SUSTAINABILITY OF URBAN AFFORDABLE HOUSING IN MALAYSIA: A REVIEW OF CURRENT PRACTICES

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INTRODUCTION

This paper examines the current practices in the provision of affordable housing in urban centres, Malaysia from the perspective of sustainability. The affordability of housing for low income populations has been debated over the past few decades. Recently, the debates had shifted towards housing affordability for the middle income groups in urban areas.

This scenario is supported by both international agencies such as UNCHS and the World Bank. It has been adapted in the Annual Demographia International Housing surveys, which revealed that Malaysia’s residential market was “severely unaffordable”, behind high income countries such as Singapore, Japan and the United States.¹ Similar trend was also reported in Malaysia, which highlighted that Malaysia has the highest household debts in Asia. From 2003 to 2013, Malaysia’s household debt increased by 12.7 percent annually to reach 86.8 percent of GDP, while total household assets grew at a slower pace of 10.4 percent to 321.6 percent of GDP by 2013²

In a report on state of households by a local research think-tank, Khazanah Institute, it was revealed that although the country’s average housing affordability stood at 4.4 (seriously unaffordable). The urban centres in Malaysia fared even worse, with Kuala Lumpur having 5.4, followed by Penang 5.2, both fell under the category of ‘Severely unaffordable’³ (Table 1)

The provision of affordable housing need to be sustainable in long-term, to ensure that citizens are able to attain the quality of life, while not compromising other current and future demands of life. It is with this premise that this paper tries to explore the ‘sustainability’ of current practices and policies in the provision of affordable housing. Factors on economic sustainability, balancing social and environmental resources and sustainability in the housing consumption processes will then be discussed and elaborated.
Table 1
Housing Affordability calculation according to different states in Malaysia

<table>
<thead>
<tr>
<th>Area</th>
<th>Monthly median income</th>
<th>Annual median income</th>
<th>Market Median 3</th>
<th>Median All House Price</th>
<th>Multiple Affordability</th>
<th>Affordability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terengganu</td>
<td>3,777</td>
<td>45,324</td>
<td>135,972</td>
<td>250,000</td>
<td>5.5</td>
<td>22%</td>
</tr>
<tr>
<td>K. Lumpur</td>
<td>7,620</td>
<td>91,440</td>
<td>274,320</td>
<td>480,000</td>
<td>5.4</td>
<td>88%</td>
</tr>
<tr>
<td>P. Pinang</td>
<td>4,702</td>
<td>56,424</td>
<td>169,272</td>
<td>295,000</td>
<td>5.2</td>
<td>74%</td>
</tr>
<tr>
<td>Sabah</td>
<td>3,745</td>
<td>44,943</td>
<td>134,820</td>
<td>230,000</td>
<td>5.1</td>
<td>24%</td>
</tr>
<tr>
<td>Pahang</td>
<td>3,589</td>
<td>40,668</td>
<td>122,004</td>
<td>200,000</td>
<td>4.9</td>
<td>58%</td>
</tr>
<tr>
<td>Kelantan</td>
<td>2,716</td>
<td>32,592</td>
<td>97,776</td>
<td>157,740</td>
<td>4.8</td>
<td>16%</td>
</tr>
<tr>
<td>MALAYSIA</td>
<td>4,585</td>
<td>55,020</td>
<td>165,060</td>
<td>242,000</td>
<td>4.4</td>
<td>60%</td>
</tr>
<tr>
<td>Perak</td>
<td>3,451</td>
<td>41,412</td>
<td>124,236</td>
<td>180,000</td>
<td>4.3</td>
<td>57%</td>
</tr>
<tr>
<td>Perlis</td>
<td>3,500</td>
<td>42,000</td>
<td>126,000</td>
<td>181,000</td>
<td>4.3</td>
<td>34%</td>
</tr>
<tr>
<td>Johor</td>
<td>5,197</td>
<td>62,364</td>
<td>187,092</td>
<td>260,000</td>
<td>4.2</td>
<td>73%</td>
</tr>
<tr>
<td>Selangor</td>
<td>6,214</td>
<td>74,568</td>
<td>225,704</td>
<td>300,000</td>
<td>4.0</td>
<td>81%</td>
</tr>
<tr>
<td>N. Sembilan</td>
<td>4,128</td>
<td>49,536</td>
<td>148,600</td>
<td>188,888</td>
<td>3.8</td>
<td>74%</td>
</tr>
<tr>
<td>Sarawak</td>
<td>3,778</td>
<td>45,336</td>
<td>136,008</td>
<td>164,667</td>
<td>3.6</td>
<td>32%</td>
</tr>
<tr>
<td>Kedah</td>
<td>3,451</td>
<td>41,412</td>
<td>124,236</td>
<td>140,000</td>
<td>3.4</td>
<td>50%</td>
</tr>
<tr>
<td>Melaka</td>
<td>5,029</td>
<td>60,348</td>
<td>181,044</td>
<td>180,000</td>
<td>3.0</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: Department of Statistics (2015) KRI Calculations

CONCEPTUAL DEFINITIONS

Definitions of affordable housing

Housing is recognized as a basic human right in Article 25 of the Universal Declaration of Human Rights, which is related to the basic standard of living and comparable to food, clothing and medical care. The core of the sustainability agenda is the assertion that satisfying the needs of the present without compromising the future generations to meet their own needs. Thus, affordable housing is a burning issue to provide shelter, which forms the core element of human needs, rather than wants.

Operation wise, housing affordability can be defined as, “Housing of an adequate basic standard that provides reasonable access to work opportunities and community services and that is available at a cost, which does not cause substantial hardship to the occupants”. To policy makers, financial institutions and even property developers alike, “affordable housing” simply means that one can “afford” to purchase a property and can qualify for the housing loan using one’s projected income level. Such definitions may satisfy the short-term social sustainability in providing the needs for shelter, however it may not be good for the long-term societal sustainability, as for many people, it is not limited to qualify for mortgage loans in the beginning, but also the ability to maintain a minimum standard of living after apportioning a significant chunk of their household income for the monthly mortgage.
While measuring housing affordability can be difficult especially in determining and conceptualizing the accurate and actual housing affordability among the purchasers, the traditional way of conceiving and measuring affordability is the ratio of house price to income. This is a formula that is commonly used to determine the affordability of property prices, especially in urban areas. This method is recognised by the World Bank and the United Nations. Using this formula, information provided by the Malaysian based National House Buyers Association have shown that the housing scenario has reached a state of ‘Seriously unaffordable’ (Table 2)

Table 2:
Housing Affordability Index

<table>
<thead>
<tr>
<th>Category</th>
<th>Property price as multiples of annual household income (times)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severely unaffordable</td>
<td>5.1 &amp; over</td>
</tr>
<tr>
<td>Seriously unaffordable</td>
<td>4.1 to 5.0</td>
</tr>
<tr>
<td>Moderately unaffordable</td>
<td>3.1 to 4.0</td>
</tr>
<tr>
<td>Affordable</td>
<td>3.0 or less</td>
</tr>
</tbody>
</table>

(Source: National House Buyers Association)

Definitions of sustainability

Sustainable development is defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. And housing development is a key ingredient of progress and governance in any given nation. The Canadian Mortgage and Housing Corporation prescribed a comprehensive goals for sustainable housing which encompasses (1) durability; (2) cost effective & practical to maintain; (3) reduce life-cycle environmental impacts; (4) Conserve water, reduces runoff and treats waste-on site; (5) maximize energy conservation and efficiency; (6) Reduce building footprints, simplify building shapes and maximize space efficiency; (7) optimize building orientation; (8) healthy by eliminating toxic and harmful materials in facilities and surrounding environment; (9) support transportation alternatives; (10) reduce, reuse and recycle materials in all phases of construction and deconstruction; (11) apply maintenance and operational practices that reduce or eliminate harmful effects on people and environment, and (12) design for future flexibility, expansion and capable of safe and efficient building demolition.

From the micro-economic point of view, using the ‘triple bottom-line’ concept, sustainability could be approached from social,economic and environmental performances. According to Choguill (2007), in order to be sustainable, housing initiatives must be economically viable, socially acceptable, technically feasible and environmentally compatible. Government housing policy must be directed to achieving these desirable aims. Similarly, Tan, in his paper on Homeownership Schemes in Malaysia for First Homebuyers, supported this by stating that in order to achieve sustainability in housing delivery system; affordable housing schemes ought to be economically viable, socially acceptable and technically feasible.

Mulliner et.al. (2013) stressed that housing affordability should be mutually discussed with sustainability issue because they are affecting one another. Maliene and Malys (2009) emphasized that affordable housing is one of the criteria that could deliver a sustainable community. To create a
sustainable community, the existence of affordable housing products is important in any housing development\textsuperscript{11}.

From the construction industry’s perspective, sustainability of the housing sector can be measured via a tool that for tracking the service life planning of buildings. The service life planning tool incorporates factors that affect building performance to predict the service life of the building components, economic assessment i.e. life cycle costing of the building and qualitative assessment of the building sustainability\textsuperscript{12}.

While the definitions of sustainable housing could be wide ranging, as it consists of social, economic and environmental components. However, the measure of affordability normally focuses only on economic viability without taking into consideration any other social attributes that also lead to the affordability problems. Sustainability in the context of this paper will include social sustainability, with the need to address urban poverty and ensure better quality of life; economic sustainability in ensuring that the financial mechanisms are healthy and stable in the long-run; and to a lesser extent, environmental sustainability in reducing building footprint.

**CURRENT HOUSING SCENARIO – HOW UNAFFORDABLE**

In Malaysia, over the past decade or so, the wages and income of the general population has not increased as compared to property prizes. The growth in individual earnings is not in tandem with growing costs. As a result, people found it difficult to buy and own decent houses. In the second quarter of 2015, the Malaysian Housing Price Index registered 220.2 points, which indicates that the country’s home values have more than doubled since 2000. The median house prices of RM242,000 in 2014 exceeded the median annual household income of RM55,020 by 4.4 times, vis-à-vis the global norm for housing affordability at three times\textsuperscript{13}. Local dailies reported that even middle income working professionals are unable to afford buying house based on single income and so, have to team up with a second person or a spouse to qualify for a housing loan. This shows that the unaffordability of the housing market has become critical.

*Table 3: The average of household income in Malaysia (US1 = approx. RM4.4)*

<table>
<thead>
<tr>
<th>Area</th>
<th>Median Income (RM)</th>
<th>Mean Income (RM)</th>
<th>Compounded Annual Growth Rate (CAGR) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>3,626</td>
<td>4,585</td>
<td>11.7</td>
</tr>
<tr>
<td>Urban</td>
<td>4,238</td>
<td>5,156</td>
<td>9.8</td>
</tr>
<tr>
<td>Rural</td>
<td>2,372</td>
<td>3,123</td>
<td>13.8</td>
</tr>
</tbody>
</table>

Source: Department of Statistics (2015)

Local public interest group, National House Buyers Association (HBA) alarmed about the risk of a “homeless generation” made up of a growing number of young Malaysians especially the lower and middle income groups, who are unable to afford their own home\textsuperscript{14}. The mean and median income of urban populations are slightly higher than average Malaysians (Table 2) However, Khazanah Nasional Bhd found that 74% of Malaysian households earn less than RM6,000 per month.

Over and above their usual expenses, households have to make loan installment payments, approximate to be around 18% of their income at current interest rates. In a recently launched
affordable schemes in the state of Penang, which were priced between RM300,000 and RM400,000, it was found that most of the potential buyers were in the late 20s or early 30s, with combined gross household income of around RM6,000, taking a 35 years loan, they need to service an interest of RM1,700 per month. With other commitment, this group was found to have the highest bank rejection rates.

According to a local think-tank, Penang Institute, affordable housing priced between RM300,000 to RM400,000 on Penang island, (second most developed urban centres in Malaysia), was still too high for the average household with a yearly income of RM60,000, based on the 2012 Household Income Survey. According to the institute, the price of an affordable unit should fall within RM180,000 and RM240,000, or three to four times of the average household annual income, following the international benchmark pricing for an affordable homes.

In an effort to reduce household debts and curb speculative activities, in 2015, the financial institutions have tightened the borrowing criteria, making it harder to get a mortgage. The loan rejection rate is 35%, 30% and 26% in Selangor, Kuala Lumpur and Penang the last two years compared to 20%, 20% and 13% respectively. This result in an ironic situation whereby on the one hand, people found it hard to secure houses which they can afford, on the other hand, the market seems to have houses which are not sold due to low take-up rates arising from high rejection rates of bank loans.

CURRENT STRATEGIES

The above scenario is largely shaped by speculative activities in major cities in the last decades or so. During the height of speculative activities, the activities were driven by the low entry costs with attractive marketing strategies such as Developer Interest Bearing Schemes (DIBS), exemption of down payment, and free legal fee and stamp duty. Historically, the speculative activities peaked in the period between 2007 and 2010, with the exemption from the Real Property Gains Tax (RPGT), which contributed towards the acceleration in house prices by encouraging the speculative demand for housing. After 2010, the government introduced cooling measures to curb speculative activities, e.g. RPGT and maximum loan-to-value ratio for individual and non-individual borrowers.

Despite the introduction of various cooling and cushioning measures and more stringent responsible bank lending regulations, which has cutcooled down the number of housing transactions, prices or value of houses remain high. Other than the taxation policies, other planning interventions include loosening the requirement for density, freeing up state land for housing, faster approval of projects, building houses in the outskirts and improve connectivity with better public transport, compulsory contribution from developers, etc.

In addition, both the Federal as well as state governments has initiated a number of special affordable housing schemes. The Federal Government, for example, under its Budget 2015, planned to build 80,000 units under PR1MA and 63,000 units under another housing programme. It addition, a “Youth Housing Scheme”, a scheme that encourage young families from lower and middle income groups to make their first home purchase was launched. Under this initiative, youth who qualify and are selected will be given RM200 monthly financial allowance by the federal government for the loan installments, 50% exemption to stamp duty, loan and transfer agreements, as well as 100% loan financing. Other than that, the Penang State government has also been aggressively acquire land and having joint ventures with the private sectors in developing affordable housing on Penang Island. Various projects have been launched under the Penang Affordable Housing (PMM) schemes.

THE SUSTAINABILITY FACTORS

Economic policies
Interventions in the housing market have mostly focused on improving affordability by leveraging on demand, either by allowing consumers to borrow more, or subsidizing the costs of houses. On the supply-side, the Federal and State governments have mainly focused on the direct provision of affordable homes, either through public agencies or through partnerships with private developers. Such measures are not sustainable, as allowing the consumers to borrow more does not reduce the cost of housing, but instead increases household debt, and the government subsidy to developers is draining the government finances.

With the abolishment of DIBS in 2014, it has somewhat contribute to reduce the speculative activities. However, there have been suggestions that DIBS should not be banned totally but selectively. In the latest development, the government mulls to reintroduce the DIBS and relax lending guidelines to promote first home ownership. This would ease the burdens of many first time buyers especially young married couples who find it hard to accumulate the initial deposit payment to buy a house.

Other important measures towards curbing speculation are the imposition of RPGT on properties transacted within a short period. The RPGT has increased sharply over the years, with a big leap in 2014, where the property disposed within 3 years is taxed 30%, and 15% for disposal within 3 to 5 years (See Table 4 below)

Table 4:
Trend of Real Property Gain Tax (2010 to 2014)

<table>
<thead>
<tr>
<th>Disposal within</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st year</td>
<td>5%</td>
<td>10%</td>
<td>10%</td>
<td>15%</td>
<td>30%</td>
</tr>
<tr>
<td>2nd year</td>
<td>5%</td>
<td>10%</td>
<td>10%</td>
<td>15%</td>
<td>30%</td>
</tr>
<tr>
<td>3rd year</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>10%</td>
<td>30%</td>
</tr>
<tr>
<td>4th year</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>5th year</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>6th year or more</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

On the surface, the imposition of RPGT seems to provide a direct impact to property speculators. However, critics suggested that the RPGT should be imposed from the date of completion of the property and not from the date of the signing of the sale and purchase agreement as what is being practiced so far. This is given that it takes around three years for high-rise projects and two years for landed properties, to be delivered to purchasers upon the signing of the agreement. Some investors still do not mind as the interests costs during the construction period is minimal and by the time the property is ready to be occupied, it could be out of the RPGT period where they don’t have to pay tax anymore and they can then sell with a good profit.

The measures taken by the government in the past two years has somewhat given results in curbing speculative activities. However, this has not brought down house price significantly. And the slow increase in personal income which has not kept up with the pace of inflation is one factor that has not been adequately addressed by the policy makers. The economic sustainability of affordable housing is thus relying on whether the income of the general population could be improved tremendously, at par with the rising costs of living and property prices.

Balancing social needs and environmental resources
According to a guideline by the Department of the Environment, quality housing promotes high design standards in construction, accessible, takes care of the environment, provide adequate amenities and infrastructure, and facilitates sustainable communities. In the urban areas, the limited resources need to be distributed fairly across geography and in different sectors. In addition, sustainability perseveres when resources are being consumed in a manner that does not compromise the opportunities of other sectors and the future generations.

The competing land use in urban area made it expensive to build cheap houses as land price is one key factor that contributes to high costs in housing. The land costs in urban centers could be as high as 40% in the total development costs as compared to less than 5% in locations outside the cities. In Malaysia, the provision of low income housing has been largely dependent on government, however, when the housing affordability concerns the low to middle income, the supply rely heavily on the private sectors. Thus, the role of the government is to facilitate a climate that stimulates the property market and investment while ensuring the general wellbeing of mass housing needs is met.

In many cases, due to shortage of land, innovative solutions need to be sourced. Finding new land or creating more land for development is crucial to cater to the housing needs. At times, tensions could be high due to the jostles between the social-human and natural capital. Sustainability in this sense is about finding a right balance looking at the opportunist costs, in resolving the conflict between providing housing and sacrificing environmental resources. In the case of Penang, due to the scarcity of land, the State government caught controversies with its bold moves of opening up hill lands and reclaiming land from the sea. In its most recent massive land reclamation proposal, it has embarked on the largest land reclamation project in the country covering 308 hectares with two manmade islands. This has been criticized for its infringement into vulnerable seabed, resulting in sedimentation and negatively affecting the aquatic environment that supports local fisheries. Thus, juggling with conflicting resources between social-human and natural capital are one key challenge to address.

**Sustainable housing consumption**

Besides the demands and supply side in ensuring that in the long run, the pricing of houses are within reach without incurring high ecological footprints, the discourse of housing sustainability involve many other aspects in the implementation, from the initial construction right down to the consumption stages. During the consumption stage, this includes ensuring efficient transport and connectivity where the commute between the work place and home generate least carbon emissions, and people could enjoy decent quality of life with amenities without having to invest heavily in actions detrimental to the environment. In the case of affordable housing in Malaysia, although the house quality has seen improvement over the years, generally the connectivity issue and the private transport dependency are yet to be resolved.

Besides this, sustainability in the consumption also necessitates the introduction of certain features to the houses, such as trees and greenery, open spaces, and to other extend waste recycling, rainwater and solar energy harvest. Besides this, sustainability is also to create a housing environment that practice lifestyles that consume least energy, with low maintenance of the building in its entire life-cycle. This includes access to good quality building and finishing materials without negative effects to the environment and its occupants.

**CONCLUSION**

The notion of affordable housing can be referred to a type of mass housing which has some elements of subsides and social obligations in mind. As this category of housing forms a large part of residential housing stock catering to majority of population, any social-economic policies or actions would result in huge impacts to the society and the environment. This type of housing calls for careful strategies as it is a case of maximizing profits with minimal resources, and managing conflicting interests among...
sectors, social strata and stakeholders (developers, consumers, finance institutions, etc). In the Malaysian example, the main challenge is the long-term economic sustainability, how to ensure that the housing market growth is healthy and the income of the population rises in tandem, while the challenge to environmental sustainability is to ensure that in the process, the negative environmental costs could be minimized, and how to provide enabling environment with better amenities, ensuring privacy and conducive spaces to bring up families.

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