

Headline	Property crowdfunding quandary		
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Property crowdfunding quandary

- **There** are many naysayers for the crowdfunding concept because there are too many unanswered questions
- **If** the intention is to allow first-time buyers to own a home, why allow the property to be used for rental purposes?



by Wong Whei Meng

When Budget 2019 was to be announced, I held no expectations as our finance minister had repeatedly hinted that it was a budget of sacrifice. Surprisingly, it turned out that it wasn't as bad as many experts had thought. As for me, I am cautiously optimistic on the country getting back to be the "Harimau of Asia".

One of the key highlights that stood out was property crowdfunding. I laud the government for taking the initiative to launch this innovative idea. While crowdfunding is not new, it is the model that has been deployed innovatively to fulfill the dream of home ownership for one million rakyat.

There were many naysayers about the concept because there were too many unanswered questions. But they were missing out on the big picture. Nobody should doubt the feasibility of this initiative when it is well thought out and followed by relentless execution and careful fine-tuning.

There are, however, two crucial aspects that I urge the government to study in order for the plan to be more successful. These are the 2F components: Freedom to Choose and Free from Speculation.

Currently, the proposed idea is mainly focused on the primary market where first-time home buyers can choose to buy a house from participating property developers. I believe the rationale behind it has a lot to do with the overhang in the market and to help developers offload the excess capacity. It is a good idea but it gives people the impression that it is pro-developer rather than pro-rakyat.

My suggestions:

Let the home buyer have the freedom to choose from who and where he wishes to buy.

Confining it to just the primary market will result in less attractive choices in certain seg-



Crowdfunding platform seems to be appealing to buyers but more information is needed

ments. There are segments in the market that prioritise access to lifestyle, spacious living, proximity to workplace, value for money or quality education. The list goes on and on, limitless. It is a budget of sacrifice. But it shouldn't be a sacrifice of choice.

If crowdfunding is opened to the secondary market as well, I strongly believe it can uplift the idea from good to great. It opens up massive choices for people to choose from based on their preference. It virtually has the chance to cater for any segment of market needs.

Secondary market for existing investors

By opening it up to the secondary market, it allows existing property investors to sell their property with ease. Institutional investors (currently Maybank and CIMB) would be in for profit. Providing funding for purchases in the secondary market gives a "better" margin of safety as compared to the primary market. There is more transactional data

and demand as it is in a mature neighbourhood.

Buyers can still pay 20% while institutional investors pay the rest to purchase the property outright. This will also help existing property investors free up cash flow from bank loans when the economy is soft and help over-leveraged investors. This in turn truly increases spending power while simultaneously reduce non-performing loans.

There can be another type of property investor who strongly believes in further upside for their property by holding them longer but would love to have some liquidity to pay down debts. They can divest a portion of it to diversify their investment portfolio or even to pay for children's education. That way, it is truly crowdfunding instead of institutional investors shouldering all the burden and risk.

Free from speculation/bad actors

The intention of property crowdfunding is to help first-time

home buyers to buy. However, I do not understand why the property should be used for rental purposes. It is highly possible that bad actors may try to mark up the property value and give a discount back to the buyer. When that happens, it increases the property's price.

Let's say I purchased a property worth RM500,000 with 20% downpayment. Essentially, I just need to pay RM100,000. With the discount included, I may end up paying a lot less. But even without discount, I'm looking at around RM1,667 a month to break even over a five-year period.

In an over-simplified calculation, I can potentially lease the property and make a fantastic above-market rate (see table).

As you can see, the downside is pretty limited, but there's a superb upside. Note that the calculation is based on zero discount. If there is a discount provided, it further reduces the capital outlay even more.

At the end of the day, investors want to be buyers. The

investor could just fund many first-time buyers in an Alibaba arrangement to profit share. I don't see big incentives to fund the 80% of the property when crowdfunding is open for all investors because I don't get the benefit of the rental.

In fact, if my return is great, I don't really have to care about the condition of the house because I'm just a 20% equity stakeholder. The pain is shifted to the 80% stakeholder. This gives investors (buyers) in this scheme an unfair advantage compared to other investors who buy houses through the conventional bank loan.

Need for relentless execution and fine-tuning

As Zig Ziglar once said: "You don't have to be great to start, but you have to start to be great." Therefore the regulation must be agile and flexible enough to track changes fast when loopholes or weaknesses are detected. A strong ecosystem for feedback to fine-tune execution, coupled with strong monitoring and enforcement are fundamentals to success. Eventually, one day, the plan will be great.

With significant efforts in curbing speculation and patching loopholes, plus having first-home owners in mind, this will be incredibly successful. I believe all Malaysians would love to see this take off like a rocket and enable everyone to own their dream house. **Wong**

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PROPERTY PRICE: RM500,000

Downpayment : RM100,000 (RM1,667/60 months)

RENTAL (MONTHLY)	60-MONTH RENTAL	70% OCCUPANCY	20% EQUITY IF HOUSE PRICE REMAINS THE SAME	5 YEARS ROI (FULL OCCUPANCY)	5 YEARS ROI 70% OCCUPANCY
RM1,200	72000	50400	RM100,000	172%	150%
RM1,667	100000	70000	RM100,000	200%	170%
RM2,000	120000	84000	RM100,000	220%	184%

A simplified calculation depicting the return on investment using property crowdfunding method for first-time home buyers