Penang Institute, 2013). The average price of a residential property in Kuala Lumpur is nine times the average urban household annual income, whilst the Demographia International Housing Affordability Survey rates markets where property prices are 5.1 times the median income or more as "severely unaffordable" (National House Buyers Association, 2011).

Due to this matter, affordable housing has become one of the main concerns for many especially the local authority in the recent years. One way to increase home ownership amongst the low-income earners is through a method known as sharing home ownership. Sharing home ownership schemes have long been a common and popular practice in developed countries like the United States and United Kingdom. However, sharing home ownership scheme is a new thing in Malaysia following its recent introduction in the state of Penang and the local government plans to fully implement such scheme starting in February 2014 to help low-wage earners to afford their own home (Penang Property Talk, 2013). This paper is therefore to discuss further regarding sharing home ownership scheme in Malaysia.

2. Sharing Home Ownership

Sharing home ownership schemes provide a low-cost route into home ownership (Shelter, 2014). It is intended to provide an alternative route into home owning for people who would otherwise struggle to buy a home (Shelter, 2014). Basically, in sharing home ownership, it allows a person, even if they are unable to afford a mortgage on the whole of the current property value, to part purchase a share of the property and part rent on the remaining shares. A person can buy the share using savings or a mortgage or a combination of both (Shelter, 2014).

As we all know, when applying for a home loan, prospective buyers may find they must provide the lender with a mountain of paperwork. This is because the lender wants to ensure that the prospective buyers have the financial means to pay off their new mortgage, as well as any other long-term debts (such as car loans) and other living expenses. As a result, it may be a struggle for those low-income earners to get a full mortgage. Sharing home ownership therefore increase the chances for low-income earners to be able to obtain a loan from the bank since they need not to apply for a 100 % mortgage.

Most models operate from a minimum share of 25% and up to 75 % of the full value of the property (MacDonald, 2012). Typically, a social housing provider would own the remaining share of the property and the household will have to pay rent on that share (MacDonald, 2012). The household can increase his or her share of the property by buying more of it over time (Shelter, 2014). Sharing home ownership schemes can be seen as an effort that can make housing affordable to the low-income groups. This is because sharing home ownership schemes has been proven to be able to improve home ownerships in many countries since employing a sharing home ownership model would scale the high-priced property back within affordability levels, reducing monthly costs, while also reducing the deposit requirement (MacDonald, 2012).

3. Definition and Philosophy in Other Countries

A whole variety of terms, definitions and concepts that refer to sharing home ownership can be found across other countries. The following discusses the sharing home ownership schemes that are being applied in other countries as well as in Penang, Malaysia.

3.1 Sharing Home Ownership in the United State

Sharing home ownership in the United States is known by many names and can be different across other states e.g. shared equity home ownership (not to be confused with shared equity schemes offered in the United Kingdom), resale-restricted housing, owner-occupied housing and so on (Davis, 2006). There are three distinguishing features in the shared equity home ownership schemes offered by the United States, namely: the owner-occupancy of residential property; the fair allocation of equity between one generation of lower-income homeowners and another; and the sharing of rights, responsibilities, and benefits of residential property between individual homeowners and another party representing the interests of a larger community (Davis, 2006). Owner-occupancy of residential property means that the individuals occupying the housing are homeowners, not tenant (Davis, 2006) thus the name owner-occupied housing.

Fair allocation of equity means that owners of a shared equity home will be able to recoup their investment when they resell their homes, along with some growth in equity (Davis, 2006). However, homeowners are not allowed to walk away with all of the value embedded in their property. Much of it is retained in the property itself, producing a relatively affordable purchase price for the next homebuyer of modest means (Davis, 2006). This explains the terms “resale-restricted housing”. Majority of shared equity home ownership programs are resale-restricted programs, meaning that they restrict the maximum price for which the home may be resold (Thaden, 2014).

The third distinguishing feature is the emphasis they place on what is shared between individual homeowners and a larger community. Only part of a property’s unencumbered value is a product of an individual’s personal investment in purchasing and improving the property. The rest of it, often the bulk of it, is a product of the community’s investment: equity contributed at the time of purchase in the form of a public grant, charitable donation, or municipally mandated concession from a private developer; and equity accruing to the property over time because of public investment in necessary infrastructure (roads, schools, utilities, etc.) and economic growth in the surrounding society (Davis, 2010). In a review of models of shared-equity homeownership, John Davis (2006) identifies deed-restricted housing, community land trusts and limited equity cooperatives as the main models in America (Mowbray et. al, 2007).

3.2 Sharing Home Ownership in England, United Kingdom

In the United Kingdom, sharing home ownership was introduced in the 1980s to help people

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who were in housing need and could not afford to buy a home outright (Alakeson et. al, 2013). Previously known as the part buy part rent scheme, most shared home ownership schemes today are provided through the housing associations (Gov.UK, 2015). Housing associations are independent, not-for-profit companies set up to provide affordable homes for people in housing need (National Housing Federation, 2010). Housing associations are also known as Registered Social Landlords or Private Registered Providers of Social Housing (Gov.UK, 2014). Many housing associations are funded and regulated by the Home and Communities Agency (HCA), a non-departmental public body sponsored by the Department for Communities and Local Government (DCLC).

In order to be eligible for this scheme, prospective buyers (Help to Buy, 2015):

1. Should have a combined household income of £60,000 or less per year outside London.

2. For the cases of families in London, prospective buyers should have a combined household income of £66,000 or less per year for a home with one or two bedrooms or £80,000 or less per year for family homes of three bedrooms or more.

3. Should be first-time buyer (or you used to own a home, but can't afford to buy one now)

Apart from that, priority is given to those who are already renting a council or housing association property or Armed Forces personnel (Help to Buy, 2015). There is also other shared home ownership schemes that gives priority to other specific groups of people such as the Home Ownership for People with Long-Term Disabilities (HOLD) for those who have a long-term disability or the Older People's Shared Ownership for those who are aged 55 or over (Help to Buy, 2015). The standard model of sharing home ownership schemes is that the purchaser buys a share of the property title on a leasehold basis that is normally in the range of 25 % to 75 % of the value of the property and then pays rent on the remaining unowned share to a housing association who owns the remaining share (Alakeson et. al, 2013). The purchase of the share is usually funded by taking out a mortgage (Alakeson et. al, 2013). The rent is capped at 3 % of the value of the unowned share, but is typically set at 2.75 % (Alakeson et. al, 2013).

Over time, buyers have the opportunity to increase the share of the property they own by buying more shares when they are willing or able to afford through a process known as "staircasing" (Council of Mortgage Lenders, 2012). Staircasing the shares allow the rent to be reduce, even reducing it to nil if 100 % ownership is achieved (Council of Mortgage Lenders, 2012). Staircasing down to reduce the percentage of equity owned is only possible in exceptional circumstances and at the discretion of the Housing Association (Alakeson et. al, 2013). Upon owning 100 % share of the property, the purchaser can sell the house (Gov.UK, 2015). However, the housing association has the right to buy the property back first (Gov.UK, 2015). This is known as 'first refusal' and the housing association has this right for 21 years after a person fully own the house (Gov.UK, 2015). Besides that, the housing association also has the right to find a suitable buyer for the property (Gov.UK, 2015).

Over the last 30 years, sharing home ownership schemes have been developed in the United

Kingdom as a way of supporting middle-income households with “affordable” home ownership, without the need to invest in huge subsidies in middle-income housing, typically helping key workers and other first-time buyers get on the property ladder (MacDonald, 2012). Since 1979, over 170,000 shared home ownership sales have been completed (MacDonald, 2012).

3.3 Shared Ownership Scheme (SOS) in Penang, Malaysia

The Penang State Government has introduced Malaysia’s first ever sharing home ownership scheme known as Shared Ownership Scheme (SOS) (Official Portal of Penang State Government, 2013) and the local government plans to fully implement such scheme starting February 2014 in a bid to help low-wage earners to afford their own home (Penang Property Talk, 2013).

According to The Star (2013), most low-wage earners are unable to buy houses because they are not qualified for bank loans due to their low income. Many of them are unable to apply even for 80 % of the loan which is the problem this scheme intends to address. With this scheme, eligible home buyers need only to apply for a housing loan 70% of the market price of the housing unit they are purchasing, while the government will provide interest-free funding for the remaining 30% (The Star, 2013). The new home owner will need to pay back the 30 % to the state every month and the house will be in their name (The Star, 2013).

Through collaboration between the state government and project developer, Asas Dunia Berhad, the state government has purchased 104 units of low-cost houses in Taman Sungai Duri, Seberang Perai Selatan which will be used as a pioneer project for this scheme and the state government planned to extend the scheme to other locations if there was good response from the public (Bernama, 2014). The market price for a unit is RM38000 and under this scheme, eligible buyers need to obtain only 70 % of the loan on the house price while the other 30 % can be obtained from the state government (Bernama, 2014). Eligible buyers will first need to register with the state’s housing department in order to purchase the unit (Bernama, 2014).

4. Analysis of Sharing Home Ownership

No property scheme is perfect, but shared ownership has been going for years in many other countries and is immensely flexible in helping people onto the property ladder (Shannon, 2012). The following therefore discusses the pros and cons that may be faced when applying for sharing home ownership schemes.

4.1 The Pros of Sharing Home Ownership Schemes

The primary benefits of sharing home ownership models are lower entry costs and lower monthly financial commitments. As mentioned several times in the previous section, many low-income earners are unable to buy houses because they are not qualified for bank loans. Through shared home ownership schemes, the cost of entry towards home ownership can be reduced since they only need to buy part of their house first. Some schemes like those offered in England allow low-income earners to get onto the housing ladder by just owning as low as only 25 % of the

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property. The total monthly outgoings for those who are sharing home ownership would consist of a mortgage repayment to the lender and a rental payment to the social housing provider (Parton, 2012). Taken together, these payments are usually not as much as the monthly mortgage payment for outright purchase would be (Parton, 2012).

By increasing the affordability of the household, this also provides greater access, and offers increased choice and higher quality options than a conventional purchase on the open market. In other words, a person would generally being able to buy a bigger property than he or she would otherwise be able to afford. Besides that, another promised benefit of a shared ownership deal is that it allows greater flexibility (Fearn, 2012) by letting investors to invest according to his or her own ability and time. This is especially true when it comes to the staircasing process. Should the shared owner's circumstances change for the worse, he or she can staircase up as well as down, even converting to becoming a full ownership of the property (Fearn, 2012). A household also save money on maintenance and redecorating as the social housing provider is responsible for the property's structure and the property will usually be a newly built or refurbished one.

In some countries, a taxpayer that is currently having sharing home ownership may get tax relief on their mortgage. Besides that, they will also be exempt from paying stamp duty if the share they are buying is worth less than the lowest stamp duty threshold. There are psychological benefits as well with sharing home ownership, which come from being associated with the dominant tenure. Tenure conveys a sense of pride, status and advancement for many people. Owning a home is an important source of ontological security in this modern society, providing a sense of the reliability of things and place. Those unable to access this dominant tenure feel increasingly detached, and even partial ownership allows households to demonstrate that they are part of the "mainstream". Through sharing homeownership, it can help these low-income earners to get a step onto the property ladder.

4.2 The Cons of Sharing Home Ownership Schemes

A lot of people go down the shared home ownership route because they're on a tight budget and they believe that this way of buying a home would be cheaper than a conventional purchase (Parton, 2012). The process of buying a house under shared home ownership is broadly similar to a regular purchase and it is certainly true that only having to find a mortgage for as little as 25 % of the purchase price does save you a lot of money (Parton, 2012). However, there are still other costs involved when applying for a shared home ownership house such as appointing a solicitor, arrangements fees, valuation fees and so on (Parton, 2012). Based on a report by researchers at the University of Cambridge for Thames Valley Housing, staircasing and selling of shared home ownership property is also not always as straightforward as imagined (Parton, 2012).

Staircasing by right should be an advantage since it allows greater flexibility (Fearn, 2012) by letting investors to invest according to his or her own ability and time. However, a major downfall in staircasing is that it must be done in a minimum of 10% shares (Council of Mortgage Lenders, 2012). Besides that, the cost of each additional share will depend on how much the property is worth at the time a shared owner wants to buy the additional share, not the value at the time of the original purchase (Parton, 2012). The housing association will get the property valued to establish the price of the new share based on current market values (Parton, 2012). If the property prices in that area have gone up, staircasing will be more expensive per share than when bought initially (Parton, 2012). On the other hand, if the property price has dropped in value, buying additional share will be cheaper (Gov.UK, 2015). However in reality, house prices are constantly on the rise and incomes have failed to keep up, this has caused staircasing to become more difficult. Unable to staircase up, many shared owner remains a part owner for the long term (Alakeson et. al, 2013).

When it comes to selling the property, the owner is obliged to sell the property back to the housing provider as a first resort and for a period of usually eight weeks, the housing provider has the exclusive right to market the property for the owner's behalf. The effectiveness of housing provider in marketing property does vary, but many sharing homeowners feel that they don't sell as effectively as a real estate agent would. There are also likely to be restrictions on whether you can rent the property out. In the great majority of cases, sub-letting is not allowed. One argument suggests that sharing homeownership models can actually limit social mobility. As households become trapped in the tenure, with the majority unable to raise the additional capital or increase mortgage repayments in the future to buy out their equity partner, they may never reach full ownership.

5. Proposal for Implementation in Malaysia

In response to the issue of rapid rise in housing prices, several attempts have been made by the local authorities in order to increase the home ownerships of fellow Malaysians. The Ministry of Housing and Local Government whose objectives is to "ensure adequate balanced housing development and provide affordable housing for those who qualify" as well as "regulate aspects of housing development" are the backbone of ensuring affordable housing. There is also Syarikat Perumahan Nasional Berhad (SPNB), a wholly-owned subsidiary of the Ministry of Finance, with the objective of "providing quality affordable homes for every family in Malaysia in accordance with the National Housing Objective". SPNB ensures there is a steady supply of affordable housing to the citizens by providing various schemes such as the Rumah Mampu Milik Programme, Rumah Mesra Rakyat Programme and so on.

As mentioned in the earlier chapter, the recent introduction of sharing home ownership to Malaysia can also be seen as an alternative effort in increasing home ownership. However, much care and considerations should be taken into account before its full implementation next year in order to make this programme a success in offering affordable housing to the people. Developing sharing home ownership models typically takes place at the national level as they require strong government facilitation with new regulations, a clear legal framework and significant public subsidy to stimulate development of these financial models (MacDonald, 2013). While sharing home ownership models do not require heavy ongoing government involvement in management

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terms, the government does need to play a strong role in providing advice, guidance and support to households (MacDonald, 2013). Developments in any new financial models need to be clearly communicated to developers, private equity holders, solicitors, estate agents and financial advisors to raise awareness of a new financial product (MacDonald, 2013).

Equity markets need to be convinced for sharing home ownership products to become a mainstream offering, with clear investor returns and confidence being the key to building scale, and this can only flow from strong government commitment and a setting of the framework (MacDonald, 2013). The lack of familiarity on the part of private equity causes sharing homeownership models to be judged as a higher risk; regulators require lenders to set aside higher levels of capital against sharing homeownership lending, while the repayment profile of loans injects an additional element of uncertainty (MacDonald, 2013). State governments in Malaysia have long enforced conditions and charges on development along with housing quotas, with developers required to build 30 % low cost units (MacDonald, 2013). However, these conditions, charges and quotas need to be revised with a more intelligent understanding of housing requirements at the state level (MacDonald, 2013). The conditions placed on private sector development could be reshaped to accommodate the application of a private sector sharing homeownership model (MacDonald, 2013). Developers could be required to offer a fixed number of retained equity units, for the state to allocate, as part of their housing quota or in lieu of development charges (MacDonald, 2013).

The land-use system can be also being leveraged to produce more affordable housing outcomes, and can potentially be used to develop a sharing homeownership approach (MacDonald, 2013). Land-use rezoning charges, for example, can be traded for housing equity, and government-owned land can be exchanged for equity in a fixed number of units, which the authorities can then allocate to those who are eligible on the housing list (MacDonald, 2013). The introduction of sharing home ownership models, where households are given an option of buying less than 100 % of the unit does bring the benefits of home ownership to a wider range of households while also developing a revolving fund to support affordable housing, as rental payments are collected, and capital gains are made from future resales which can then be recycled for social good. With a sufficient financial pot, sharing homeownership could be offered on application for sub-sale property, reducing the time taken to respond to demand.

6. Results and Analysis

6.1 Household Income

For this study purpose, the respondent's monthly household income refers to the sum of all forms of income. This includes any financial aid, monthly allowances and salary, side income and so on. Based on Figure 1, the income level of RM 1,000 to RM 1,999 as well as RM 2,000 to RM 2,999 both has the most number of respondents, which are 17 respondents each. The income level of less than RM 1,000 has the second highest number of respondents with the figure of 13 numbers.

Next is the income level of RM 3,000 to RM 3,999 and income level greater than RM 5,000 since both have 8 numbers of respondents. Finally, the income level of RM 4,000 to RM 5,000 has the lowest number of respondents at 7 respondents.

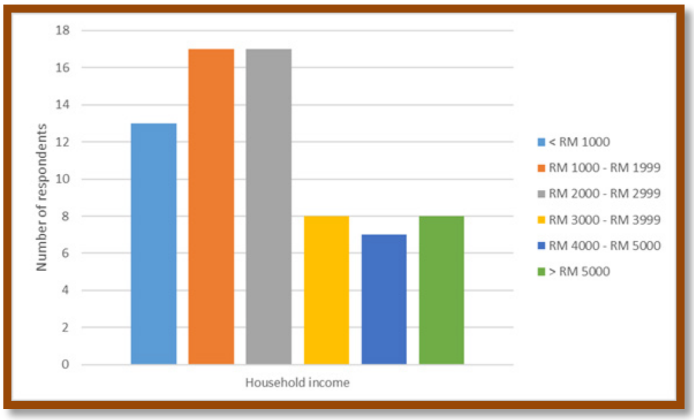

Figure 1: Household income of respondents. (1 RM =0.251885USD).

According to the Household Income and Basic Amenities Survey 2012 (HIS/BA 2012) done by the Department of Statistics, Malaysia, the mean monthly household income for Malaysians in year 2012 was RM 5,000. On the other hand, the mean monthly household income for income groups of top 20 %, middle 40 % and bottom 40 % in year 2012 were RM 12,159, RM 4,573 and RM 1,847 respectively. Lastly, the median household income in Malaysia was RM 3,626 in 2012. The mean was significantly higher than the median income because the value of the mean is skewed by high-income earners (Yin, 2014). The median gives a more accurate picture of what the 'person in the middle' earns. It is the value in the centre of all households surveyed. This means that 50 % of Malaysian households earned RM 3,626 and below in 2012 (Yin, 2014). To sum up, we can deduce that low-income households are those households with less than RM 3,000 per month. Referring back to Figure 1, it is found that 67 % or a total of 47 respondents in the study area are considered to be low-income households.

As mentioned before, one of the main reasons most low-wage earners are unable to buy houses because they are not qualified for bank loans due to their low income. Many of them are unable to apply even for 80 % of the loan. Hence, it is hoped that through sharing home ownership schemes, these low-income earners are able to get their foot on the property ladder.

6.2 Affordable Price Range

When the respondents are asked on the pricing range which they considered is affordable to them, a majority with 39 % or 19 respondents considered the price range less than RM 25,000 as affordable as shown in Figure 2. Further analysis shows that 9 respondents are from the income level of RM 1,000 to RM 1,999 while 7 respondents currently receiving an income level of RM 2,000 to RM 2,999. Another 2 respondents have the income level less than RM 1,000 while lastly, 1 respondent have an income level of RM 4,000 to RM 5,000. Based on Figure 2 also, the second highest are 25 % or 12 respondents who agreed that the price range of RM 25,000 to RM 99,999 is considered affordable to them. Of these figures, a majority of 8 respondents are from the income level of RM 2,000 to RM 2,999. Another 2 respondents are from the income level less than RM 1,000. There is 1 respondent each from the income level of RM 1,000 to RM 1,999 and the income level of RM 3,000 to RM 3,999.

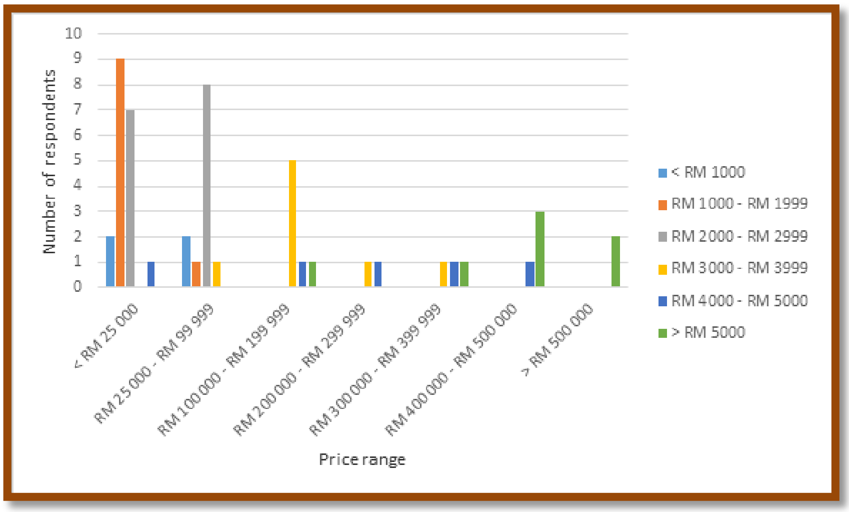

Figure 2: Pricing range that is considered affordable according to income levels

From the data above, it shows that low income earners can only afford housing which is less that RM 100,000. According to the Shared Ownership Scheme in Penang, the market price for a unit is only RM 38,000. On top of that, eligible buyers need to obtain only 70 % of the loan on the house price while the other 30 % can be obtained from the state government.

6.3 Opinion that Housing Provision should be the Sole Responsibility of the Government

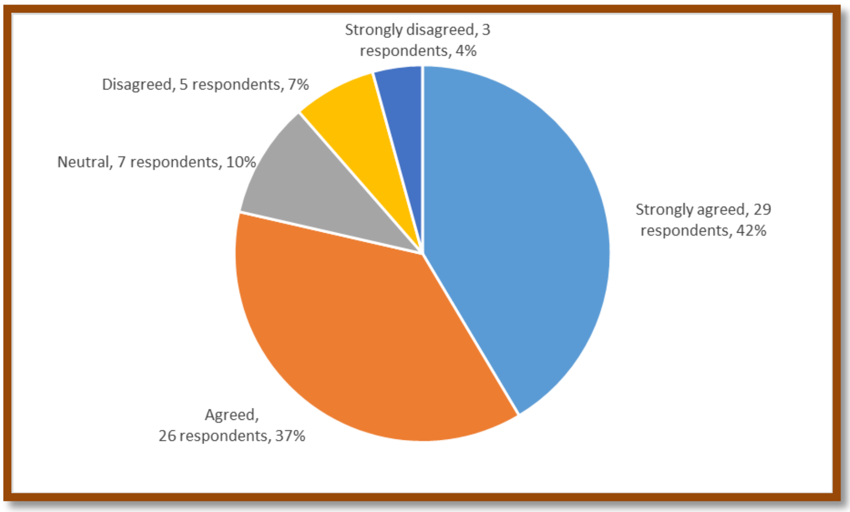

Figure 3: Low cost housing provision is the sole responsibility of the government

Figure 3 shows the responses received from the respondents of Taman Tun Sardon and Taman Brown when they are being asked on whether low cost housing provision is the sole responsibility of the government. Based on the figure, a majority of 42 % or 29 respondents strongly agreed with the statement while a small portion of 4 % or 3 respondents strongly disagreed. The second largest portion which consists of 37 % or 26 respondents agreed that the low cost housing provision is the sole responsibility of the government while other 7 % or 5 respondents gave their disagreement. There are also a small fragment of 10 % or 7 respondents which have a neutral thought regarding this matter.

From the data above, it is hoped that the Shared Ownership Scheme can be implemented beyond Penang Island and maybe by the federal government of Malaysia as an effort to provide more affordable housing for its people.

7. Conclusion and Recommendation

The desire for home ownership among many Malaysians is being challenged by many financial realities such as unable to obtain a loan from the local bank due to their low income. As a result, many people believe that the government which has the authority and power to control and regulate policy should intervene before the housing crisis goes out of hand. New models need to be considered by the government in order to increase home ownership (MacDonald, 2013). The rise of an intermediate housing market, somewhere between rental and owner occupation such as the sharing home ownership schemes has displayed a need for a more diverse understanding of the relationships between people and their housing, and sharing home ownership models present an additional option in addressing the challenges of housing affordability (MacDonald, 2013). In other countries, sharing home ownership has become a more widely used vehicle for building stable home ownership and preserving affordability. Thus, it is hoped that such models will play the same role in limiting the social and economic polarisation which continues to arise between those on the ladder and those who are not here in Malaysia. However, much research needs to be done first before simply adopting existing models used in other countries in order for it to work in the socio-culture and socio-economic context of Malaysia.

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