Rethinking Interventions To Address Housing Affordability Gap

Malaysia RHEDA Institute Conference
October 9, 2018
SDG GOAL 11.1

By 2030, ensure access for all to adequate, safe and affordable housing + basic services + upgrade slums

Adequate Housing may not equate to Home Ownership
11.43: Facilitate and promote an enabling environment in developing affordable housing with greater private sector participation.

11.45: Review subsidies for the affordable housing programs to ensure the sustainability of the programs and to better optimise government resources.

11.46: The Housing Data Bank System is being developed as an integrated database on supply and demand of housing in the country. The system aims to improve holistic policy planning and monitor implementation of housing projects.
### WHAT’S THE HOUSING ISSUE IN MALAYSIA?

#### 3 Mismatches

<table>
<thead>
<tr>
<th>PRICE</th>
<th>LOCATION</th>
<th>PRODUCT</th>
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<tbody>
<tr>
<td>• Average Malaysian can afford RM 250K homes and below</td>
<td>• Accessibility, connectivity issues due to poor location result in high overhang</td>
<td>• Public housing with poor quality and management lead to poor living quality and sustainability</td>
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<tr>
<td>• Of the new launches in 2017: 73% are priced &gt;RM 250K</td>
<td>• Poor access to basic urban services for households</td>
<td>• SOHOs/Studio units not suitable for LT settlement</td>
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What model has Malaysia adopted which may have led to MISMATCHES?

Source: CBRE/WTW Research 2018
SUBSIDY PROGRAMS: COMPLEX ARRAY OF CHOICE

<table>
<thead>
<tr>
<th>Program</th>
<th>Description</th>
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<tbody>
<tr>
<td>PR1MA</td>
<td>Launched in 2012 to provide affordable home for middle-income households in urban areas. PR1MA entity plans, develops, constructs, and maintains housing.</td>
</tr>
<tr>
<td>PPA1M</td>
<td>Launched in 2013 to support homeownership for civil servants earning low- and middle-incomes. What entity is the program under?</td>
</tr>
<tr>
<td>RUMAWIP</td>
<td>Launched in 2013 by Ministry of Federal Territories to provide housing for Territories’ residents. Public-private partnership for construction.</td>
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<tr>
<td>MyHome</td>
<td>Launched in 2014 by the Urban Wellbeing, Housing and Local Government Ministry to support low-income households purchase a house. Developers receive a subsidy of RM30,000 per house sold.</td>
</tr>
<tr>
<td>PPR</td>
<td>Launched in 1998 to provide housing for squatters and low-income households under Ministry of Urban Wellbeing, Housing and Local Government. Housing for rent or sale.</td>
</tr>
<tr>
<td>RMR1M</td>
<td>Established by SPNB, a subsidiary company of the Ministry of Finance. For low-income households that already own land but do not have a house or the house is not adequate.</td>
</tr>
<tr>
<td>RIR</td>
<td>Established by SPNB and targeted to middle-income households. Mixed-use projects on land provided or co-owned by government bodies.</td>
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<tr>
<td>Region-Specific Programs</td>
<td>Selangor, Penang, Sarawak, and Johor have other housing programs that are specific to their region.</td>
</tr>
</tbody>
</table>

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<tr>
<th>Program</th>
<th>Range of offered house price (RM k)</th>
<th>Income range (RM k per month)</th>
<th>Type of houses offered</th>
</tr>
</thead>
<tbody>
<tr>
<td>RMM Pulau Pinang</td>
<td>100-200</td>
<td>0-5</td>
<td>1</td>
</tr>
<tr>
<td>PR1MA</td>
<td>300-400</td>
<td>5-10</td>
<td>2</td>
</tr>
<tr>
<td>RMM SPNB</td>
<td>400-600</td>
<td>10-15</td>
<td>3</td>
</tr>
<tr>
<td>RUMAWIP</td>
<td>500-700</td>
<td>15-20</td>
<td>2</td>
</tr>
<tr>
<td>PPA1M</td>
<td>600-800</td>
<td>20-25</td>
<td>3</td>
</tr>
<tr>
<td>RIR</td>
<td>700-900</td>
<td>25-30</td>
<td>2</td>
</tr>
<tr>
<td>MyHome</td>
<td>900-1100</td>
<td>30-35</td>
<td>3</td>
</tr>
<tr>
<td>RMM Sarawak</td>
<td>1200-1500</td>
<td>35-40</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Various government agencies, KRJ calculations
HOUSING SUBSIDY BUDGET: HOW BEST TO DEPLOY FUNDING FOR OPTIMAL OUTCOMES?

Government initiatives

Allocation to support homeownership

**RM2.2 billion**

- Construction of **17,300 units** under Projek Perumahan Rakyat
- Construction of **3,000 units** Rumah Mesra Rakyat

**Construction of 210,000 units** priced RM250K & below

**Completion of 25,000 units** in 2018

**Construction of 600 units** under My Beautiful New Homes

**Deposit payment for 2,000 units** under MyDeposit and MyHomes

**RM200 million** fund for repairs and maintenance of homes
TOWARDS ACCESS FOR ALL TO ADEQUATE, SAFE AND AFFORDABLE HOUSING

1. Integrate affordable housing into urban and transport planning and land development

2. Focus on building livable and sustainable communities and cities over housing units

3. Re-design well-targeted and progressive subsidy programs that leverage private sector funding + capacity

4. Deploy disruptive technologies to develop an integrated and just-in-time housing database and analytical framework to decide where, what and how much to build
URBAN PLANNING BEST PRACTICES: SINGAPORE

KEY COMPONENTS

• **Housing** is an integral part of urban planning

• **Competent national agency** for affordable housing management and land assembly

• **Mixed-income** developments avoid segregation and ensure equal access to services

• **Public-private partnerships** for efficient service provision and innovation

• **High quality transport** to ease access to jobs and services

• **Long-term planning** to guide future development through a 10-15 year Master Plan and 40-50 year Concept Plan.
CAN SINGAPORE MODEL BE REPLICATED?

1. Land Acquisition Act
   Ease of planning, land assembly and construction

2. CPF – Saving for Housing
   Up to 23% of salary contributed for housing saving

3. HDB: ‘Total’ Approach to Housing
   Master Developer of all property types allowing for cross-subsidization. Housing - 3.9% of govt fiscal budget. Housing schemes meet housing needs across segments

4. Long-term Consistent Commitment
Focus On Building Live-able Neighborhoods & Sustainable Communities Instead Of Just Housing Units

- **Neighborhood livability** through smart density that supports a range of uses and needs
- **Quality housing** to ensure healthy living and long-term investment
- **Assorted housing units** to support a variety of household types and needs
- **Mixed-use** developments to provide access to education, employment, healthcare, marketplaces, and social infrastructure
- **Transit-oriented development** for accessibility, decreased vehicular dependency, and healthy living
WHO ARE WE SERVING?

Home Purchase Decision is:

The Largest Investment in a Life Time

1 Size Does Not Fit All

Location. Location. Location

Subsidy must meet household needs
DESIGN WELL-TARGETED AND PROGRESSIVE SUBSIDY PROGRAMS THAT LEVERAGE PRIVATE SECTOR FUNDING + CAPACITY

GOVERNMENT-DRIVEN & EXECUTED

• Taxing on government limited fiscal budget: unable to meet demand

• Government lacks capacity
  • Construction
  • Lending / underwriting
  • Marketing / project management

• High and un-controlled risk:
  • Govt guarantee on construction quality, off-take risk, credit default.

• Crowd-out private sector

Shift focus from quantitative outputs to qualitative outcomes.

GOVERNMENT-ENABLED & PRIVATE-SECTOR LED

• Government designs programs and coordinates implementation

• Maximize state and local government capacity, land and resources

• Demand side subsidy to target affordability gaps proven more effective.

• Initiate research and development to innovate enabling environment

• Targeted guarantee / grant toward segment with acute needs
CREATE INCENTIVES FOR ACTORS IN THE ECO-SYSTEM TO PARTICIPATE IN AFFORDABLE MARKET

Housing Incentive Chain

National Housing/Finance Ministries
Developers Owners Realtors
Investors Funders
Banks Non-Banks Mortgage Guarantors
NGO's
Local Govts Metros Municipalities

CENTRAL HOUSING AUTHORITY ROLE:
Housing Incentives Coordinator
Before 2002:

MINVU* funded and managed subsidy programs.

Was the largest real estate firm and the second largest mortgage bank in Chile

(* Ministry of Housing and urban development)

Outcome:

41% of Homeowners in Chile have benefited from the subsidy program

After 2002: The Reform

• MINVU stopped giving mortgage loans and gave up the direct construction of houses

• Introduction of the ABC program that combines
  • Household Savings
  • Government subsidy
  • Commercial Banks LT debt

• Subsidy with broad offering:
  • Free homes
  • Purchase of new/existing homes
  • Rentals
  • Home improvement/extension

• Reforms in the financial and social sectors to support the ABC program
### “HOUSING FOR ALL BY 2030” PMAY PROGRAM: INDIA

Supply + Demand sides subsidy targeting low- and middle-income sectors allowing for a wide range of uses

<table>
<thead>
<tr>
<th>In-Situ Slum Redevelopment</th>
<th>Affordable Housing through Credit-Linked Subsidy</th>
<th>Affordable Housing in Partnership</th>
<th>Subsidy for beneficiary-led construction or enhancement</th>
</tr>
</thead>
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<tr>
<td>“In-situ” using land as a resource with private participation</td>
<td>Subsidy for EWS (Economically Weak Sector) and LIG (Low Income Group) for new house or incremental housing</td>
<td>With private sector or public sector including Parastatal agencies where 35% of constructed houses are for EWS category</td>
<td>For individuals of EWS category for new house or enhancement</td>
</tr>
<tr>
<td>Extra FSI/FAR and TDR required</td>
<td>Upfront subsidy @6.5% for EWS and LIG for loans up to Rs 6 lakh (USD 8,000), calculated at NPV basis</td>
<td>Central Assistance of Rs 1.5 lakh (USD 2,000) per EWS house</td>
<td>Cities to prepare an integrated project for such beneficiaries</td>
</tr>
<tr>
<td>Govt grant Rs 1 lakh (~USD 1,350) per house</td>
<td></td>
<td></td>
<td>Central assistance of Rs 1.5 lakh (USD 2,000) per beneficiary</td>
</tr>
</tbody>
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**Strong political commitment**
‘ESTA ES TU CASA’ SUBSIDY PROGRAM: MEXICO

**SUPPLY SIDE**

- **Private sector** developer led
- **10 largest** builders account for ~60% of volume
- **NO price control** → market competition & efficiency
- 300,000 units/year; 65% social
- Low margin but **high volume**
- **Location Guidelines** to control urban sprawl

**DEMAND SIDE**

- **One-time down-payment assistance** by CONAVI* to reduce loan
  - 20-25% of property value
  - Focus: salaries <4X MW (min wage)
  - 40% of new purchases receive subsidy (2007-2014) at USD 470 MM
- **Infonavit and Fovisste (Provident Fund)**
  - Largest mortgage lender: 86% share
  - Focus: salaries <6X MW (min wage)
  - 30 years term
  - Home purchase (new/existing) @ 80% LTV; repair/extension @ 65% LTV
  - Fixed rate of 12% + administrative cost
  - 582K avg loan units (2004-2014)

*Ministry of Housing, Rural & Territorial Development
SUBSIDY PROGRAM EVALUATION: A COMMON PLATFORM FOR EVALUATION IS NEEDED
THREE PRIMARY HOUSING FINANCE SUBSIDY PROGRAMS

- **FLPP**
  - Liquidity funding
  - Fixed rate at 5%

- **SSB**
  - Interest rate subsidy
  - Fixed rate at 5%

- **BP2BT**
  - Down payment assistance
  - Market rate mortgage
Comparative Analysis of Subsidy Economic Cost Across 3 Programs

**Year 1 Cost of Subsidy per Unit**

- SSB: 10.5
- FLPP: 96.6
- BP2BT: 25.2

**Net Present Cost of Subsidy per Unit**

- SSB: 53.4
- FLPP: 53.8
- BP2BT: 25.2

SSB and FLPP include SBUM 4M IDR
Volume Achieved with Budget of 1Tr IDR for each Subsidy Program

Volume delivered in year 1

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<tr>
<th>Program</th>
<th>Volume</th>
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<tr>
<td>BP2BT</td>
<td>39,651</td>
</tr>
<tr>
<td>FLPP</td>
<td>10,349</td>
</tr>
<tr>
<td>SSB</td>
<td>95,050</td>
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Loan Units Delivered per One Trillion Rupiah of Budget
(Lifetime cost basis)

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<tr>
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<tr>
<td>BP2BT</td>
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<td>20,273</td>
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<tr>
<td>SSB</td>
<td>18,724</td>
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DEPLOY DISRUPTIVE TECHNOLOGIES TO DEVELOP AN INTEGRATED AND JUST-IN-TIME HOUSING DATABASE AND ANALYTICAL FRAMEWORK

• Collect, aggregate and collaborate to build a reliable database, inclusive the use of Big Data

• Deploy disruptive technologies to analyze and build forecasting trends

• Build tools, indicators and indexes that reliably reflect the state of the housing market across all segments

• Communicate trends and analyses to inform public policy directions, investors and consumers buy/sell decisions
INTEGRATED DATABASE THAT KEEPS TRACK OF HOUSING SUPPLY & DEMAND

BIG DATA COLLECTION

EXISTING STOCK
- SATELLITE IMAGERY
- ADVERTISEMENTS

LAND ACQUISITION
- NAPIC
- STOCK MARKET
- BANK*

CONSTRUCTION SUBMISSION
- LOCAL GOVERNMENT

HOUSING LICENSE APPLICATION
- HOUSING MINISTRY

Notes: National Property Information Centre (NAPIC) is Malaysia's agency in charge of collecting property data nationwide.
PAST & PRESENT:

TIME SENSITIVE DATA THAT REFLECTS CURRENT AND FUTURE HOUSING STOCK IS IMPORTANT TO EMPOWER POLICY MAKERS AND KEY STAKEHOLDERS TO UNDERSTAND AND RESPOND TO THE MARKET
MOBILE DATA: CONNECTIVITY OF POPULATION REVEALS BOTH WEALTH AND URBAN SETTLEMENT PATTERNS

Source: Data by OpenCellID. Data Visualisation by Propertypriceag.com
PROPERTYPRICETAG TRAINS ARTIFICIAL INTELLIGENCE BOTS TO COUNT HOMES

PROPERTY PRICETAG’S ALGORITHM IS TRAINED TO LOCAL RESIDENTIAL & NON-RESIDENTIAL BUILDINGS IN DIFFERENT IMAGE CONDITIONS.
Population access to workplace and job opportunities impacts the economic well-being of communities. With past traffic data, we are able to measure population access to work places by time.

Source: Google Traffic
Note: Travel time was calculated to Penang Bridge at 0800 hours on 23 July 2018.
INTEGRATED DATA IN ITS RAW FORM HAVE NO VALUE

BUT THE ANALYSIS THAT DRIVE THE UNDERSTANDING
CURRENT SUPPLY PLAN HAS SURPASSED OPTIMISTIC POPULATION GROWTH IN SETAPAK

Three demand growth scenarios

Supply already surpassed demand by 5%, based on known plans of developers in the area.

Housing supply in Setapak is expected to grow by 30% in the next 5 years.
CONCLUSION: **KEY PRINCIPLES** OF HOUSING SUBSIDY

- **Efficiency**: Minimize all-in-cost per household. Maximize use fiscal budget.

- **Equitability**: Large subsidies for lower-income groups (progressive). Equal access for all employment groups.

- **Market Efficiency**: Promote market competition. Avoid price control.

- **Leverage Private Sector Capacity**: Leverage developers / lenders / households capacity and resources.

- **Ongoing Monitoring**: Robust monitoring system to ensure subsidy program is working. What’s the development impact? Adjust as needed.
A COMPREHENSIVE WBG APPROACH TO SUPPORT SDG GOAL

Housing Value Chain

Menu of WBG interventions

1. Improve city planning, building regulations, and access to land
2. Invest in basic pro-poor infrastructure and slum upgrading
3. Strengthen residential rental markets
4. Strengthen local construction & building materials sectors; support private housing development
5. Expand access to housing finance

The WBG is uniquely positioned to reach across the value chain
Terima Kasih!