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REVIEW OF RISK MANAGEMENT IN RENT TO OWN (RTO) SCHEME IN MALAYSIA

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Abstract

This paper focuses on the review of risk management in Rent to Own (RTO) scheme in Malaysia. The objectives are to review the risk management factors in RTO scheme and the strategies to overcome the risk. This study employs a desktop study by collecting the research papers and data in the online databases. RTO Scheme is a concept that employs the rental market like Private Rented Sector (PRS) in the properties that allows ownership after the tenancy period has been expired. The RTO scheme is a type of financial schemes that allows property leasing for between twelve (12) months to five (5) years and ownership upon the maturity of the leasing period. This is an initiative by the Economic Planning Unit (EPU) and the Ministry of Housing and Local Government (MHLG) to implementing the National Housing Policy 2018-2025. The RTO scheme is for home buyers to have financial planning to rent before they buy. The calculation of the mortgage loan for RTO Scheme is based on the rental income and the rental deposit. Additionally, preliminary case study has been conducted to the RTO schemes through onsite and interview with the Developer. The results are to review the risk factors in the RTO Scheme and the marketing strategies. The outcomes of the research are to give input to the house buyers to be confident to buy houses under the RTO Scheme.

Keywords: Rent to Own Scheme; Risk Management; Financial Institutions; and Housing Developers

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INTRODUCTION

In Malaysia, there are many initiatives by the Economic Planning Units (EPU) and Ministry of Housing and Local Government (MHLG) to implement different types of housing policy and regulations (James, 2016; Rahah I., Yasmin M. and et. al, 2020). The purpose to introduce these types of housing regulations and policy is to ensure that the house purchasers are encouraged to buy and own affordable houses (Rahah I., Yasmin M. and et. al, 2020).

The examples of housing policy are maximum loan to ratio of 70% to be applicable to third house financing facility taken by a borrower, loan approval based on Net Income, Maximum tenure of 35 years for financing residential & non-residential properties, abolishment of Debt Interest Bearing Scheme (DIBS) loan margin for the third house, My Deposit, the Home Ownership Campaign (HOC) and the Rent to Own (RTO) Scheme. This are good initiatives from the EPU, MHLG and Bank Negara to implement different types of housing policy and regulations for the home buyers to buy at the affordable level (James, 2016; Rahah I., Yasmin M. and et. al, 2020; Ecoworld, 2019; JPN & KPKT, 2018).

The objectives of this research paper are to explain the RTO schemes in Malaysia and to determine the risk factors associated in the RTO Schemes. Moreover, the strategies to mitigate the risk factors will be discussed in the conclusion in order to overcome the risks associated in the RTO Schemes (Francesco, et. al., 2019).

LITERATURE REVIEW

OVERVIEW OF THE RENT TO OWN (RTO)

The term Rent to Own (RTO) scheme is a type of Home Financing in the Financial Institution accessible by the households or individuals to own accommodations for a stable state of homeownership (Lum, 2017; Ecoworld, 2019; Gregory and Lim, 2022). Rent to Own scheme is a home financing scheme for the different target groups who desired to purchase houses under an affordable housing scheme (Lum, 2017; EPU, 2021). The Rent to Own Scheme are implemented under the National Housing Policy 2018-2022 (JPN & KPKT, 2018).

Moreover, since the Asian Financial Crisis and US Subprime Crisis in Year 2007 the property market in Malaysia encountered property market mismatch. This property market mismatch causes the house prices and transaction volume are imbalanced from Year 2015 to Year 2022 (James, 2016; Rahah I., Yasmin M. and et. al, 2020; Suraya I. and et. al., 2021; EPU, 2021).

Therefore, the chances to own a house are more difficult because of the tighter financing measurement by the Bank Negara to curb the speculation in the Property Market (Rahah I., Yasmin M. and et. al, 2020; Tuti, H. and Ezdihar, H., 2021; Suraya I. and et. al., 2021).

In Malaysia, developers are facing difficulty to sustain in the consistent growth of their property sales rates and take up rate because of the property market imbalance. The impact of the higher house prices and lower transaction volumes among the housing development projects have caused an impact to the supply and demand of the houses by the housing developers in Malaysia (Rahah I., Yasmin M. and et. al, 2020).

Subsequently, majority of middle-income group earners between RM25,000 to RM75,000 per annum are the most people that are affected in this property market mismatch. Although the government policy and regulations have been long implemented and controls to the property market, there are still more room to improve in building affordable housing to the Nations, due to the factors of land scarcity, speculation, increase in material costs and workmanship, increase in the living costs and expenses etc. (James, 2016; KRI, 2017; Rahah I., Yasmin M. and et. al, 2020; Suraya I. and et. al., 2021).

Therefore, in 2015 the MHLG has introduced the ideas of RTO Scheme in the Twelfth Malaysia Plan (Twelfth Plan) and subsequently implemented in the National Housing Policy (NHP) 2018-2022. In Year 2018, the RTO scheme was officially launched by the Maybank Group to offer the financing scheme that are suitable to the middle-income group house owners.

The RTO scheme were introduced to the public in early 2018 and the scheme is first initiated with a pilot launch introduced to the bank's employees. The RTO scheme organized by the bank is called HouzKEY with a RM1 billion portfolio size for the scheme. The HouzKEY is an alternative method of home financing by way of lease arrangement based on the Islamic concept of Ijarah (lease) that provides customers with the option to purchase the property (Lum, 2017).

Furthermore, the National Housing Policy between Year 2018 to 2025 and the National Affordable Housing Policy (NAHP) introduced by the Ministry of Housing and Local Government will subsequently improve more homeownership of the Nation (James, 2016; Rahah I., Yasmin M. and et. al, 2020; EPU, 2021). Meanwhile, the house financing schemes introduced in the National Housing Policy 2018 to 2025 will assist the category of B40 and M40 households to own a house in Malaysia (EPU, 2021).

The housing financing schemes are referring to Rent to Own (RTO) Schemes. This RTO Schemes covers the houses priced up to RM500,000 and below for the public housing and for private housing between RM500,000 to RM1,000,000. The purchasers have the option to renting the property for a duration of twelve (12) months to five (5) years before choosing the option to purchase (EPU, 2021). There are Fund for Affordable Homes and Youth Housing Scheme for purchasing the first house.

The Financing House Scheme or commonly known in Bahasa Malaysia as “*Skim Pinjaman Perumahan*” in Malaysia will be strengthening to provide assistance to the households that own land to build affordable houses. The reason is newer financial model and attractive loan packages have been introduced into the real estate sector in order to increase the take-up rate. There are also efforts to be undertaken by the bank to assist the home owners in prevention of loan default payment and house being auctioned due to financial difficulties. The financial model is known as Murabaha to ijarah to Murabaha programme (own-to-rent-to-own), this is to allow owners to repurchase their property acquired by the bank (KRI, 2017; Rahah I., Yasmin M. and et. al, 2020; EPU, 2021).

Ownership of affordable homes by the category of M40 will be determined through collaboration between the state governments and the private sector. The property designated will be located at the strategic location and to facilitate the M40 income group earners. The RTO Schemes will be strengthened to provide the M40 with an option to own houses with affordable monthly instalments (KRI, 2017; Rahah I., Yasmin M. and et. al, 2020; EPU, 2021).

The RTO Scheme is to assist the house buyers to secure the homeownership with a high initial cost in the down payment. The function of the RTO scheme is to ensure the transparency of the house purchase through monthly payment commitment for the rental according to the chosen tenure. The RTO Scheme give the customers the opportunity to earn capital appreciation at a later stage at a pre-determined price. Moreover, the Rent to own scheme could reduce homeownership issues and enhance the opportunity for Malaysians to own a house they desired (Lum, 2017; Ecoworld, 2019).

The criteria of RTO scheme an example in HouzKEY are as listed as follows:

- (a) Flat rental rate for the first five years of rental tenure and no penalty if termination after five years rental.
- (b) There will be a 2% annual rent hike when the contract of leases entering into 6th year of the Rent to Own (RTO) arrangement.
- (c) 100% stamp duty exemption for Sale and Purchase Agreement (SPA).
- (d) Option for seamless transition into mortgage after minimum 12 months of renting.

The participating property developers including SP Setia Bhd, Eco World Development Group Bhd, Mah Sing Group Bhd, Gamuda Land and Sime Darby Property Bhd.

THE RENT TO OWN (RTO) SCHEME

The definition of RTO Scheme is for property rented for a temporary period for between 5 years to 10 years after signing the contract of leasing and purchase

Agreement with the developers. The down payment is the rental payment paid monthly to the banks. The RTO Scheme will be mature after the tenancy period of the Sale and Purchase Agreement (SPA) becoming maturity. Then the property will be transfer to the landlord as collateral for the property to the new purchases that have sign the Sale and Purchase Agreement (SPA) for Rent to Own (RTO). In between the Valuation sectors have to determine the amount of Market Value of the property and the rental rate that is feasible to the new purchasers (Ecoworld, 2019).

The RTO scheme is to ensure that after the new purchaser purchase the property there can secure the property without hassle to purchase, there have a period of time to consider to whether to transfer the ownership for renting to purchase from the Bank and the developers.

The RTO Scheme ease homeownership against the challenging financing requirement in Malaysia (Lum, 2017; Ecoworld, 2019). The purpose of the financing program is to overcome the speculation of property in Malaysia and to reduce the numbers of property overhang by introducing more financing accessible scheme to the home buyers. These RTO schemes provides more affordable home to the middle-income groups and the higher income group (Rahah I., Yasmin M. and et. al, 2020; Ecoworld, 2019; Suraya I. and et. al., 2021; Soo, 2022). RTO Scheme is to ensure the functional of the housing loan by deferred instalment plan in the mortgage loan (Ecoworld, 2019).

Table 1: Five (5) types of Rent to Own (RTO) Scheme from the developers.

No.	RTO Scheme	Tenancy and Purchase Option details
1.	Low initial cost	Only 3 months rental deposit (refundable).
2.	Low monthly payment	Monthly payments have been structured to be similar to the market rental rate – this makes it very affordable for aspiring new homebuyers.
3.	Stay First, Purchase later	Participants are able to live in the home immediately and experience the environment before making the big decision to purchase.
4.	Savings element from rental	The savings element from rental are as follows: i)At least 30% of the rental paid may be converted into savings when the Option to Purchase is exercised. ii)The rental savings will be used to offset part of the purchase price of the home making it even more affordable to own.
5.	Secure the property price & eliminate price fluctuation	The explanation are as following: i)Participants lock in the purchase price for the property today. ii)Option to Purchase exercisable after year 1 up to the end of Year 5 gives flexibility to decide when to buy. iii)Participants can switch to a traditional mortgage once he / she is ready to purchase and qualifies for a mortgage.

Source: Ecoworld (2019)

THE CALCULATION OF RENT TO OWN (RTO) SCHEME

Table 2 shows the calculation of the RTO versus the conventional mortgage:

Table 2: The calculation of RTO Scheme and compare to conventional mortgage.

Rent to Own Scheme calculation		HouzKEY	Mortgage
(1) Property amount	Sale and purchase Agreement (SPA) price	RM500,000	RM500,000
	Financing amount (include transaction costs for Houzkey)	RM517,500	RM450,000
(2) Transactional costs at first year	Deposit (10%)	RM 0	RM50,000
	Transactional costs (Legal, stamp duty, etc)	RM 0	RM17,500
	Security deposit (3 months rental)	RM8,193	RM 0
	Total initial cost per customer	RM8,193	RM67,500
	Initial cost as a % of SPA purchase price	2%	14%
(3) Payment for the first 5 years	Monthly rent/instalment	RM2,731	RM2,280
	5 years accumulated payments	RM163,860	RM136,800
TOTAL PAYMENT IN 5 YEARS		RM172,052	RM204,300
INITIAL SAVINGS UNDER HOUZKEY		RM32,248	

Source: Lum (2017)

THE REQUIREMENTS AND PROCESS OF RENT TO OWN SCHEME TO THE PURCHASER

According to Lum (2017) and Ecoworld (2019), the requirement to obtain the housing loan under the Rent to Own Scheme with reference to the bank requirements are firstly, the house purchaser must be a Malaysian citizen or a Permanent Resident of Malaysia. The recipient must not exceed 65 years old and not below 18 years old during the date of application. The applicant and his spouse must have combined household gross income of at least RM5,000 per month or RM60,000 per annum. The house buyers for RTO Scheme have to appoint at least one (1) guarantor of their closer family members like their parents, siblings, spouse or children to become their RTO Scheme's guarantor and the numbers of guarantor shall not exceeding more than 3 persons.

Apparently, the guarantor and the borrower cannot own more than a house that is mortgaged to the Financial Institutions during the date of application of RTO Scheme because this is the special requirements to secured the housing loan for the RTO Scheme. The process of application of RTO Scheme to the Purchaser and the approval process are based on the systematic guidelines provided by the Financial Institution like requirement to login to their bank's website to obtain the name lists of properties that are offering the RTO Scheme. Through the evaluation, the purchaser has to choose their ideal home from the RTO Scheme's house project and make a joint inspection to the Sales Gallery to collect data and brochures before deciding to purchase.

Moreover, they have to consider types of houses that are suitable to their family size and the location to their working area. The application process is simple because the applicant should just submit their electronic application form and providing their loan application documents. The application documents shall consist of the Identification Card, Income Tax Statement (BE Form), Borrower’s Salary’s Account Bank Statement of at least three (3) months to six (6) months, one year Employment Provident Fund (EPF) Statement and their proof of saving like other supportive documents in Fixed Deposit, Debenture, Unit Trusts Fund and other type of collateral like tenancy agreement for their stable income from tenancy of the house ownership.

Upon submission of the application for RTO Scheme the applicants have to wait for at least 1 to 2 weeks for the loan approvals provided their application were submitted with sufficient supportive loan documents. In the same time upon approval of the RTO Scheme for the housing projects the house buyers must go to the headquarters of the bank in the Klang Valley that offers RTO Scheme to execute the lease agreement in 7 days and make payment for security deposit (3 months rental). Thereafter, the applicants have to wait for the Notice of Vacant Possession (VP) for handover key or key collection before moving into the new house. The benefits of RTO scheme are there are no other amount of deposit that there required to pay in the initial stage of borrowing and they have to just serve the rental payment monthly and the 3 months rental deposit only.

Table: 3: Stages and Process of Rent to Own (RTO) Scheme

Stage	Classification	Process of Rent to Own Scheme
Stage 1	Before Applying for RTO Scheme	1. Search for the Homes
		2. Find a few homes that you like
		3. View Full Property Information
		4. Check out the house
Stage 2	During utilization of the RTO Scheme	5. Background Verification
		6. Signing of Lease Purchase Agreement
		7. Move in to the Home
		8. 24 months later (or at the end of your rent to own term)
Stage 3	After Completion of RTO	9. Down Payment and Home Loan
		10. Vacant Possession (Sold)

Source: Ecoworld, 2019; Lum, 2017; Soo, 2022

THE CHALLENGES AND ISSUES IN RTO SCHEMES

Business to Business Concept (B2B)

Conventionally, the developers are exploiting the dual marketing strategy in the housing market for business-to-consumer (B2C) through selling the housing and renting the house. In the same time, the business-to-business (B2B) concept formed in the property RTO scheme are introduced among the developers and the financial institutions to have more flexible mortgage loan to the purchaser (Chee, 2019; Francesco, et. al., 2019). The concepts of B2C in the traditional approach and the B2B of modern approach in the marketing in the Business of property industry have transformed the business concepts in the early years before 90s (Chee, 2019). The issue arise in this context are the adaptation of the developers changing from the traditional approach to modern approach.

An example of the flow chart showing the dual marketing concept in B2C concept of marketing the completed residential property development by way of a tenancy management and the marketing management. The Business to Business (B2B) concept is through initiatives to sell the property under RTO model under a contract of leasing and purchase option after 12 months to 5 years (golden timing) to become a homeownership and reduce of overhang projects. Indirectly, the housing mismatch can be balance with the implementation of the B2B concept in RTO model and the B2C dual marketing concept.

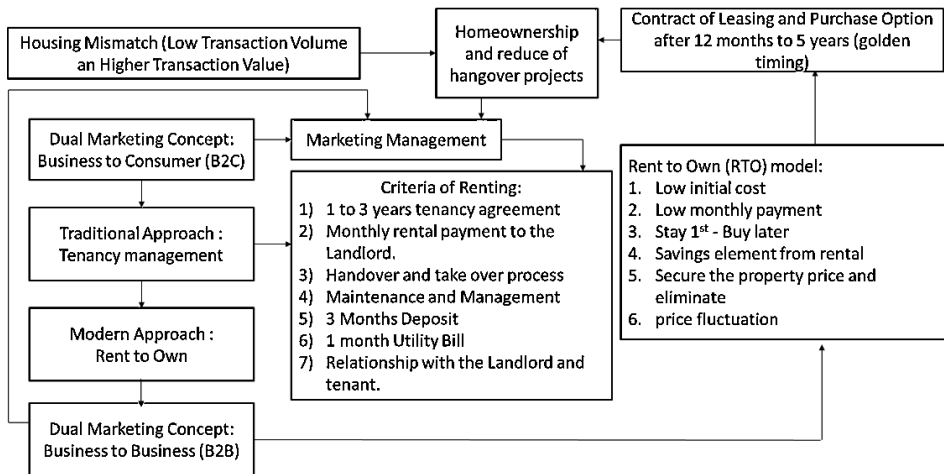


Figure 1: The Flow Chart of Dual Marketing Concept in Residential Property Market

Source: W.C., Chee (2019)

Lease First, Purchase Later

The Rent to Own (RTO) scheme is a process that involving the leasing of the property for a set of periods and a term between five (5) to ten (10) years before the property is agreed as a final sale (Fatimah, Z., 2020). The purchasers are required to sign the leasing contract with a guarantor for leasing and renting, the reason is the bank do not want the property have default payment in rental. A guarantor can become a person to follow-up for the rental debt when the potential purchasers ran away from paying the rental. Subsequently, the guarantor is responsible to payback the remaining debt owed to the developers and the banks. During the term of leasing, the property developers and the stakeholders are required to managing the property by a systematic and well-established Tenancy Administration (Francesco, et. al., 2019; Ecoworld, 2019; BOVAEAPM, 2020).

Bulk and Resale the Property

The increase of the investors to purchase in bulk and resale the property at a higher price have causes the Government to implement the Real Property Gains Tax (RPGT) to curb the speculation. The government have introduced different types of policy to encourage more purchaser to purchase the houses in Malaysia. In Year 2019, the Ministry of Housing and Local Government (MHLG) have implemented the Home Ownership Campaign (HOC) and the Rent to Own scheme because the house purchasers do not need to rent from the individual landlord (JPN & KPKT, 2018). The bulk purchase by a private organization or a housing club will cause the resale value of the property is higher and making the home ownership unrealistic (Rahah I., Yasmin M. and et. al, 2020; Suraya I. and et. al., 2021).

Uncertainty in House Purchase of RTO Scheme

The risk associated in the Rent to Own (RTO) scheme is the element of uncertainty because of the quick availability of the property when the lessee decides not to exercise the sale option (Francesco, et. al., 2019). Then the properties are risk to have oversupply and readily vacant into the market after the leasing termination. This could affect the stock housing market because of the immediate availability of the houses in the Market, and the developers are required to do marketing of the property again and sell to the new house purchasers. Meanwhile, the financial institution will need to process the cancelation of the leasing and purchase agreement when the house buyer decide to withdraw from the purchase. The risk assessments are important to the Rent to Own scheme because this type of risks associated in the RTO scheme will affects the systematic operation system in the tenancy administration and the financing schemes of the home purchase. Therefore, this is crucial to assess and reassess the customer financial background before deciding to obtain the RTO scheme for the house buyers because of the risk involved in the RTO schemes.

RESEARCH METHODOLOGY

DESK STUDY

The research is carried out through desk study in the project for Rent to Own (RTO) Scheme under several established developers in the state of Selangor. The purpose of desk study is to gathering the information of the property development in the Private Housing Scheme that introduced the Rent to Own (RTO) Scheme through the selected project at the States of Selangor. The desk study is through data collection in the developer's and RTO schemes website by the financial institution. Identifying the risk associated to the implementation of the Rent to Own (RTO) scheme and followed by suggestion to mitigate the risks.

PRELIMINARY CASE STUDY

A preliminary case study with the developer is conducted onsite and interview with the sales executive from the developer office that has participated in the RTO Scheme. Brief information was obtained from the case study and the information collected were described in the result and discussions. The potential challenges and issues in the Rent to Own (RTO) Scheme were enlisted and manages the information by collecting the raw data, brochures and the example calculation of the RTO scheme in the residential housing project.

RESULT AND DISCUSSIONS

RESULTS AND DISCUSSION OF PRELIMINARY CASE STUDY

A preliminary Case Study has also been taken out to do research from a Developer's Office located at the Semenyih town Centre Area and located about 2 kilometres from the Nottingham University, 43500 Semenyih. According to the research and the preliminary Case Study, surfaces of information of the Housing Projects and RTO Scheme projects have been reviewed by the housing developer. The brief description of the housing project is reviewed as accordance to the Literature Review.

The description of the housing projects for the RTO Scheme are explain as below. The property development is expected to be completed in Year 2025 and the targeted date of launching are June 2022.

The first five (5) years of RTO Schemes after handover is to make instalment RM1,000 to RM1,100 per month. Thereafter, after 5th year the instalment is multiply 2 times equivalent to RM2,000 to RM2,200 for a house with estimated Market Value of RM450,000. The estimated maintenance charge is RM0.17 per square foot or RM250 per month. The facilities are park and fully gated and guarded with a total of 32 Co-homes upper and lower floor comprises of 16 strata terrace 2-storeys. The occupancy rate as at dated May 2022 are 50% and the Built-Up Area is approximately 1,000 sq. ft. per unit.

Through the preliminary case study, the advantages and the risks associated with the RTO Scheme can be justified and determined in the next section.

CASE STUDY DISCUSSION OF THE RTO SCHEME

The purpose to do the groundwork in case study is to getting in touch and understand the local private developer's operation method and approaches to marketing these types of property development under RTO Scheme. The finding of the case study and the interview with the developers are very useful to the research because the information that were delivered by them are informative and supportive to the research. There are also required effort to meet with the House Bankers to getting involved in the RTO Schemes. Minor changes have been made to the style of agreement that all RTO Scheme purchaser's their lease agreement will be automatic change to sales and purchase option after 5th year of house ownership in the RTO Scheme.

At the preliminary stage, findings shows that the Property prices for Rent to Own Scheme are less than RM500,000 and the properties are located within the strategic areas with amenities like bank and facilities with University Nottingham located within the closed vicinity. The Police station of Semenyih and the public amenities likes open parks, football field, 2-storey shoplots and property management office are made available within the vicinity. The TNB Supply and water supply, sewerage service and telephone line services are all connected to the garden of the projects. For this purpose, analysis of the case study has shown that younger generation among group of 25 to 45 years old are interested in these types of RTO Schemes, they aim to have lower initial cost for the purchase of houses and they wish to own the houses located nearest to the working distance from the offices and easily commuting by train. They wish to have more RTO Schemes housing developer to participate in the RTO Schemes to provide more variety choices in the housing decision making process.

Types of RTO Schemes - Flexkey and Housekey

Getting to understand how does the operation of the Flexkey and Housekey to the consumer and how does the project sell to the consumer in Business to Business (B2B). Identify the leasing process and contract involved in marketing the RTO Scheme. Comparison of the RTO schemes in the different housing projects and identifying the risks factors.

Table 5: Samples of RTO Schemes in Malaysia

No.	Project's Name	Tenure	Year of Completion	Types/ BUA (Sq. ft.)	Sales Price	Rental (RM)
1	Terraced house and Town House @ Eco Forest, BirchPark 2	FH	2025	2E-Artisan Homes/ 1,798 – 1,985 sq. ft.	RM765,000 - RM1,118,700	From RM1,020 per month
				2F - Artisan Homes/ 2,005 - 2,239 sq. ft.	RM861,000 - RM1,236,220	
				2G – Alfresco Home/ 1,826 – 2,207 sq.ft.	RM 831,000.00 - RM1.209 Mil	
				2J - Co Home/ 1,019 sq. ft	RM 462,000.00 - RM505,000.00	
				2K - Co Home/ 1,012 sq. ft	RM 484,000.00 - RM501,000.00	
2	Double storey Terrace & Cluster house @ Eco Forest, Hazelton	FH	2023	Phase 1 - Type 3A /3B 2,185 - 2,303 sq. ft	RM 828,000.00 - RM1,097,250.00	From RM1,900 per month
				Phase 1 -Type 3D/ 2,479 sq. ft	RM 980,000.00 - RM1,123,000.00	
				Phase 1 -Type 3E/ 1,348 - 1,511 sq. ft	RM 570,000.00 - RM726,600.00	
				Phase 2& 4/ 1,871 - 2,375 sq. ft	RM 702,000.00 - RM1,119,300.00	
				Phase 3 & 5 -Type 3A /3B 2,185 - 2,303 sq. ft	RM 828,000.00 - RM1,097,250.00	
				Phase 3 & 5 -Type 3C/ 2,375 sq. ft	RM 922,000.00 - RM1,119,300.00	
				Phase 3 & 5 -Type 3H/ 1,380 - 1,414 sq. ft	RM 623,000.00 - RM700,000.00	

Notes for table 5: BUA: Built-up Area; FH: Freehold

Source: Lum, 2017

THE ADVANTAGES IN RENT TO OWN (RTO) SCHEME

Fixed Purchase Price for the Housing Loan

The advantages of RTO Schemes are majority of the house buyers will be benefited in home purchasing because there got more time and more choices to make in the Rent to Own Scheme. They can consider to rent first and purchase later (Ecoworld, 2019). The house buyers do not need to worry about their finances because they just need to concentrate in paying the house rental at the first stage of RTO Scheme and house purchase costs like down payment and legal fees were not required to make during signing the lease and purchase agreement (Lum, 2017).

Timely completion, reduced overhang situation and abandoned of housing projects

Moreover, the developers can make sure their projects were not in overhang situation because they may afford to earn rental income from the tenant during the RTO period (Rahah I., Yasmin M. and et. al, 2020). The duration is between

twelve (12) months to five (5) years, the customer will tight down with the lease and purchase agreements with the housing developers, they will secure a permanent sale through the RTO Scheme (Lum, 2017). Moreover, the developers will have Return of Investment because of getting participate in the RTO scheme. The homebuyers will need to ensure that the developer will not have delay in completion and to have regular follow-up with the developer to ensure the houses is completing according to the schedule (Fatimah, Z., 2020).

Joyful house purchasers and realistic in homeownership campaign

This RTO Scheme could encourage the Malaysian Nations especially working in the urban area can own an Ideal house during their younger age, the reason is this RTO Scheme are recommended to the working adults between 35 years old to 45 years old. The RTO Scheme have higher ranges of property prices between RM500,000 to RM1,000,000 for private housing development, and property that are selling below RM500,000 per unit for most of the public and private housing developments (JPN & KPKT, 2018; EPU, 2021; Gregory and Lim, 2022). There is positive feedback that the RTO scheme could encourage more middle-income group and higher-income group to buy the houses in the Klang Valley, Putrajaya and the state of Johor Bahru and Pulau Penang (Fatin J. , Tengku and et. al, 2019).

Secured through Permanent Lease and Sale Agreement

The RTO Scheme will permanently provide a shelter to the majority of the house buyers because this could reduce the burden for the house buyers, to move out after the tenancy agreement has been expired unless being terminated by the Landlord (Lum, 2017; Ecoworld, 2019). This RTO Scheme is a secured housing loan scheme from the Financial Institution because the RTO Scheme are a stable type of financing scheme to the house buyers and the developers (Francesco, et. al., 2019). The developers will have a proper tenancy administration and property management of their asset and properties for maintaining quality of the house projects. Therefore, the house buyers will be stable in terms of emotion because of getting a permanent contract and source of income besides living in a permanent address. This could help the purchasers to be more confident in purchasing the houses (JPN & KPKT, 2018; Gregory and Lim, 2022).

Systematic of Financial Planning and Financial Management

The Rental of the houses determine by the developers and the RTO Scheme are affordable (JPN & KPKT, 2018). This could slower down the process of mortgaging because the rental paid by the house buyers will lead them to secure their houses with the rental accumulated as the down payment and the house deposit (Gregory and Lim, 2022). Therefore, the RTO Scheme will become a platform for the house buyers to channel their income resources to different types

of monthly commitment in paying their debts like education, housing, vehicles or hire purchase, utility bills, medical and food bills (Lum, 2017; Ecoworld, 2019).

THE RISKS ASSOCIATED IN THE RTO SCHEME

Risk of Losing the First Purchaser to Rent and Buy - Termination of the Leasing and Sale Agreement

The first problem in the RTO Scheme is risk in the house buyers when they decide to terminate the Lease and Sale Agreement because of a specific reason like financial breakdown and retrenchment (Francesco, et. al., 2019). Research shows that a person can only afford to buy the house when they have at least 10% of saving in the bank account to pay their first 10% deposit according to the Third Schedule in the Housing Development Act (Control and Licensing) 1966 (Act 118) (Lum, 2017; Ecoworld, 2019; MBB, 2022). The house purchasers could not afford to buy a house above their affordability level, and the purchasers have to depend to receive loan approval over the debt service ratio with their gross income not exceeding than 90 percentage.

Risks of Bankruptcy of the House purchasers and the Guarantors because of non-performing loans and repayment of house rental

Furthermore, the house buyers may risk themselves to purchase the property and regret in their decision making because they do not do the correct calculation like estimating the budgets to pay back the loan and managing their finances (Tuti, H. and Ezdihar, H., 2021). Therefore, the guarantors will play a major part in this repayment back of the housing rental or loans because there were tight down with the Guarantee's Agreement. In case the house purchasers cannot afford to pay back the rental and the housing loans the guarantor(s) has to be responsible to pay back the debt. They might need to suffers in long term to served back the bad debt and release themselves from risk of bankruptcy (Lum, 2017).

Different between the purchase price for purchasing under RTO Scheme and the current Market Value

The properties purchased under RTO Scheme will have to lock at a fixed purchase price before the completion of the contract estimated a year to five (5) years later, depending of the progression of the house purchasers to transfer the rent to purchase. Certainly, the properties prices will reduce after completion for the first five (5) years because of oversupply of the houses and subsequent sales and purchase of secondary market of the property by other house purchasers in the property market (Rahah I., Yasmin M. and et. al, 2020). The developer's will have a fixed margin of profit and return for their housing projects because of scarcity in land, increase of labour cost, raw material costs like building materials and increase of traveling costs and etc.

Risk of Property Investment and Property Maintenance and Services

The housing developers have to improve the property facilities and management services for the housing projects to increase the confidence level for the house purchaser to purchase under RTO Scheme (Tuti, H. and Ezdihar, H., 2021; Yasmin Mohd. and et. al, 2021). The developers have to improve their properties conditions by investing in the property management services in order to maintain the motivation of the house purchasers to purchase under the RTO Scheme.

The developers have to take the initiatives to advertise and to do project marketing for their residential properties in order for them to attract more house buyers to buy under the RTO Scheme. The developers have to maintain the facilities of the housing projects like the swimming pool and wading pool in the condominium, lift services, security management system, traffic flows, parking spaces, landscaping, property management to the residents. The quality of the housing projects will give an impression to the house purchasers to make their decision to buy immediately after occupying the properties under the RTO within the five (5) years of the tenancy period.

Rent to Own (RTO) Scheme are still in infant stage and time needed to the Stakeholders to getting involve in the RTO Scheme

RTO Scheme is a financial scheme that offers to the house purchaser because they need to borrow money from the Financial Institution in order to purchase the property (Gregory and Lim, 2022). The financial scheme is a new type of Scheme that have been introduced by the National Housing Policy (NHP) 2018-2022 together with the cooperation with the Banks (JPN & KPKT, 2018; EPU, 2021).

This RTO Scheme are still new in the industry, the changes in purchasing patterns from rent to own is a new term among the house owners and house purchasers. The house purchasers have to received more knowledge and information to accommodate to the newly implemented financial packages that offers to the house purchasers to buy, and the Developers to advertise and marketing for their housing projects. More training and activities like talks, seminars and presentation have to be carry out in order to promoting this RTO Scheme to the middle-income group to encourage the potential new house purchasers to buy.

Transparent of information under RTO Scheme

The information provided in the RTO Scheme must be transparent and this cannot be treated as only a Private Rented Sectors (PRS) because RTO Scheme involved the Stakeholders like the developers, financial institutions, valuers, lawyers, house purchasers and the guarantors (Ecoworld, 2019; Lum, 2017; Gregory and Lim, 2022). For example, when the tenant's decided to rent, the house purchasers must agree to pay for the rental deposit and the utility charges, while there are

additional costs incurred like outgoings for quit rent, repairs cost, maintenance charges, assessments, fire insurance.

Proper Communication required to inform the new house purchasers to be ready to pay for the outgoings before the period of leasing and when the time of the purchasers have purchased the properties, full rental amount inclusive of the outgoings were required to pay by the house purchasers.

Risk of Forfeiture of House Rental as Deposits and Getting fine in the Late Penalty Charges

Rent to Own (RTO) Scheme rental deposits can be forfeited when the tenancy agreements and the sales agreements are terminated due to delay in paying rental and recovery of the rental (Lum, 2017). The house buyers are responsible to settle the house rental and housing loan during the RTO Scheme to avoid forfeiture of the rental and getting fine in the late penalty charges.

CONCLUSION AND SUGGESTIONS FOR FUTURE RESEARCH

In conclusion, this paper aims to identify the risk associated to the Rent to Own (RTO) Scheme. The purpose is to ensure that the RTO Scheme can be smoothly deliver to the housing borrowers. The risks associated in the Rent to Own Scheme are due to many factors like newly implemented to the finance institution (Francesco, et. al., 2019). The financial Schemes are relatively new to the house buyers because they can rent first and purchase later. The house purchasers do not need to worry whether their financial status at the later stage still can affordable to pay, the house purchasers are paying the amount that are different of ten percent from the original housing loan instalments amount to replace with the rental payment (Gregory and Lim, 2022). The risks factors associates to the RTO Scheme model are highlighted in this journal papers including the house purchasers were required to seek for a guarantor for their loan agreements (Lum, 2017), and the developers will have the risk to have immediate vacant units when the customer decided to withdraw from the RTO Scheme (Francesco, et. al., 2019). This could become a phenomenon that many people think this are the risks that can mitigate by all of the stakeholders involved in the RTO Scheme.

The problem will be continuous to arise, therefore the preventive measurements are important to overcome all the uncertainty in RTO Scheme. The property sectors supply and demand are crucial in balancing the property market conditions (Rahah I., Yasmin M. and et. al, 2020; Suraya I. and et. al., 2021). This leads to the researcher to understand that further research is required to carry out to identify the potential risks that can cause the impact of the house purchasers' motivation, to make decision to buy the property under RTO Scheme. Besides, study need to be undertaken to do the research in each stage of the RTO Scheme because every stage of RTO Scheme is important to contribute to the successful implementation of RTO Scheme in Malaysia (Chee, 2019; Ecoworld, 2019).

The RTO scheme are unique to all the house purchasers in Malaysia because these financial schemes are newly introduced among the house purchasers, housing developers and the financial institutions. Different channel of advertisement of this type of RTO scheme have been offered by the housing development through the billboards, signages, websites, the brochures and pamphlets (Tuti, H. and Ezdihar, H., 2021). Therefore, the MHLG, Stakeholders in RTO Scheme will have more room to improves for the RTO Scheme in the future housing projects within the Klang Valley, the Southern Region and the Northern Region.

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