

COMMENT

Home is where my debt is

RENTAL MODEL:

Malaysia needs one that provides a balance of security for tenant and rights of landlords

WITH house prices going through the roof, but the government encouraging me to own my first home, I'm in a dilemma.

Before I throw in my lot for a piece of the housing craze and start house hunting, however, my analytical mind tells me to weigh the pros and cons. What does owning one's own home involve?

On the plus side, owning a house is most often associated with stability.

Knowing that there will always be a roof over my head and that no one can evict me from my home is

one of the primal human needs.

An owned home is also a good long-term investment. It is a hedge against inflation and if the value of the property appreciates, I can unlock its value, should the need for emergency income ever arise.

I can also use it as capital to move into a larger residential unit at a later stage.

Who knows, it could someday be a key advantage to landing the woman of my dreams and starting a family.

So home ownership brings about a great deal of benefits. But it is not all positives. One drawback could easily outweigh them all.

On the negative side, the game changes once you own a huge debt. A 100 per cent mortgage, as envisaged by the My First Home Loan programme, is a huge debt for young workers whom the scheme is targeting to assume.

To make home ownership affordable is praiseworthy. But should it be by extending credit to borrowers whose earned income means that they would otherwise not be able to borrow?

Is this not essentially what happened in the United States subprime mortgage fiasco?

No doubt about it, all Malaysians should eventually be able to own their own homes.

This is not just the American Dream but one that is shared by all. That is the high-income nation dream after all.

But the methods to promote home ownership should be sustainable and not put them at increased financial risk.

America's prosperity has been achieved by buying today and the expectation of future income. If there is strong economic growth and stable interest rates, rising debt is not a problem.

Today, however, US debt is a problem.

Debt itself is not a problem but creating debt to pay off debt certainly is. So, too, is the lowering of credit standards to get access to debt.

Coming back to home ownership, the question is really about the classic rent-buy question but viewed through fresh glasses.

It may be a myth that home ownership is the only way to achieve social stability.



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Germany is a unique example of promoting pro-tenancy policies. It has the lowest home ownership rate in the developed world of only 42 per cent and, not coincidentally, lower debts as well.

In Germany, unlimited tenure contracts are a standard feature of leases. This effectively gives tenants security of tenure.

Tenants can even demand continuation and object to termination of the lease, if that would result in hardship even in light of the landlord's legitimate interests.

A landlord may occupy the property only if he wants to take up residence himself, or a close family member. A six-months waiting pe-

riod for this to take place is not unusual.

The German model might seem a bit extreme but it makes the point that security of shelter can be provided in other ways.

Unfortunately, even a basic Landlord and Tenancy Act is virtually non-existent in Malaysia. If Malaysians buy houses before their earnings are sufficiently high, their housing repayments will mean that other expenses will be downsized.

If this just means fewer vacations and trips to restaurants, fine. But if it means sacrificing better education and healthcare for their children and themselves, and savings for the future, the decision to buy one's own home can have high social costs.

In short, Malaysia needs to evolve a viable rental model, one that provides the right balance of security for tenants and the rights of landlords.

Addressing this may prove more effective in ensuring shelter rather than encouraging me to buy a house that I cannot afford, and to assume a debt that I cannot pay.