



05 JUL, 2019

SHOULD MALAYSIANS INVEST IN A CAR OR HOUSE?

Smart Investor, Malaysia



Over the years, we have heard regular complaints by families regarding the difficulties facing the future generation and the weak economy.

As a fresh graduate, it is common for many to begin thinking about the first "big" thing we would like to purchase with our hard-earned money. Assuming you have worked really hard for the last few years and have saved a decent amount of money, what would you invest in?

Will you buy a new car? Or perhaps invest in your first home? Well, there aren't any right or wrong answers to this question.

When it comes to the price of a house and that of a car in Malaysia, one thing we know is that one is always increasing. Let us take a look at some reasons why Malaysians choose to purchase a car or house first.

Choosing to get a car

One of the foremost reasons for getting a car would be transportation needs – getting around the city, and also to and from work.

Also, Malaysia lacks the necessary infrastructure (though this has improved in recent years), and the coverage of public

transport is not as extensive as other more developed cities.

Take London for example: the London Underground is currently one of the oldest and most extensive train/subway systems in the world. With stations every 1-2km away, the people will be able to get to wherever they need without the need for a car.

Another reason why most people choose to purchase a car before a house would be the financial obligation.

On average a car would cost anywhere between RM60,000-130,000 depending on the make and model. This would not be too much of a commitment for the



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average person. However, this is with the assumption that you are only purchasing a car for transportation's sake and not to own a fancy car. In some cases, even second-hand cars would work.

While this article focuses on the average citizen, those from the Top 20% (T20) income group would not worry about the financial commitment and view cars as more of an object of 'face' or reputation.

Choosing to buy a house

If you are mulling purchasing a house, and intending to move out from your parents' house, you will require a place to stay. In this case your options are either to rent or buy a place. Renting a house would cost slightly less than purchasing one, although you would not have built up any equity at the end of your lease.

When purchasing houses, do note this is more of a long-term, high-commitment investment which can be quite daunting to most people. Not only is the figure much higher compared to buying a car, it has to be serviced for a very long time.

For example, a simple car loan may have an instalment of RM1,000 per month for up to nine years. A house, however, would be anywhere between RM2,000-5,000 a month depending on location and is usually paid over 30 to 35 long years.

For serious buyers with every intention of owning a house, it is actually beneficial to start as early as possible to obtain a longer loan term (up to 35 years). This is because the longer the loan tenure,

the lower the monthly instalment will be.

Additionally, there are also more benefits to choosing to get a house over a car. Let us now take a look at debts. There are two kinds of debt, commonly known as good debt and bad debt. These are terms coined to indicate that not all debts are bad. In fact,

some may actually be beneficial to the debtor in the future (what is referred to as 'good debt').

Property prices are always on the rise. This is known as appreciating goods which increases in price as time goes on. Unfortunately, cars are categorised as depreciating goods, which is to say that a second-hand car will cost less than a brand-new car.

Houses, on the other hand, will only sell for an equivalent value at purchase or at a profit. Therefore, purchasing a house will inevitably be a better investment than purchasing a car over the long run. Having said that, choosing the right house to purchase is also key.

For Malaysians, a house can be a big investment with benefits that can only be reaped after a long period of time. This is, for many, akin to a leap of faith to provide a better life for the future 'you' rather than the present 'you'.

The government has dedicated much resources to help alleviate

UNFORTUNATELY, CARS ARE CATEGORISED AS DEPRECIATING GOODS, WHICH IS TO SAY THAT A SECOND-HAND CAR WILL COST LESS THAN A BRAND-NEW CAR.

some of the burden of buying a house. As such, Malaysians should take advantage of the benefits that come with affordable housing schemes, PR1MA homes and also the Home Ownership Campaign.

We are living in an 'instant' era where many things – online banking, instant messaging, phone calls, and the internet

– are done instantaneously.

Everything can be done on the spot for instant gratification. However, we should sometimes take a step back and look at the future instead of just living in the present. Sometimes, delayed gratification is beneficial to your future, too.

Therefore, the ideal option would be to buy the house first and serve the loan instalment for a few years. Over time, you would have built up more equity in the mortgage, which will then allow you to refinance the house to a higher amount of loan.

The extra cash you get then can be used to buy the car of your choice. That way, you would be killing two birds with one stone. 🏠



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SUMMARIES

The pros and cons of buying a car or a house.

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