



EMPIRICAL EVIDENCE ON THE DETERMINANTS OF SELANGOR'S PUBLIC HOUSING RENT-TO-OWN PURCHASE DECISION

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ABSTRACT

The Rent-to-Own scheme had been put into the limelight under the Budget 2015 by the previous Prime Minister. Rent-to-Own (RTO) scheme allow an individual to rent the property for a certain period of time, with an option to purchase the property at a pre-determined agreed sales price at the end of the rental period. Despite the initiative offered by the government to promote this scheme, it is not well received by the targeted group. This cross-sectional questionnaire survey study aims to identify the determinants affecting the Rent-to-Own scheme. The questionnaire survey was distributed to 118 respondents by adopted the Cochran's equation where 90% of confidence level and level of precision of 8% were assumed for the equation. There are six determinants found affecting the decision to purchase of RTO housing scheme. The determinants are general determinant, financial determinant, income determinant, location determinant, building determinant, and accessibility determinant. The empirical analysis revealed that top-ranking determinant was the financial determinant. The result will be useful to the developers, homebuyers and policymaker regarding the vital determinants that need attention towards making this scheme benefited to the targeted group.

1.0 INTRODUCTION

Malaysian government emphasized on providing adequate houses to the citizen. With the growing gap between the housing selling price and household income, most people are unable to purchase their own house. The Khazanah Report (2015) indicated that Malaysia's low and middle-income earners are falling behind in their ability to purchase a house. The problem of affordability is contributed by the inability of an individual to purchase residential in the property market. This is as the result of high residential

price to income ratio. By this, the government take the initiative by introducing the 1Malaysia Housing Programme (PR1MA).

Under the PR1MA program, the government introduced the Rent-to-Own scheme to enable more people to own houses. This scheme is for the individual who is unable to obtain housing loan financing. It allows plausible buyers to buy a property via renting for a certain period that agreed by the scheme provider and buyer. The buyer can eventually purchase the unit once the rental tenure matures or after when are capable to secure a mortgage loan (Prop, 2017).

Alias (2017) stated RTO scheme allows potential home-buyers to lease the houses for up to 10 years with poor credit ratings this is to make it possible for the buyers to build up the deposit equity to be eligible for a bank loan. Besides that, the monthly rental is marginally higher than the current market because by that a certain percentage of it will be credited to the property future purchaser to lessen the amount of money have to be pay by the buyer during house purchasing (Bhatt, 2017).

The issues arise when the rental tenure matures, the residents are not interested to purchase the property. As stated by Pimental (1995), the RTO scheme is not well received by the targeted group. There are numerous determinants contributing to the decision to purchase public property supplied by the government. Nasar and Manoj (2015) conducted a study in India on determinants affecting the decision to purchase. The study focused on three main determinants which are price, location and quality of the public housing. The determinant of price was ranked as the most significant among the other two determinants. They stated that price as the most important determinant because of its attribute 'Economy type and availability of minimum essential facilities'. It is followed with the determinant of quality and location of the public housing.

Meanwhile, Zhou and Musterd (2018) conducted a study on housing preferences and access to public housing among migrants in Chongqing, China. The study uncovered that migrants with inter-provincial hukou, lower wage, larger family size, more urban relatives and expectation to improve their housing conditions were more likely to express their preferences for public housing. The researchers also point out that among the housing preferences for the migrants are single-family housing, centrally located and larger housing, thus these preferences do not correspond to the public housing provided by the government.

A study by Olanrewaju and Woon (2017) on an exploration of determinants of affordable housing choices in Malaysia. The research is based on a cross-sectional questionnaire survey comprising of seven determinants with 468 number of respondents. Those determinants were general determinant, financial determinant,

building determinant, income determinant, accessibility determinant, market determinant and location determinant. The household income was ranked as the highest determinant that influences the decision to purchase affordable housing.

There are a limited number of housing studies on views on rent to own schemes in Malaysia. Previous research often only considered the perspective of a general homeowner; Therefore, the purpose of this research is to understand the factors behind the priority of purchasing decisions for rent-to-own homes in Malaysia. According to Daly *et al.* (2003) when there is a better understanding of the factors that influence the behaviour of property purchases, better understanding and predictions of decisions in the real estate market will be achieved. In addition, this study will identify the characteristics of buyers of residential real estate in Malaysia. In addition, this paper is also important for investors, developers, financial planners, mortgage banks and real estate agents to better understand their home-buying decisions.

2.0 RENT-TO-OWN PROGRAM IN MALAYSIA

PR1MA corporation was established in accordance with the PR1MA Act 2012 aimed at planning, developing, constructing and maintaining high quality housing for middle-income households. This corporation developed various types of public housing throughout the Peninsular Malaysia. The selling price is between RM 100,000 to RM400,000 per unit. It is targeted to the Malaysian citizen with household monthly income range between RM2,500 to RM15,000 per month (PR1MA Corporation, 2017).

There are three programs offered which are PR1MA Rent-to-Own program, People Public Housing Rent-to-Own program, Maybank Islamic Rent-to-Own scheme, and property developer Rent-to-Own scheme.

2.1. Rent-to-Own People Public Housing Program (PPR)

According to the Ministry of Housing Local Government (MHLG), the Rent-to-Own by PPR was approved by the Malaysian cabinet meeting on 3rd August 2016. The scheme is offered to the applicants or prospective buyers who have not been able to acquire financing from any financial institution. The PPR that offers this scheme are; Gua Musang PPR in Kelantan offers 1000 units of houses, PPR Lembah Subang 2, Selangor with 1,580 units, PPR Kampung Hassan, Selangor with 300 units and PPR Ladang Silau, Port Dickson with 300 units of houses (Table 1).

Table 1: People Public Housing offered the Rent-to-Own scheme

People Public Housing (PPR)	Location	Number of unit offered
PPR Gua Musang	Kelantan	1,000
PPR Lembah Subang 2	Selangor	1,580
PPR Kampung Hassan	Selangor	300
PPR Ladang Silau	Port Dickson	300

Source: Ministry of Housing Local Government (MHLG)

It is aimed to help the potential home buyers from low income group including squatter settlers.

2.2. PR1MA Rent-to-Own Program

This program was offered for those applicants whose loan were rejected by PR1MA panel bank for end financing. There are two types of concept offered under this program which are PR1MA Basic RTO and PR1MA Zero RTO. The occupants will pay the monthly rental, which includes savings amount in the monthly rental under the PR1MA Basic RTO. The savings are accrued in the Buyer's Saving Account to help accumulate the payment for the down payment for the bank loan at the time of purchase. Residents will only pay the monthly rental without any saving element incorporated in the Zero RTO plan scheme. If the residents decide to exercise the Option-to-Purchase, they need to pay up the full end-financing. Both

options will be given an Option-to-Purchase at a pre-determined price at year 5 or year 10.

2.3. Maybank Islamic RTO Housing Program (HouzKEY)

Maybank Islamic Berhad is the first bank that offers RTO housing scheme concept and the scheme is known as HouzKEY. HouzKEY is an alternative solution for homeownership. The public is able to choose to rent a home from Maybank2own with the option to purchase a property when they are ready to purchase. Maybank HouzKEY scheme was introduced as an alternative to own a home without paying the down payment and thus by just paying monthly rental (Lim, 2017). The scheme benefits the consumer because it is offering low entry cost for home ownership (Andria, 2018).

2.4. Property Developer RTO Scheme

There are also RTO scheme offered by the developers, thus under different names such as "Stay and Own" scheme by TAHPS Groups Berhad, "Reside and Purchase" program by Selangor Dredging Berhad and "Rent Now Buy Later" program by Khoo Soon Lee Realty Sdn Bhd. This RTO scheme offered by the developers provide a greater opportunity for consumers to own their dream house.

3.0 METHODOLOGY

In this research, the quantitative approach has been adopted in collecting the data. Quantitative research tends to be based on numerical measurements of specific aspects of the phenomena; it abstracts from instances to seek a general description; it seeks measurements and analyses that are easily replicable by other researchers and usually collected for statistical analysis using surveys (King *et al.*, 1994). The intent of this cross-sectional questionnaire survey study was to identify the determinants that affecting the decision to purchase of RTO public housing schemes in Selangor. In a cross-sectional survey design, researchers collect and analyze the quantitative data (Creswell, 2010). Relative Importance Index was calculated to

rank (Moses *et al.*, 2019) the determinants that influence the RTO decision.

3.1. Description of study area

The researchers conducted this study at Taman Danau Hulu Bernam, Selangor. This public housing scheme were chosen because it implemented the Rent-to-Own program. It was developed on a 26-acre site with the development cost of RM 42 million. The public housing project consist of 300 units of terrace houses equip with multipurpose hall, kindergarten, prayer hall, and playground and sport court. The build-up area for each unit is 850 sqft.

This public housing scheme implemented the RTO program which was focusing on the participants who are still unable to acquire the funding from respective banks. There are one hundred and eighteen (118) total participants offered under this RTO program. The occupants are required to pay monthly rental ranging from RM200 to RM250 per month for the period of 20 years up to 25 years before the ownership were granted to them. The selling price range between RM35,000 to RM60,000 per unit.

It is developed by the Federal Government targeted for low income group, thus to assist this group to own a house as stated under 12th Malaysian Plan.

3.2. Sampling

To identify potential respondents a preliminary survey was done in January 2018. The respondents are among the residents of PPR Taman Danau Hulu Bertam, Selangor that consist of 118 respondents. Cochran's equation (Cochran, 1963) was adopted to determine the sample of this study where 90% of confidence level, and level of precision of 8% were assumed for the equation.

Method of data collection using questionnaire survey was carried out. The questionnaire was distributed to respondents to identify the determinants affecting the decision to purchase the RTO housing units. The questionnaire is divided into two sections; section A is on demographic data consist of their gender, age, marital status, occupation, income

per month and length of stay. While section B is consisting of determinants affecting the occupants to purchase the RTO units by Likert Scale ranging from scale 1 to scale 5.

4.0 DATA ANALYSIS AND FINDINGS

4.1. Demographic profile of the household

There are 180 respondents involved in the questionnaire survey. The respondents are from the age of 20 years old to 50 years old. The highest number of respondents are from the age of 31 to 40 years old. Most of the respondents that are staying at this area of study are married as shown in Figure 1.

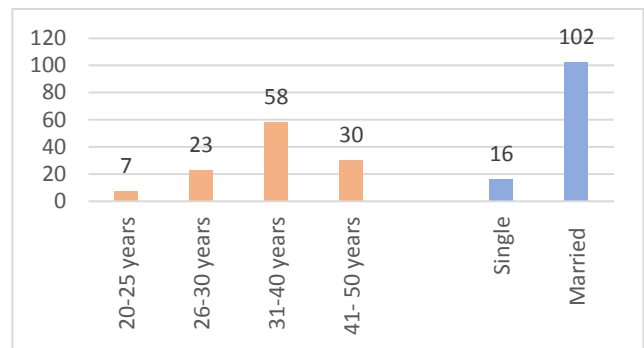


Figure 1: Age and marital status of the respondents

Based on the data collected, most of the respondents are working in the private sector with 63.7 percent, following with government sector at 23.7 percent, while 12.7 percent are recorded as others referring to self-employed (Table 2).

Table 2: Employment of the respondents

Employment	Frequency	Percentage (%)
Government Sector	28	23.7
Private Sector	75	63.7
Others	15	12.7
Total	118	100

Table 3: Length of stay

Length of stay	Frequency	Percentage (%)
1 year	43	36.4
2 years	75	63.6
3 years	0	0
Total	118	100

Majority of the respondents have been staying at the area of study for nearly 2 years (63.6 percent). Whilst the other 36.4 percent of the respondents occupied the PPR for about 1 year (Table 3).

Table 4: Income per month of the respondents

Income per month (RM)	Frequency	Percentage (%)
900 – 1,000	11	9.3
1,500 – 2,000	59	50
2,500 – 3,000	41	34.7
3,500 – 4,000	6	5.1
4,500 – above	1	0.8
Total	118	100

The highest percentage of monthly income for the respondents are recorded to be within the range of RM1,500 to RM2,000 per month (50 percent). Whereas the lowest percentage of monthly income is recorded to be in the bracket of RM4,500 and above (0.8 percent) as shown in Table 4.

Through face to face data collection, the researchers are able to get a ground data on the employment of the residents. Most of them are working on daily basis without having a monthly pay slip. Thus being paid without a proper documentation on income. This makes it difficult for them to secure end-financing from financial institution.

4.2 DETERMINANTS AFFECTING THE DECISION TO PURCHASE

There are six determinants identified in the literatures that affected the decision to purchase of public housing. The determinants are the ability to secure end-financing, income, location of the public housing, the physical building, accessibility available at the PPR and general determinants (Zhou & Musterd, 2018; Olanrewaju & Woon, 2017; Ismail *et al.*, 2015; Nasar & Manoj, 2015; Wang & Li, 2006; Pimentel, 1995). Those determinants were then tested on this study.

Relative index analysis was selected in this study to rank the determinants affecting the decision to purchase according to their relative importance. Johnson and LeBreton (2004) specified that RII aids in finding the contribution a particular variable makes to the prediction of a

criterion variable both by itself and in combination with other predictor variables.

Table 5: Relative important index analysis on determinants affecting the decision to purchase

Determinants	Mean Score	Ranking
Income	4.41	1
End-Financing	4.35	2
Location	4.32	3
Building	4.31	4
Accessibility	4.17	5
General	4.12	6

The top-ranked determinant is the income determinant, then followed by the ability to secure end-financing, location of the public housing, physical building, accessibility and general determinant. The finding is supported by Olanrewaju and Woon (2017), they discovered that the most significant determinant affecting the decision to purchase public housing is household income. It is also found that the non-financial determinants are also ranked to be as important by the households such as the location of the public housing, the physical building and the accessibility to the nearest public amenities such as hospital, fire station, school, etc.

5.0 CONCLUSION

The study provides the RTO's residents of their decision to purchase public housing. This study has analyzed the leading factors influencing the purchase decision of RTO scheme. The study observed income determinant, the ability to secure end-financing, location of the public housing, physical building, accessibility determinant as the important determinant influencing the purchase decision of customers.

The study revealed that the income of households is the most important determinant in affecting the decision to purchase the RTO scheme. Most of the occupants staying at the selected area of study earning approximately RM900 to RM3,000 per month. With the increasing cost of living, the occupants cannot afford to purchase their own home. The RTO scheme provided by the government hopefully able to help these targeted group to ease their burden of owning a house. The result from this study will be useful to the developers,

homebuyers and policymaker regarding the vital determinants that need attention towards making this scheme benefited to the targeted group.

This paper contains some limitations that may hinder the contribution of this study as it requires further study. It would be recommended for future research to extend the research geographically to get a more comprehensive view on property investment. Further research may consider wide range and more extensive of house purchasing determinants, such as reputation and quality of the developers.

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