

RSOG Seminar

Making Housing Affordable

with

Dr. Suraya Ismail

When : 5 November 2015
Where : Razak School of Government
Speakers : Dr. Suraya Ismail

About the Seminar

In responding to the issue of housing affordability, the Malaysian government undertook several efforts to alleviate the rising cost through various project such as *Projek Perumahan Rakyat 1 Malaysia (PR1Ma)*, *Projek Rumah Rakyat Miskin Tegar (PPRT)*, and *Skim Myhome Rumah Pertama*. Despite this, the general population still faces significant challenge as there is a mismatch between acquiring affordable housing and their household income. This is especially so for the middle-income households as they are often overqualified for the aforementioned low-cost housing programmes and at the same time unable to afford housing by private housing developers. Why do such challenges still persist despite efforts by the government and the housing sector? Is housing the responsibility of the government to shoulder? Is provision of adequate housing unique to Malaysia or is it a global trend as population grows? What is the way forward for Malaysia in addressing the issue of housing?

Summary

Housing is one of life's basic necessity. As the population grows, there will be the need for more housing to cater to the growing demand. In theory, this will create more demand for housing, jacking up the price if the supply is constant. Indeed, since 1997, the house prices seem to have increased in tandem with household incomes. From 2000 to 2014, housing price skyrocketed, attaining Compound Annual Growth Rate (the mean annual growth rate of an investment over a specified period of time longer than one year) of 5.6 per cent.

Dr. Suraya Ismail, Director of Research in Khazanah Research Institute, shared that a well-functioning market is when the median price for the whole housing market is three times the median gross annual household income, which currently stands at RM4,585. However, the median price for Malaysian housing market exceeds three times the median of annual household incomes threshold for affordability – with housing prices above RM300,000. As of 2014, the national median multiple affordability stood at 4.40. However for areas such as the Klang Valley, Penang, Pahang and Kelantan, the median multiple affordability is above the national statistic whereas only Malacca has a median multiple affordability of 3.0.

One of the key factors driving housing affordability is the responsiveness of supply (in terms of house types and pricing) to effective demand. Based on 2014 statistic, despite increasing numbers of households and growth of the population, the housing market penetration for the lowest-priced dwelling unit ranged from 0.9 to 1.8 times, quite significantly below the 3.4 global value previously estimated. Hence, the housing problem in Malaysia is due to the shorter supply of housing to cater to the growing demand. This outweighs other factors such as land and labour that are often assumed to be the factors for rising house price. In fact, construction costs generally declined since 2008. Another factor that contributes to rising house prices is urbanisation. The housing price is more expensive in states with high urbanisation level such as Penang, Kuala Lumpur, and Putrajaya. These urban areas are more developed and well connected with infrastructures such as road, water, and electricity hence raising its property value.

Government's response to this situation is by the issuance of many housing projects such as the Private Affordable Ownership Housing Scheme, Affordable Housing Scheme and *Projek Perumahan Rakyat 1 Malaysia (PR1MA)*. For example, affordable housing schemes ranges from low-cost homes priced below RM100,000 to the RM400,000 houses sold under the PR1MA scheme. Thus, government interventions tends to focus on subsidising the demand side for housing. However, increasing access to finance is seen as an inefficient demand intervention. Similarly, subsidising supply that are high-priced is unresponsive to down-market penetration. As a result, the housing price is still relatively higher despite the various government subsidies and loans.

In this seminar, it positions that one of the fundamental aspects of the housing problem is the tendency to see the housing sector as a business prospectus. Dr. Suraya suggests to consider housing as a social welfare issue. Citing a case study in Philippines, where the DECA Home Resort Residences developed by 8990 Holdings in Davao City, demonstrated that building houses for low-income households can be profitable even when sold at a relatively cheap price (two bedroom houses start at approximately RM57,200). More importantly, housing projects should not be just a place for shelter. What has been done in Philippines emphasised that housing areas should be a place for its residents to thrive; with various urban amenities such as transport connectivity, sufficient energy supply, educational and healthcare facilities, and commercial areas. In short, housing should grow in tandem with the right type of facilities.

A comparison between the case in Philippines and Malaysia, Malaysian industry's value chain and project organisation are of a temporary multi-organisation structure. Due to its temporary project coalition, contractors are more focused on getting new projects or tenders rather than efficiently delivering projects currently in hand. There are also design flaws in the industry value-chain. Due to the lack of continuity, thorough commitment for any project, and consolidation of various aspects – namely the design and construction divide, it did not lead to any improvement in productivity nor did it create any incentives to invest in research and development of construction technology. For example, Malaysian construction firms do not invest in skills training for workers due to the contract nature of the work force. Therefore, technology such as Industrialised Building System (IBS) is hard to be implemented in Malaysia due to the lack of skills and training by the workers to operate such innovation. There is also a divide between the developer and management committee in terms of public amenities provision. This creates confusion for buyers and increases their financial burden to maintain services in their residential areas. Moreover, such apparent division which also defines the value-chain creates a 'pass the baton' blame game if there is a faulty design in the housing project.

Therefore, to address the affordable housing issue in Malaysia, the report published by Khazanah Research Institute outlined several recommendations. First, is to develop measures to improve the efficacy of the construction industry's delivery system. Under this step, a creation of new procurement delivery design that can consolidate the resources of firms within the supply chain is needed. This includes having legal framework agreement with the material supply section to match the design of the project, focusing on developing IBS to reduce cost and dependencies on low-skilled labour, as well as better management of building materials. The second recommendation is to develop measures to reduce pressures leading to rapid house price escalation. Here, it is proposed for a short five-year moratorium on selling houses that are built through the new designated procurement route. This will hinder speculative activities that will raise the house price significantly, as a moratorium will create a buffer period for new housing projects to come in at affordable prices as well. The third recommendation is to develop measures to plan for a steady supply of housing at affordable prices. As the old saying goes, 'Knowledge is power', and the consumer should be able to have all the data they need before purchasing a house. Dr. Suraya suggested conducting a National Housing Survey to provide the local authorities with data to plan for steady supply of housing at affordable prices. The survey should be publicized so that the public are well aware of the housing prices and can avoid buying a house at speculative price. The survey should involve demand analysis and supply analysis determining population forecast, housing demand range, migration patterns, household size by housing type, social housing against social economic variables, and land suitability for different housing types. It is recommended that this survey is conducted by both the Federal Town and Country Planning Department (JPBD) and the National Housing Department (JPN) as they have the expertise, access, and data.

In conclusion, building affordable housing would not be an issue if the problem of high priced housing at the supply side is addressed. With the increase in lifestyle costs, both the bottom 40% and the middle 40% of Malaysians are likely to live in social housings if no significant interventions are made. Dr. Suraya stresses that inaction will put enormous financial pressure on government spending and will likely slow the nation's economic growth. It is hoped that new models for the provision of social housing can take off and that the public are more aware of their rights for affordable housing.

Issues Raises

- Malaysia is expected to have an aging population by 2030. If not addressed appropriately, serious issues of homelessness may arise due to the lack of social housing in Malaysia.
- The housing industry often offers second market opportunity. Currently, the banking sector seems to benefit from housing loan repayment. However, as loan prices goes up, the house prices also goes up. Thus, buyers are simply paying more for their housing. Nevertheless, the buyers are also complicit in this as buyers attitude in buying house out of their income range are likely to increase the house prices. Therefore, the current market rate is often open for abuse.
- Profit-taking and speculative in procurement through expensive and unnecessary building materials are known to be one of the reasons for expensive housing price.
- High profit margins by banks and developers could lead to housing bubbles and crash. Government intervention for stricter house financing from the banks should be a priority to prevent bankruptcy and financial crisis.
- Developers tends to build expensive and exclusive housing units since it is more profitable to them. A strong political will and enforcement should be a standard to impose that 20% affordable housing units be built by the developers on the projects.

About the Speaker

Dr. Suraya Ismail is a Director of Research in Khazanah Research Institute. Prior to her current position, she was Program Director in Think City (a city-making initiative of Khazanah Nasional Berhad), Deputy Dean of the Faculty of the Built Environment at University of Malaya, as well as Head of the Department of Quantity Surveying. She holds a PhD in Institutional Economics and Governance from University of Malaya, a MSc. Architecture in Construction Economics and Management from University College London,

and graduated from the University of Reading in Quantity Surveying. In “Making Housing Affordable” Dr. Suraya unearthed major challenges facing the population and how shifting the way the housing sector is viewed by all sectors concerned can be the way forward in ensuring it is sustainable and responsive to all Malaysians.

Contact

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