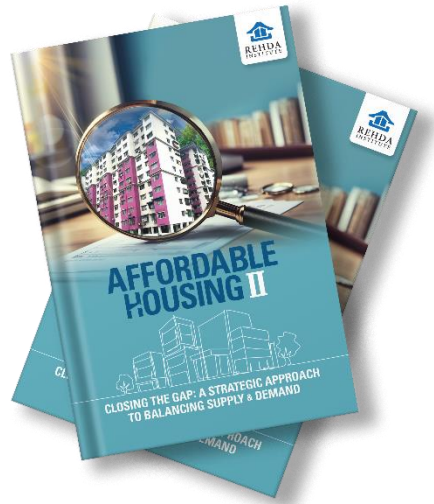


Affordable Housing II

Closing the Gap: A Strategic Approach to Balancing Supply & Demand



PRESS REPORT

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New approaches needed to measure housing affordability, says Rehda Institute

By Priya Devan



From left: Rehda Institute trustees Tan Sri Teo Chiang Kok, Datuk Seri Fateh Iskandar and Tan Sri Eddy Chen, Ng, Minister of Housing and Local Government Nga Kor Ming, Rehda Malaysia president Datuk N K Tong and his deputy Datuk Ho Hon Sang, Rehda WPKL committee member Teo Chui Ping, and Rehda Institute trustees Datuk Ng Seing Liong and Datuk Muztaza Mohamad at the launch of the Affordable Housing II report (Photo by Low Yen Yeing/The Edge)

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Both the government and private sector have made efforts to increase the supply of affordable homes, but many challenges still need to be addressed. Rehda Institute finds Malaysia's affordable housing market fragmented and lacking coordination, and calls for new approaches to measure the housing affordability rate.

This issue was discussed in its latest research report, titled Affordable Housing II — Closing the Gap: A Strategic Approach to Balancing Supply & Demand, launched on May 14 at the Regional Housing Conference 2024. The comprehensive report is currently on sale to the public.

The conference — organised by Rehda Institute, an independent think tank focusing on research and education related to housing matters — was attended by about 370 participants including local government authorities, housing experts from across the region including Hong Kong, Singapore and Australia, as well as other industry stakeholders.

In his opening address, Rehda Institute chairman Datuk Jeffrey Ng Tiong Lip said, "Our objective is to deliver a more comprehensive and deeper understanding of insights in the region. We cannot overemphasise the importance of developing the right ecosystem in affordable housing living. These units must be built in locations where there is good and affordable public transport, with adequate facilities for work, play, education and economic activities.

“In short, an affordable housing quota cannot be imposed across the board in all private developments as the required affordable housing ecosystem may not be present. If we go back to the basics of defining housing affordability, one commonly used benchmark is the median multiple approach [with the house price divided by annual median gross household income]. However, as our nation evolves, the demographics of the rakyat, including the household composition, continue to remain dynamic. The question is, can housing affordability be measured more accurately in Malaysia?”

Comparison between conventional affordability approaches by household type – terraced house				
URBAN HOUSEHOLD	PERCENTAGE OF HOUSEHOLDS THAT CAN AFFORD TO PAY MONTHLY INSTALLMENTS (%)			
	RESIDUAL INCOME (BELANJAWANKU DATA) (%)	RESIDUAL INCOME (HIS' DATA) (%)	HOUSING COST BURDEN (NET INCOME) (%)	MEDIAN MULTIPLE (%)
Single	48.40	25.00	18.09	5.05
Married (no child)	47.03	32.30	32.54	12.47
Married (one child)	36.53	28.41	33.71	15.67
Married (two children)	32.59	27.80	34.11	17.72
All urban households	39.59	28.86	31.26	14.16

This new report covers some of the issues related to how affordability is measured and should evolve in today’s context, he said. The new report builds on the work done in a 2018 report, titled Affordable Housing: The Game Plan Transformation, he added.

The latest report aims to address the structural problems in the development of affordable housing in Malaysia at a micro level, including identifying the underlying factors that contribute to the enduring housing affordability challenges. The report also provides insights into the mismatch between supply and demand of affordable housing in the country at a macro level.

The goals of the report include determining the optimum housing affordability measure at a local level, developing a housing affordability framework aimed at assisting industry stakeholders in gaining an understanding of the demand for residential developments, identifying key factors to encourage affordable housing development, studying the federal and state governments’ public housing initiatives with the aim of streamlining them and

emphasising the need for a centralised database to assist in decision-making.

Rehda Institute defines affordable housing as units priced between RM200,000 and RM500,000, catering to specific target markets and locations.

A more accurate benchmark needed

According to the report, the country has been using the median multiple approach, which shows the relationship between house prices and household income at an aggregated level. It points out that using the median multiple approach for housing demand imposes a higher requirement for lower-priced housing compared with the housing cost burden (HCB) and residual income (RI) approaches.

Furthermore, studies have found variations in median multiple ratios based on location, property type and household characteristics, suggesting that a one-size-fits-all multiple of the three ratios currently applied may not accurately gauge housing demand and could disrupt market dynamics. The findings reveal that this conservative approach may contribute to the mismatch between housing supply and demand, especially if policymakers apply a fixed multiple without considering evolving demographic trends.

Introduced in the 1930s, the HCB approach applies a 30% affordability threshold. This means if a household spends 30% or less of its gross income on housing costs, then the home is deemed affordable.

However, as the housing industry has evolved and become more complex over the years, the median multiple and HCB approaches have not taken into consideration changing market conditions, inflationary factors as well as policy and regulation changes, says the report.

To discover a more accurate method, Rehda Institute studied the RI approach. This is calculated by comparing the net household income with essential non-housing expenses, including taxes.

For the study, Rehda Institute used the gross household income data presented in the Department of Statistics Malaysia's (DOSM) Household Income Survey Report 2022 and the monthly non-housing expenditure data in the Household Expenditure Survey Report 2022 and Belanjawanku 2022/2023 report.

The study focused on four household types that are commonly found in urban areas, namely single adults, married couples without children, married couples with one child and married couples with two children.

From the study, we can see that all types of married households exhibit higher net monthly income than single adults. However, after deducting the estimated monthly non-housing costs, single adults have the highest RI for housing costs. With regard to this, the study found that single adults and married couples without children had the highest percentage in terms of affordability.

Simply put, the affordability rate declines with the increase in number of household members. In the same study, the median multiple approach indicated higher affordability across all categories of married couple households when compared with single adults.

Comparison between conventional affordability approaches by household type – condominium/apartment

URBAN HOUSEHOLD	PERCENTAGE OF HOUSEHOLDS THAT CAN AFFORD TO PAY MONTHLY INSTALMENTS (%)			
	RESIDUAL INCOME (BELANJAWANKU DATA) (%)	RESIDUAL INCOME (HS' DATA) (%)	HOUSING COST BURDEN (NET INCOME) (%)	MEDIAN MULTIPLE (%)
Single	62.23	38.83	41.22	18.62
Married (no child)	58.67	48.57	61.76	34.56
Married (one child)	44.19	46.22	61.22	36.41
Married (two children)	42.26	45.72	68.64	41.96
All urban households	49.72	45.80	61.29	35.50

*HS: Household Income Survey

SOURCE: DEPARTMENT OF STATISTICS MALAYSIA, BELANJAWANKU & REHDA INSTITUTE RESEARCH



As a result, the report recommends that the HCB approach be adopted in the interim and, if necessary, the median multiple approach can be utilised with different multiples used depending on the location. Later, the RI approach should be applied in policymaking when there is a comprehensive housing and population database available. Also, the RI approach varies depending on time and location, therefore there is a need to

develop an RI model suitable for Malaysia's housing market, the report stresses.

Understanding supply and demand

To better understand the supply of affordable housing, Rehda Institute carried out a survey among those who develop such properties. Questionnaires were forwarded to selected developers across Peninsular Malaysia. Interviews were also conducted for a better grasp of the subject matter.

The highlight of the survey was that 61% of the developers were inclined to include affordable housing units in their projects even when these were not obligatory. But with the market experiencing a rise in construction costs, these developers face challenges during the execution stage. As a result, cross-subsidisation takes place. However, this is not sustainable in the long run, the report cautions.

With developers increasing the selling price of open market units to compensate for the negative returns, the middle-income group will slowly start struggling to obtain housing that is marketed to their income bracket, says the report.

Another pressing issue faced by developers is that in certain locations when there are few property developers and the authorities impose the same requirements on providing lower priced houses, they are not aware that they are creating competition among the same target group and there might be insufficient demand to meet the increase in supply of the similar product.

That is why Rehda Institute emphasises in the report that affordable housing should be differentiated from social and public housing to target different groups of people at specific localities. The primary objective of developing social and public housing is to provide shelter to the needy who cannot afford open market units.

The report points out that delays in identifying and verifying eligible buyers can slow down sales, hence increasing holding costs. Importantly, some of the

successful purchasers over time have improved their income levels and should not be allocated these units. This has resulted in some units being rented out and the goal of housing for the needy is not met.

Hence, the report notes that it is important to align supply with demand and avoid discriminatory conditions from authorities without a clear understanding of market dynamics. “Other industries are not imposed with any restrictions that result in unviable market practices. Similarly, developers should not be imposed with any conditions and free market forces should prevail. The market findings have revealed that there are developers whose mission and vision are to focus on affordable housing if it is viable,” it adds.

The report suggests that developers should be incentivised in the form of subsidised construction materials, lower development charges, lower taxes, higher density/plot ratio if feasible and standard documentation that results in speedy approvals, among other incentives. Furthermore, innovative financing schemes are crucial and banks should play a key role in creating programmes that benefit both developers and buyers.

Streamlining government initiatives

The report says that despite the significant allocation of public funds to the housing market and the creation of various housing initiatives over the years, the government’s target for the needy may not have been met. “The decentralised nature of the public housing system, the absence of a transparent monitoring system on the budget allocation and the implementation of public housing initiatives hinders the government’s ability to achieve its housing targets,” it points out.

Over the years, inadequate monitoring of housing programmes has led to instances where occupants do not vacate social housing upon improvement in their income level, thus depriving needy households of housing privilege. Meanwhile, others were found to have sold the properties, benefiting from capital appreciation, or even renting them out for income, says the report.



The report suggests that the government focus on social and public housing, while the private sector delivers affordable housing in an open market without a price ceiling (Photo by Zahid Izzani/The Edge)

The maintenance and management of these units are also a problem, resulting in a non-conducive living environment. Additionally, authorities assert that there is a shortfall in houses priced below RM300,000 and call for more houses to be built in this category. However, the statistics reveal that a substantial number of houses in this category have not been sold. A cause-effect analysis is necessary to identify the root problem before introducing any more requirements, says the report.

Government programmes sometimes compete with the private sector, creating an unhealthy playing field. The report suggests that the government focus on social and public housing, while the private sector delivers affordable housing in an open market without a price ceiling.

To balance supply and demand, it is crucial to identify and align state and federal governments’ social and public housing initiatives with local demographics to bridge the existing gap, says the report. “There is a need to create a centralised online portal for the rakyat to easily access information about all available programmes and understand the eligibility criteria to select suitable housing options.

“Such a platform will enhance the efficiency and effectiveness of the respective programmes and eliminate duplication between programmes. The constant review and monitoring of the occupants of the social housing will also warrant that the right target group enjoys the benefits of social housing. In this manner, the need to continuously provide more social housing over time will reduce due to the natural progression of the nation and its population.”

Additionally, the continuous assessment of the evolving demographic landscape and reviewing the

lower income group’s profile encourages targeted allocation of social housing to those who meet the criteria, which can help eliminate mismatches in housing allocation.

In conclusion, the report proposes optimal housing affordability measures to close the housing supply and demand gap, a more centralised database on housing and population statistics for better decision-making, as well as a holistic review of policies and a targeted approach to affordable housing by demarcating the roles between public and private sectors.