International Journal of Economic Research

ISSN : 0972-9380

available at http: www.serialsjournals.com

Volume 14 • Number 16 • 2017

Islamic Housing Partnership Equity Trust (HPET-i): The Pull and Push Factors

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ABSTRACT

The concept of Housing Partnership Equity Trust, which derived from United States Housing Market, has effectively provided home to middle-income and low income people. Adopting to this concept, this research intended to explore an alternative home financing which can be used in financing houses at an affordable price. The main objective of this paper is to determine the pull and push factors in implementing Islamic housing partnership equity trust (HPET-i) as a home financing alternative in Malaysia.

Using the concept of waqf and Islamic REITs, this research proposes the framework for developing HPET-i based on the identified pull and push factors. Two case studies on waqf development in Penang and Selangor are used to provide better understanding on the use of waqf in real estate market. This research provides evidence that in developing HPET-i for affordable mortgage financing, policymakers need to consider the existing policies, trusts or regulations which can contribute to the success of implementing this new Islamic finance product into housing market. In conclusion, our analysis suggests that HPET-i has the potential to be developed into a more effective home financing product. Nevertheless, more in depth analysis needs to be carried out in order to ensure its suitablity and successfulness.

Keywords: Islamic Housing Partnership Equity Trust (HPET-i), waqf, affordable home financing.

1. INTRODUCTION

1.1. Background

Home financing structure or mortgages are created to deliver capital to producers and borrowers. The producers, who are the construction companies will use the capital to build houses, while the borrowers-buyers will use the capital as mortgages to purchase houses. This is the objective of financial institutions, to channel funds from savers to borrowers (Lea, 2000). Although there are many types of home financing available in the market, the debates in the advanced economies are now on affordability issue (MacLenan & Ong, 2015). This issue is alarming as more people could not afford to buy a house as the house price increased outstripped the increased in income level.

Affordable housing is linked to the productivity sector of the economy as it offers different types of input to different sectors (Smith & Searle 2010). For example, the housing process connected to the economic growth through the business investment and innovation around the neighbourhood area which diversifying local economies. More jobs and infrastructures are created around new housing development. Buying or owning a house is important as it can help families to get to know each other and work to establish their own community (Hong, 2013). This inturn, enable the communities to enhance the community's economic strength as it provides the necessary foundation for families and individuals to succeed in their life by having more parenting self-esteem towards their children (Balfor & Smith, 1996; Rossi & Weber, 1996).

There are extensive review on the affordability issue in housing market (see Hulchanski, 1995; Hui, 2001; Robinson, Scobie & Hallinan, 2006; Whitehead et. al., 2009). Apparently, the issue remains relevant and significantly important to many people as the current home financing could not resolve the unaffordability issue for homebuyers. This paper explores the possibility of addressing the home financing problems in Malaysia through the use of Housing Partnership Equity Trust- Islamic (HPET-i).

1.2. Malaysia Housing Market

The homeownership rate in Malaysia was recorded at 80 % in the late 1980s. However, due to the increasing cost of house prices, the homeownership rate has decreased especially for the average Malaysian living in a big cities such as Kuala Lumpur with an averaging house price of RM 772,126 in 2016:Q3 (www.globalpropertyguide.com). This price is not affordable for the average Malaysia population which is M40 group (monthly income between RM 3,860 to RM 8,319) (The Star Malaysia; Starbiz, 29 July, 2017). The affordable house prices should be in between of RM 150,000 to RM 350,000.

The difficulty in providing affordable houses is caused by the huge gap in supplying affordable houses and demand for affordable houses. In addition, the availability of less affordable home financing for homebuyers also contributed to the home affiordability issue in Malaysia.

The issue of housing affordable stemmed from various reasons such as rising cost of raw material, land price and financing cost (Su Ling & Almeida, 2015) which affect the developer side (suppy) and buyer side (demand). According to Su Ling and Almeida (2015), most developers in Malaysia see the supply of housing affordable as cost-prohibitive. This is due to the rising cost of raw material such as steels, cement and other resources needed in building a house, which can reduce their profit margin in putting a price on a house. As for the buyer side, the challenging part in getting home financing (mortgage) is affordability requirement of 30% in home monthly payment from the residual income.

According to the UN-HABITAT (2011), there are two important factors in measuring financial affordability in purchasing a house; (1) the cost to buy a house, and (2) the cost to keep the house. The cost to buy the house include the house purchase price and the ability to finance down payment. The second factor is the cost of maintaing the house, which include house occupation cost and the ability to financially service loans. In here, our focus will only be on the first factor which is the cost to buy the house by looking at affordable non-traditional home financing.

1.3. Problem and Objective

Malaysia has a young population, where 64 % of the population is between 15 to 64 years old (UNESCO, Institute for Statistics, 2016). This implies that the demand for houses will increase as more young adults enter the workforce and later want to settle down with their family. As the demand for housing increases, the need for affordable housing also increases. Unfortunately, many middle-income households in Malaysia cannot afford to have a decent home nowadays due to the increased price of houses available in the housing market. In Shah Alam, Selangor, the average price of Terrace house is about RM 500,000 and above (Global Property Guide, 2016).

Housing affordability is a complex issue which can be assessed mainly through financing structure. Currently, the existing home financing structure in Malaysia could not solve the unaffordability issue for many people as their household income is not eligible for home financing. These generation cannot afford to occupy "decent quality" dwellings without devoting an "excessive" fraction of their income to home mortgage payment.

In Malaysia, the housing affordability index shows that house prices in most major cities are more than three times the annual median income of households (Khazanah Report, 2015). The World Bank Affordability Index 2012 stated that households in all states except for Terengganu and Kelantan could not afford to buy houses as the prices have exceeded three times of their annual household's income.

Malaysia needs an appropriate affordable housing system or scheme as its population is increasing, reaching 33 million people in 2017. Although there are resource constraints, Malaysia needs to focus on how to get the most out of the shrinking pool of resources available to build afforable houses and also to monitor the increasing house prices. Bank Negara Malaysia (BNM) have set several new standards and guidelines to curb the excessive speculation in the housing market and stabilizing the house price.

In 2012, BNM has set the home eligibility calculation to be based on net income of the borrower after deducting the tax contribution, EPF contribution and other debts obligation (Global Property Guide-Jan 4, 2016). Other new policy introduced in 2013 was the reduction in loan tenure from 45 years to 35 years (Bank Negara Malaysia Annual Report, 2013). In the 2013 Budget, the Malaysian Government has increased the Real property Gain Tax (RPGT). The main reason for the increase rate is to reduce speculative activities on housing prices and real estate market. It is belived that the higher RPGT will help more people to purchase affordable houses.

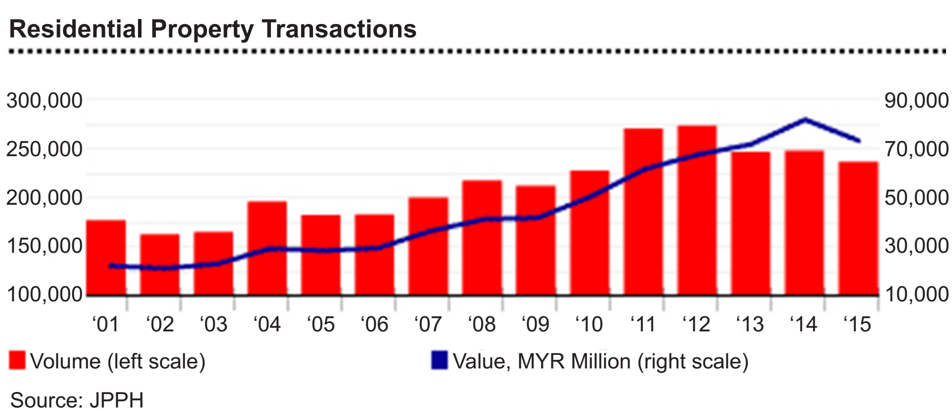

Figure 1: Residential Property Transaction

Figure 1 shows the movement and trend of the residential property transactions in Malaysia from 2001 to 2015. Apparently, the tightening of the lending standards in Malaysia and the rising house prices have caused many people, especially the middle income group (M40), to leave the housing market due to the eligibility and affordability problems. This situation has then caused a lower volume of transactions in the residential sector. The two trends that are captured in Figure 1 are: (1) the value of houses offered by the developer are becoming more expensive each year and (2) the decreasing volume in the residential property transactions is due to the unaffordability issues since more strict home financing regulation is imposed from 2012 to 2015.

There are some reasons why it is important to address the issue of affordability of homeownership. The first reason is because there are many people who are interested to own a house but their income does not make them eligible to apply for home financing. The second reason is because this type of alternative home financing (non-traditional bank financing) structure is needed to be explored in details as it can attract investors and bring more capital into the housing market. In addition, the new proposed home financing could reduce the burden of the Malaysian government in giving more subsidies in home mortgages.

This research is hoped to give some insights to nonprofit housing developers in Malaysia about other financing alternatives that are likely to shape and give impact to the development of affordable housing as what been implemented in the developed countries, like US and UK. Other contribution of this research is to formalize a new lending facility or structure for affordable housing in Malaysia using a model of Housing Partnership Equity Trust (HPET) with some modifications of Islamic finance instruments and principles (shariah compliant) of Islamic REITs and some wakaf structure (land and cash waqf). The main objective of this research is to determine the pull and push factors in implementing Islamic Housing Partnership Equity Trust (HPET-i) as a home financing alternative in Malaysia.

1.4. Methodology

The nature of this research is to explore the existing non-traditional home financing models which have been successfully implemented in the developed countries such as US, UK and Australia. Combining the exploratory and descriptive research methodologies, this research is addressing the existing problem of housing affordability in Malaysia by focusing on the development of an alternative Islamic home financing model which can promote affordable home financing to middle income people and young people in Malaysia.

Both primary and secondary data are collected for the research. These data includes legal sources such as trust acts and articles explaining the concept of waqf, housing policies, organisational policy papers and guidelines, documentary records, and results of semistructured face to face interviews with officials from with Wakaf Selangor, Encik Azmi (Head of Development of Wakaf Land) and Shariah Advisor from Security Commision of Malaysia (SC), Professor Dr Asmadi Mohammed.

2. NON-ALTERNATIVES HOME FINANCING

2.1. Housing Partnership Equity Trust (HPET)

The Housing Partnership Equity Trust (HPET) was launched in January 2013 by Housing Partnership Network (HPN) and its partners. Operated as a real estate investment trust, its objectives are to provide return to the investors and to provide affordable housing to low- and moderate-income residents. In other words, HPET is a multi-party trust that invests in its member's acquisitions which focuses on low- and moderate-income residents. Originated from US, HPET, which started as a social-purpose real estate investment trust initially started with US$100 million investment contributed by its investors. Historically, the HPN was established in 1990 with the main objectives of providing affordable housing and community development. Consisting of 100 non-profit companies from US, the colloboration of its members has successfully increased the affordable housing stock through cost- effective business practices and sustainable innovation in home financing.

In general, Housing Partnership Equity Trust (HPET) is a form of real estate investment trust (REIT) where funds from investors are pooled to purchase properties. In return, the investors earn steady stream of dividends. This is an attractive investment vehicle, which offers a stable and reliable income to investors who want to invest in real estate but do not have enormous capital to do so. As long as it pays 90% of its taxable income as dividends, this REIT structure is exempted from most of corporate taxes. Nevertheless, the main objective of HPET is not only focusing on financial returns, but also to appeal to investors' aim for social returns. Typically, HPET invests in medium to large-sized multifamily properties for low- and middle-income households.

The equity trust which is pooled from 12 nonprofit members, is managed and operated by HPET (Carlos, 2014). These 12 nonprofit members pool the fund and operate about 53,000 affordable housing units across multiple states. As start-up funding, HPET received a $100 million initial investment from its investors. HPET is incorporated as a Limited Liability Company (LLC). This type of trust builds properties for low and moderate income people where the 12 developers funded the project and build multi-family properties. Financing of the properties is mainly from HPET, 95% while the remaining 5% are financed by 12 non-profit members. These nonprofit partners act as owners and operators of the building and offer additional on-site services such as early childhood care and early education programs to meet the needs of the residents (www.hpequitytrust.com/). Figure 4 shows the general housing affordable structure proposed by HPET.

HPET has three main objectives which are; (1) giving financial return for investors; (2) building more energy efficient houses/buildings and; (3) social mission of giving housing and service needs for low and moderate income residents. Some of the main sponsors or equity investment of HPET are coming from the John D. and Catherine T. MacArthur Foundation, the Ford Foundation, and Prudential with a line of credit from Citibank and Morgan Stanley. This type of REITs efficiently acquire properties through low cost of capital and long-term financing. Diagram 1 illustrates the proposed housing affordable community structure through HPET. The proposed area for housing affordable must contain community hall/house (dewan), facilities (parking, community area for the residents) and different types of residential properties (apartment/hall, terrace houses/semi-d houses).

Normally, HPET invests in medium to large sized multifamily properties that are at or below the market rents. HPET is a two-tier structure in which the trust acts in the upper-tier and the non-profit members are in the lower-tier. As illustrated in Figure 4, through housing trust, the 12 non-profit members make investments by acquiring and operating the acquired properties. The target redevelopment market for HPET are on affordable housing for residents with income between 50% to 80% of the area median income (AMI) (www.hpet.org). Obvisouly, HPET has managed to provide homes for families, low-income people and senior citizen in US.

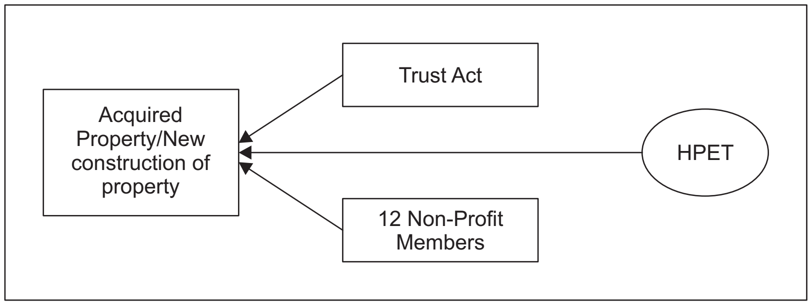

Figure 2: Structure of Housing Partnership Equity (HPET)
***Source:* Authors**

2.2. Real Estate Investment Trust

Real Estate Investment Trust or commonly known as REITs is originated from US. REITs were created by US Congress to allow individual real estate investors to pool their investments in order to enjoy the same benefits as direct investors of large-scale real estate properties (Block, 2002). It has then become an important tool in introducing average investor into real estate market (Liu, 2010). The investors will receive a return for their investment through the rental of properties and also capital gain in the underlying assets (MIFC, 2013). These REITs can either be a publicly listed trust that allows investors to purchase units of income-producing real estate assets or they can be privately held for members of the trust (Carlos, 2014).

The REIT is now seen as very relevant in real estate investment especially in the developed countries like US and UK, where the equity market capitalization by REITs is amounted up to $271 billion after more than 30 years of its establishment (Boudry, Kallberg and Liu, 2010) .REITs generate returns for their investors through redevelopment or improvement of existing properties. These properties are either rented out for rental income or sold in high growth market (Boudry, Kallberg and Liu, 2010). The cash from these transactions would cover investor's dividends and provide fund for further development.

In general, REIT can be categorized into 3 types. The equity REITs are companies which acquire or invest in real properties such as offices, industrial, retails and multifamily properties. The equity REITs are more demanded by investors as they are professionally managed by REITs manager. The second type of REITs are mortgage REITs which invest or lend fund to mortgage/ mortgage-backed securities. Another type of REITs are the combination of equity REITs and mortgage REITs which are known as hybrid REITs (Boudry, Kallberg and Liu, 2010).

REIT is defined by the Securities Commission of Malaysia as "unit trust scheme that invests or proposes to invest primarily in income-generating real estate (Leong et. al., 2015). It is a vehicle that invests or proposes to invest at least 50% of its total assets in real estate through either direct ownership or a shareholding in a single-purpose company whose principal assets comprise real estate (Engku Rabiah, 2006; SC, 2005).

Due to its long significant contribution to the growth of economy, many research on REITs have expanded substantially. Corgel et. al., (1995) have summarized 140 articles about REITs and this work has been updated by Ong, Teh and Chong (2011) and H.Chan et. al., (2006). The total amount of money that raised in the public offering of REITs in 1993 had way exceeded the total amount in the last thirteen years. Nowadays, REITs are listed on the stock exchange of more than 30 countries (regions) which included

Japan, Korea, Singapore and Australia, and its size had been increased from the $ 8.9 billion in 1990 to $ 1.8 trillion by the end of March 2015 (Ong, Teh and Chong, 2011).

In this study, the main focus is not REITs but REITs will be used as a benchmark in constructing similar financing structure which support the expansion of the affordable housing and stimulate the construction of affordable housing. The discussion will be focus on two types of REITs which are Islamic Real Estate Investment Trust (I-REITs) and Social REITs.

2.3. Islamic Real Estate Investment Trust (I-REITs)

The potential of REITs is further expanded into Islamic REITs where it must comply with Shariah principles. Islamic REIT (I-REITs) is a fund or a trust that owns and manages income producing commercial real-estate which complies with Shariah. The first Islamic REITs in the world is Al-Aqar KPJ, originated from Malaysia and was launched on June 28, 2006. The structure of Islamic REITs is shown in Figure 3.

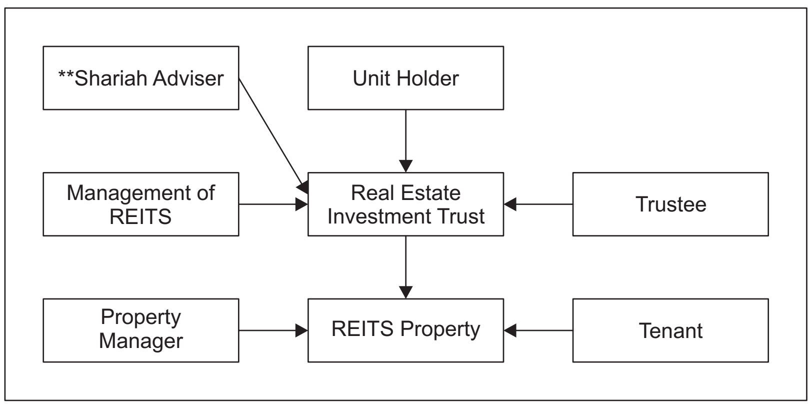

Figure 3: Structure of Islamic Real Estate Investment Trust (REITS)
***Source:* Authors**

The Islamic REITs share similar structure with REITs, with only one exceptional, which is the existing of Shariah Advisers for Islamic REITs. The main function of Shariah Advisers is to monitor the business transactions and operation of Islamic REITs's companies so that it complies with every aspect of Shariah principles which include investment, deposits and financing decisions for Islamic REITs, acquisition and disposal of REITs and rental earnings activities (MIFC, 2013).

In Malaysia, there are four Islamic REITs which are; (1) Axis Real Estate Investment Trust; (2) Al-Aqar Healthcare REITs; (3) Al-Salam Real Estate Investment Trust and (4) KLCC Real Estate Investment. The Guidelines for Islamic Real Estate Investment Trust was issued on 21 November 2005, which intent to facilitate the establishment of an Islamic REITs. This guidelines must be adhered by the market players in the process of establishing an Islamic REITs. Islamic REITs provide new investment alternative to investors in order to diversify their portfolio as well as minimize risk in real estate market.

2.4. Social Housing Real Estate Investment Trust (S-REITs)

The second type of REITs is Social Housing REITs, which operated based on the concept of Housing Trust Fund. This type of REITs are more popular in the developed countries. In US, the establishment of Social REITs which are known as the Community Development Trust (CDT), 16 years ago has successfully provided low-income American with 35,000 unit of affordable houses (www.cdt.biz). The CDT is the first and the largest REITs created to solve affordable housing problem in the US. It provides long-term capital for preservation and development of affordable housing (www.cdt.biz). According to the report by CDT, currently, their portfolio consists of owning 5,000 units of housing and holds home mortgages on 20,000 multifamily rental units (www.cdt.biz). The dividend payment made by CDT is amounted to be US$57 million (Carlos, 2014).

In UK, the first social housing REITs is carried out by Housing Fund provider known as the Houses for Homes (HFH) which build and set up social housing. HFH acts as intermediary between pension fund (source of financing) and housing associations to build houses. The management of housing development is made by HFH which holds the completed properties in trust and lease it to housing provider customer at a fee based on rent level. In addition, the investors are guaranteed an annual return of 5% to 6% per annum. At the end of the lease, the houses are transferred to the customer.

This type of REITs, which are known as Transfer REITs (TREITs), provide an off balance sheet solution to fund the development and provision of housing stock, enabling the continued supply of social, extra care and specialist homes (e.g supportive housing) via registered social landlords (RSLs) and local authorities (City of Toronto Housing Partnership: Market Sounding Report, 2013). Figure 4 highlights the structure of Social housing REITs. For the social housing REITs' to succeed, the management will need to make some adjustments with reagrd to the transfer of social housing property into profit provider and the treatment of properties used to be REIT (Carr, 2012). Nevertheless, this social housing REITs is not attractive enough for investor as the return is low.

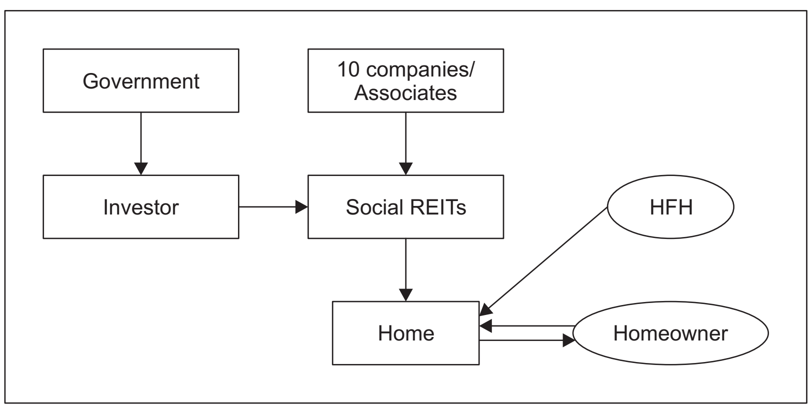

Figure 4: Social Housing Real Estate Investment Trust (S-REITs)
***Source:* Authors**

2.5. Waqf (Endowment)

The waqf concept is introduced during the era of Prophet (PBUH). Waqf was recommended, approved and practiced by Prophet (PBUH). and the noble Sahaba (companions) r.a. and the generations that followed. The word waqf consists of Arabic verb (fi il) *waqafa* which means to hold (*Al-habs*) and to confine (*alman*) and to restrain (Amanda, 2013). According to Al-Khin, al., Bugha and Al-Sharbaji (2005), waqf, which is an endowment property, held and only the profits from it will be devoted for general charitable purposes.

Waqf can be classified into two categories: general waqf and specific waqf. People can waqf either cash, asset (property) or land to be used for the development and welfare of the Muslim community based on religious principles and the spirit of Fardhu Kifayah (Ahmad, 2008). Funds from the Waqf are generally used to build buildings and maintenance of mosques, madrasahs, provision of burial grounds, and contributions to the poor and needy the provision of education, health and social services the financing of socio-religious activities of the Muslim community (Cizakca, 2000).

The objectives of waqf are to promote and enhance the economic development of Muslim community through social, religious and education (Ahmad, 2008). Moreover, the use of waqf is to increase and sustain Muslim's faith and spiritual strength in order to face the challenges of live in this world (Cizakca, 2000). In Turkey, the progress of waqf real estate developments is remarkable. Turkey's waqf system has managed to established 4,400 mosques, 500 university hostels, 150 hotels, 5,348 shophouses and 2,254 housing projects (Ali et. al., 2016). Figure 5 below illustrates the structure of waqf

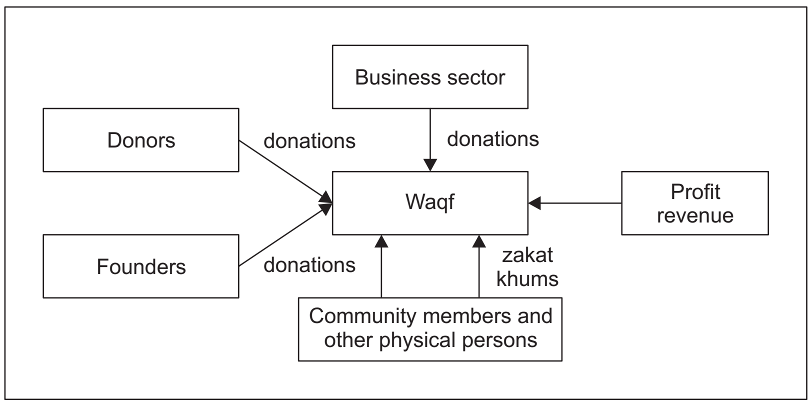

Figure 5: Structure of Waqf
***Source:* (www.ca-c.org)**

In Malaysia, waqf lands are managed and governed by states religious departments (MAIN). There are another two main organizations which actively involve in the development and governance of waqf; 1) The Department of Waqf, Zakat and Hajj (JAWHAR) and 2) Waqf Foundation of Malaysia (YWM). In total, there are 11,091.82 acres of waqf land in Malaysia (JAWHAR, 2011). From Islamic perspective, there is no objection for a comapany to redevelop or develop Wakaf properties should there be no other better way. This is intended to save the Waqf property from extinction and to be efficiently used for the benefits of the ummah. In Malaysia, the development of waqf land to be used in supplying housing affordable to the society is crucial due to the low ownerhsip of national asset held by Muslim and low purchasing power by Muslim society (Ismail, CZ, Muda, S & Hanafiah, NJA, 2014). Moreover, the trust is on the potential used of waqf land and waqf cash in setting up HPET-i for housing market and financing sector in Malaysia

2.5.1. Case study 1: Waqf Setee Aishah in Seberang Jaya

The first successful waqf development in Malaysia is established through Taman Wakaf Seetee Aisah, in Jalan Hussein Onn, Seberang Jaya, Pulau Pinang. This lot No 1444 (Area 4), was donated by Setee Aisah Mahmood to Islamic Religious Pulau Pinang (IRCP/MAINPP) on 30th September 1901. This project embark the successful of developing waqf assets on 9.86 acres of land consisting of 27 shoplots (3-storey shoplots) and 76 two-storey terrace houses for the benefit of Ummah (*Maqasid Syariah*). MAINPP as a trustee of the waqf has made colloboration with UDA Holdings berhad (developer) in developing the project with a total cost of RM 24.09 millions on 12th August 2007. Figure 8 illustrates the pictures and structure of Waqf Seetee Aisah with the involvement of four participants, namely, MAINPP, UDA Holdings Berhad, Al-Rajh Bank/ Bank Islam and Lessee (Omar et. al., 2013).

The selling concept for the waqf's Seetee Aisah Properties are based on Ijarah (leasing) without changing the ownership structure (forbidden in waqf concept). Although the original request from the *al-Waqif* (Setee Aisah) was to develop the land into agricultural land (cultivation of rice) with a leasing of RM400, MAINPP found that it is the waqf land was not fully utilized by the society. Therefore, as a trustee and *mutanawali* to waqf Setee Aisah, MAINPP has made the colloboration with UDA holding to develop it into better commercialized waqf assets which could bring benefit of the waqf property to *mawquf'alayh* (Omar et. al., 2013).

During the premilinary stage of the project, MAINPP and UDA have made an agreement to share the profit from selling the properties, which exceed the amount agreed (based on the value of the waqf land) with a proportion of 70% to UDA Holding Berhad and 30% to MAINPP. In addition MAINPP also received additional of RM 650,000 from the different between estimated price and actual selling price (Abdel Mohsin, 2013).

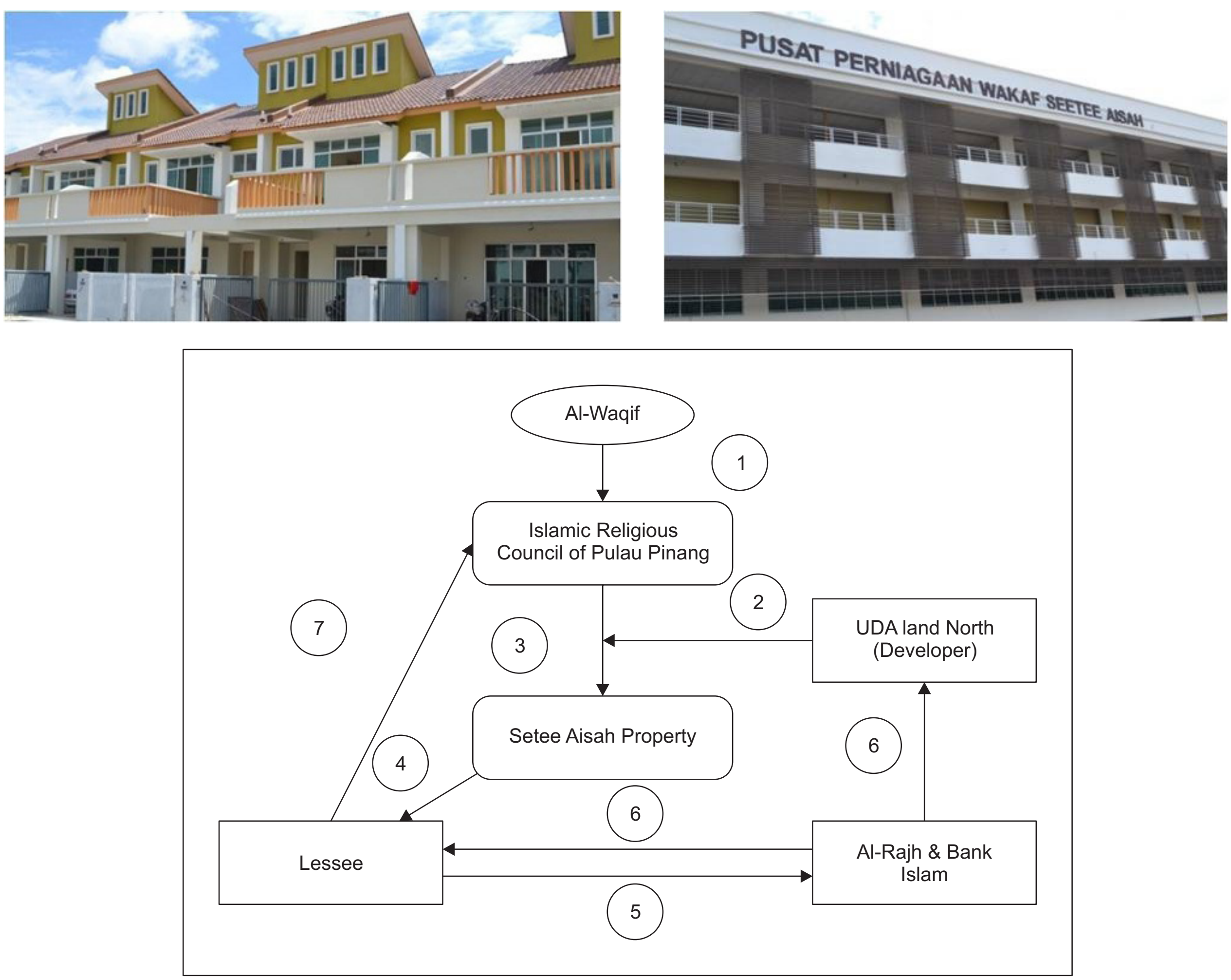

Figure 6: Pictures and Structure of Waqf Setee Aisah in Seberang Jaya, Pulau Pinang
***Source:* Authors**

After the project completed, UDA Holding handed all the shop lots and houses to MAINPP (Build-operate-transfer-BOT) to be leased out by the lessee through a long –term lease of Hukr (99 leasehold) based on the concept of Ijarah Tawilat al-Ajal. The lessee will finance the total leasing from Bank Islam or Ar-Rajh bank (panel banks for the projects). According to the waqf concept, the land ownership will still be under the trustee which is MAINPP and the land which must not be sold. After 99 years, the leasee can request extension from MAINPP. The Ijarah Tawilat Al-Ajal concept allows the trustee to get the nominal periodical rent from the long lease of the waqf assets (Abdel- Mohsin, 2013)

2.5.2. Case Study 2: Waqf by Perbadanan Waqf Selangor (PWS)

Selangor Islamic Council (MAIS) has established the Foundation of Waqf or better known as Perbadanan Wakaf Selangor (PWS) in 2011. The foundation's main objective is to develop and manage all waqf assets in Selangor under MAIS. One of the waqf projects managed by PWS is expected to be completed in the end of 2017. This housing project is the joint-venture project between PWS and Nada Sepakat Corp (M) Sdn Bhd to build 1 ½ semi-detached houses with built-up area of 1,600 sq ft located in Jalan Kebun, Shah Alam. The 2.24 acres of waqf land is donated by Almarhum Abdul Rahman Ali to MAIS.

Sharing similar concept with Waqf Setee Aisah, this project is 99-year leasehold which compliance to Syariah (Islamic Law) and is open only to Muslim buyers. During the interview conducted with Mr Azam, the PWS staff, the prices charged to these waqf properties are 20% below the current market price and it is ranged from RM 250,000 to RM 650,000. The development of these projects only covers 3% from the total waqf land (485.62 acres) in Selangor (Abdel -Mohsin., 2013).

3. RESULTS AND ANALYSIS

This study explores the potential and mechanism of adopting HPET-i as an alternative home financing in Malaysia. Our analysis focuses on one questions. First, what are the push and pull factors which can can assist in implementing Islamic Housing Partnership Equity Trust (HPET-i) as a home financing alternative in Malaysia? It is important to identify the push and pull factors for this new home financing structure in order to assess whether or not it is on the right path to success. Therefore, this section identifies and discusses the push and pull factors that may influence the investors' decision to choose or invest in HPET-i. The information on push and pull factors can assist the policy-maker and relevant organizations to further enhance the proposed model of HEPT-i.

3.1. Push and Pull Factors

The push factors in this research refers to the external factors which influence the investors to choose Islamic products or islamic housing financing in general. The pull factors are the internal factors which attract the investors to choose HPET-i for their investment. In the context of setting up HPET-i model/ structure, there are several specific pull factors and push factors which need to be addressed. In addition to the factors, this section also presents the findings obtained from the semi-structured interview conducted with the officials from Wakaf Selangor, Encik Azmi and Prof Dr Asmadi Mohamad, Shariah Advisory for Bank Negara Malaysia and Security Commission of Malaysia (SC). Figure 7 shows the main objective of this research which is to elaborate more details about the factors which can influence the development of HPET-i.

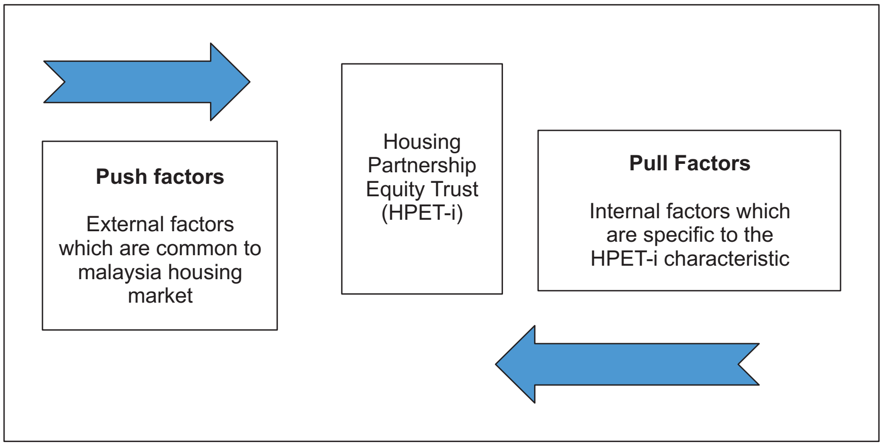

Figure 7: Push and Pull Factors in implementing HPET-i
***Source:* Authors**

Putting these research findings into perspective, it should be highlighted that the analysis of push and pull factors are carried out based on the proposed structure of HPET-i (refer to Figure 9), which is the combination of Islamic REITs and Waqf concept. Thus, it is significantly important to understand the different characteristics of HPET, Islamic REITs and Waqf (see Table 1) which may be used in the development of HPET-i.

Table 1
The main characteristics of HPET, Islamic REITs and Waqf

Characteristics	*HPET*	*Islamic REITs*	*Waqf*
1. Objective of the fund	Provide return to the investors and to provide affordable housing to low- and moderate-income residents	Investing into portfolio of real estate properties for investors	Developing waqf assets for better use to the community
2. Shariah Compliant.	No	Yes	Yes
3. Source of fund	Non-profit organizations	Pool from investors	Donation by people
4. Ownership of the asset being funded	No	Investor of Islamic REITs	No transfer of ownership
5. Frequency of fund given	One off	Depends on Investors	One-off

Source: Authors

Table 1 provides five main characteristic of HPET, Islamic REITs and Waqf. Although HPET is not created from the Islamic finance concept which adhere to Shariah principle, the main objective is to help people (maqasid Shariah) to own a house and create better community. The similarity of HPET and Waqf is the funds or assets are given once by the donator or investors and it is up to the trustee to manage it.

According to Figure 7, the push factors are the external factors which are commonly found in the housing market. For example, the existing conventional home financing which contains prohibited elements such as riba and gharar are obviously contradicted with the Shariah principles (Ahmed, 2010). Therefore, Muslim consumers need to look for Islamic financing alternative such as HPET-i for their home loan. The conventional financing is also less sustainable to financial crisis as evident in the US subprime crisis. The 2005 US bubble crisis is originated from the vulnerable structure of subprime home financing which pass the whole risk from the collateralization of debt (CD) to homebuyers (Ahmed, 2010), causing the housing bubble to burst. This instability in the conventional home financing is obviously the push factor which can attract the investors to invest in HPET-i. The application of Islamic finance concept in HPET-i can decrease the subprime crisis borrowers by providing housing loans with reasonable and affordable terms (Ahmed, 2010).

Another factor which can push investors and policy-maker towards HPET-i is the unsolved housing affordability issues among Malaysian. Despite having many types of Islamic home financing, mortgages is still unaffordable for many people especially the middle income (M40) people in Malaysia. The question raised by the Socio-Economic Research Centre, Mr Lee Heng Guie, is why the affordable houses with a price range of RM200,000 to RM 400,000 still make up 28% of total overhang properties in Quarter 1, 2017 (The Star, July 1, 2017). One possible reason is due to higher cost of living with household debt of Malaysian recorded at 89.1% in 2015 (The Star, 2, April 2016). Evidently, the largest household debt is in the housing loans (49%) and it has been decreasing in growth from 13.3% in 2014 to only 11.9% in 2015 due to the stringent financing regulations imposed on borrowers (The Star, 2 April 2016). Therefore, the use of HPET-i which proposed to have lower monthly payment can reduce the burden for homebuyers.

As the first time homebuyer, the difficulty is getting the downpayment money of 10% from the house price. This issue is important as it is associated with homeownership (Freeman & Harden, 2013). Evidently, the reducing of downpayment for first-time homebuyers can increase their chances of purchasing higher value houses (Freeman & Harden, 2013). In order to solve the downpayment issue, the structure of HPET-i is created with less amount of home financing. This inturn will push homebuyers to choose HPET-i in financing their mortgages.

The competitiveness of the business entity, coupled with more demand for Islamic base products, has pushed the Islamic Financial Institutions to develop a new knowledge and capabilities in order to compete with the conventional financial institutions (Katila & Ahuja, 2002). As the key element in Islamic financing is on "asset backed" transaction, the introduction of HPET-i is seen an innovative instrument which derived purely from Islamic principles. This product is therefore to be developed to achieve the goals of Shariah while at the same time accomplish the economic needs of the Ummah (Muslim society). According to Lynos et. al., (2007), the new ideas on new products and knowledge in Islamic finance must be carefully implemented and delivered to customers in order to create commercial value. The new products

Table 2
Summary of Push and Pull Factors

Push Factors	*Pull Factors*
1. The features of conventional home financing (non-shariah compliant)	1. Low cost of financing in HPET-i
2. Unsolved housing affordability issue	2. Stability and sustainability for investors.
3. Difficulty in getting down payment for the first-time homebuyers	3. Tax benefit for investors/ donors
4. The needs of Islamic financial institutions (IFIs) to be competitive in developing their new products and services.	4. Lower risk
5. More shariah resources and financing are available	5. Social justice and economic stability during financial crisis

Source: Authors

and services in Islamic finance must be developed on a continuous basis, where the emphasize should be made on the quality and diversification of the product itself (Al-Salem, 2009).

New innovative shariah compliant products and services has expanded rapidly over the past decade. With the introduction of the Dow Jones Islamic market indices (DJIMM) in 1999 and the first Islamic Real Estate Investment Trust (REITs) in 2007, the Islamic finance industry is now emerging as a resourceful financial market to many economies, globally. In Malaysia, the concept of waqf has been commercialized with the establishment of several organizations managing the waqf properties (PWS, and Wakaf Malaysia). This in turn has increase awareness among people on the importance of waqf in building better ummah and community.

The proposed HPET-i structure will be based on underlying concept of HPET, combining the financial resources from Waqf cash and Waqf land and the investment concept based on Islamic REITs structure. With the availability of different Islamic finance resources in one Islamic products (HPET-i), the investors and homebuyers have more reasons to push themselves in choosing HPET-i. For example in Selangor, due to the abundance of waqf land and waqf cash, the PWS managed to develop housing project. Hence, the rising concern by Mr Azmi is the pressure received from other housing developers concerning the lower house price offer by PWS (10% to 20% below rental rate in Selangor). This in turn will create alarming political issues as the waqf housing is only for Muslims.

There are a number of pull factors which will influence the success of HPET-i. One ofthem is the characteristic of HPET-i, which has lower monthly commitment due to the shared equity trust concept whereby the amount of home financing is reduced from the securitization of the Islamic REITs and the use of waqf cash (middle income people) or waqf shares (lower income people). Under the HPET-i concept, the capital subsidies are given to either developers or qualified homebuyers at the time of purchase.

The second pull factor for HPET-i home financing, is the sustainability and stability of the structure which contains several level of governances. In the first level (refer to Figure 8), the Shariah Advisory will monitor the process of capital formation which involved similar concept of Islamic REITs. The Trustee of the HPET-i, which are the State Islamic Religious Council (SIRC/MAIN) will reduce the default risk on the projects as they will colloborate with developer in developing the proposed housing project. Therefore, the project can sustain and in a stable condition due to the tight supervisiona nd governing from parties involved in HPET-i. In addition, HPET-i is great product as it provides stable income for long-term through capital appreciation and dividend payment to investors through rental payment whilst achieving the social goals of promoting affordable homes. At the same time, from the Islamic perspective, the proposed HPET model can also be seen as promoting social justice and thus achieves the maqasid shariah.

The use of Islamic REITs framework in HPET-i enables the investors to achieve tax benefit from their involvement in this types of REITs. The dividend received from the HPET-i investment is proposed to be tax deductable, similar with Islamic REITs. Promoting tax benefit in this new Islamic shariah compliant poduct can pull many investors which in high bracket tax payer category to recieve two benefits; tax benefit and profit from their investment in HPET-i. Moreover, it is also proposed that waqf donors (waqf cash or waqf shares) or non-profit organization who are involved in the formation of HPET-i can be exempted from paying tax until the projects completed. This will encourage more organizations to invest one-off capital into HPET-i as part of their corporate social responsibility (CSR).

The fourth factor which can pull the investors and homebuyers into HPET-i financing is the lower risk embedded in the structure itself. Due to the use of "Profit-Loss-Sharing (PLS)" concept and also benefiting the society through the development of the waqf properties, HPET-i is not an instrument to make higher profit like other financial instruments. Therefore, the risks in financing such as credit risk and default risk can be reduced.

During the financial crisis, most of the Islamic funds/products outperformed the conventional funds/products (see Hussein and Omran 2005; Abdullah et. al., 2007; Al-Zoubi & Magheyreh, 2007). This has shifted the interests of many observers and industry players towards the Islamic financial system as a viable alternative to the current financing system. The Islamic finance instruments and framework provide a clearer structure under the "Maqasid of Shariah" (Objective of Shariah/Society) where the relationship is build on profit sharing loss contract (PLS) and other shariah compliance principles of; prohibition of the elements riba (usury/interest), maysir (speculation) and gharar (uncertainty) in all of the Islamic finance transactions. Therefore, it can be clearly stated that Islamic finance is more robust in dealing with financial shocks to the economy (Kassim & Majid, 2010). Hence, the use of HPET-i can stabilize the economy from internal or external shock.

3.2. Proposed Islamic Housing Partnership Equity Trust (HPET-i)

This research explores ways in which changes to the existing HPET's structure can be made so that it can provide an opportunity for institutional investment to contribute in the development of affordable home financing in Malaysia. In this proposed model, the combination of Islamic REITs, waqf and HPET can become the optimum model for the development of Islamic HPET-i. The Government and related institutions play two important roles; getting cooperation from various organizations to invest in HPET-i and also the management of properties such as the maintenance of the properties and other services provided to residents in the community.

HPET-i is an affordable home financing structure which is created based on "asset –backed" principles and supported with waqf concepts (waqf cash, waqf land, waqf shares). The profit margin is calculated based on the value of the property being developed which is similar with Waqf Setee Aisah. The State Islamic Religious Council (SIRC) as a Trustee will get back the market value of waqf properties along with additional profit from the selling of the properties.

The proposed structured of HPET-i consists of two levels. In the first level, the Waqf Corporation will provide land or waqf cash for the development of housing project. Using the concept of rental, the homebuyers need to pay the total rental amount based on the value of the house (leashold for 99 years) by financing it from Islamic banks or Islamic financial institutions. In this model, there will be two layers of governance; (i) Shariah advisors and (ii) State Islamic Religious Council (SIRC) under the Shariah Law. Therefore, with a strong governance, the model will reduce many risks such as legal risk, default risk and estate planning issues (Faraid). Asset Management is done by the management of waqf which are under SIRC directly. Although this model is an enhanced model, HPET-i still needs more improvements before it can be implemented in the real world.

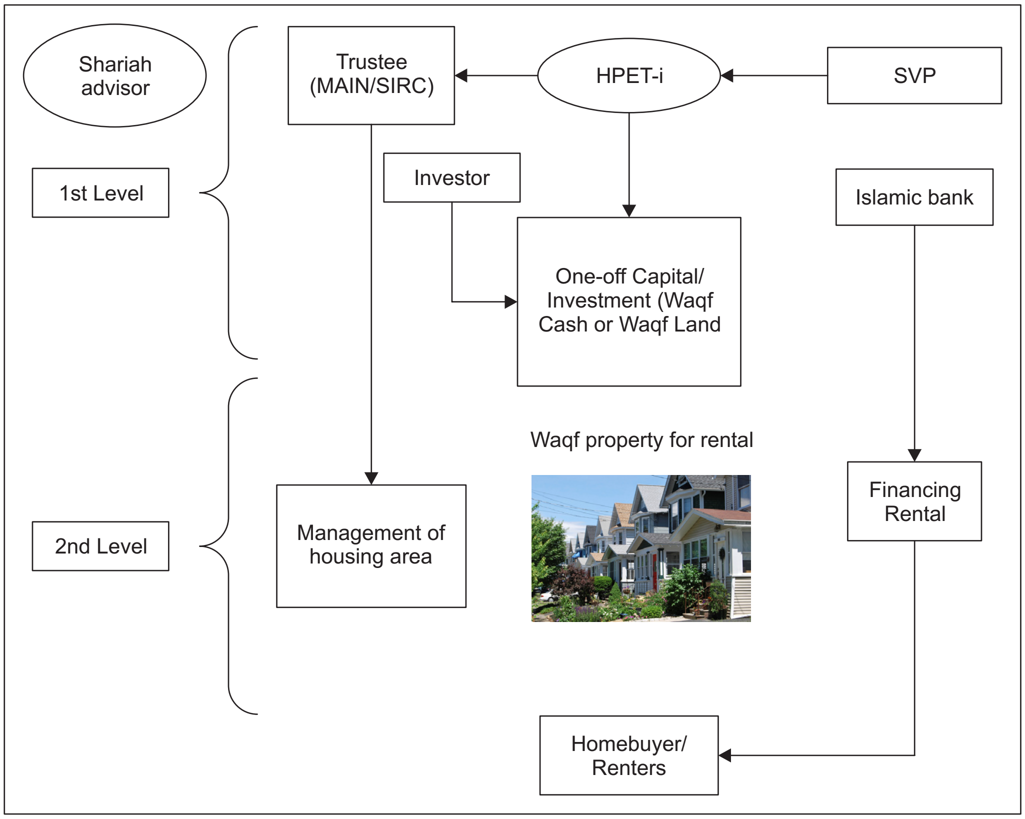

Figure 8: Proposed Structure of Housing Partnerhsip Equity Housing Trust- Islamic
***Source:* Authors**

4. CONCLUSION

This research examines the possibility of adopting several successful financing housing projects which use Housing partnership where developer and government help to ease the burden for home buyers. Several push and pull factors that make Islamic housing partnership equity trust (HPET-i) important have beeen analyzed.

The findings from this research are significantly important as they can provide potential solution for affordability housing issues by using Islamic Housing Partnership Equity Trust (HPET-i). Several islamic financing tools and concepts will be used such as Islamic REITs and waqf concept. In addition, the output of this research can bring benefit to the Malaysian housing market by providing a potential and sustainable home financing structure that will ease the burden of young working people. The risk in financing will be distributed among developer, homebuyers and government (Risk Sharing-partnership).

Finally, the output will help to facilitate the policy-makers in making sound and effective housing policies. All of the models in this study can bring capital into the housing sector, if they are structured in an attractive manner to attract the potential investors. The result is a platform of impactful benefit to different sectors in the economy. In addition, the enhanced model of HPET-i or EHIPT can improve the housing market through sustainability of more affordable housing using rental concept. Nevertheless, the private sector and community-based institutions must play an ever-greater role in ensuring that existing affordable properties remain available to the many who need them. The financing alternative studied here presents what is possible and suggests the opportunities for further progress in "Preserving" the nation's existing housing for middle income community in Malaysia.

Acknowledgement

This research is funded by The National Real Estate Research Coordinator, (NAPREC).

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