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12th Malaysian Plan Kick-Off Conference
Rethinking Housing: The Role of Government and Private Developers in Providing Affordable Housing

1 July 2019
Dr Suraya Ismail

Rethinking Housing:
The Role of Government and Private Developers in Providing Affordable Housing
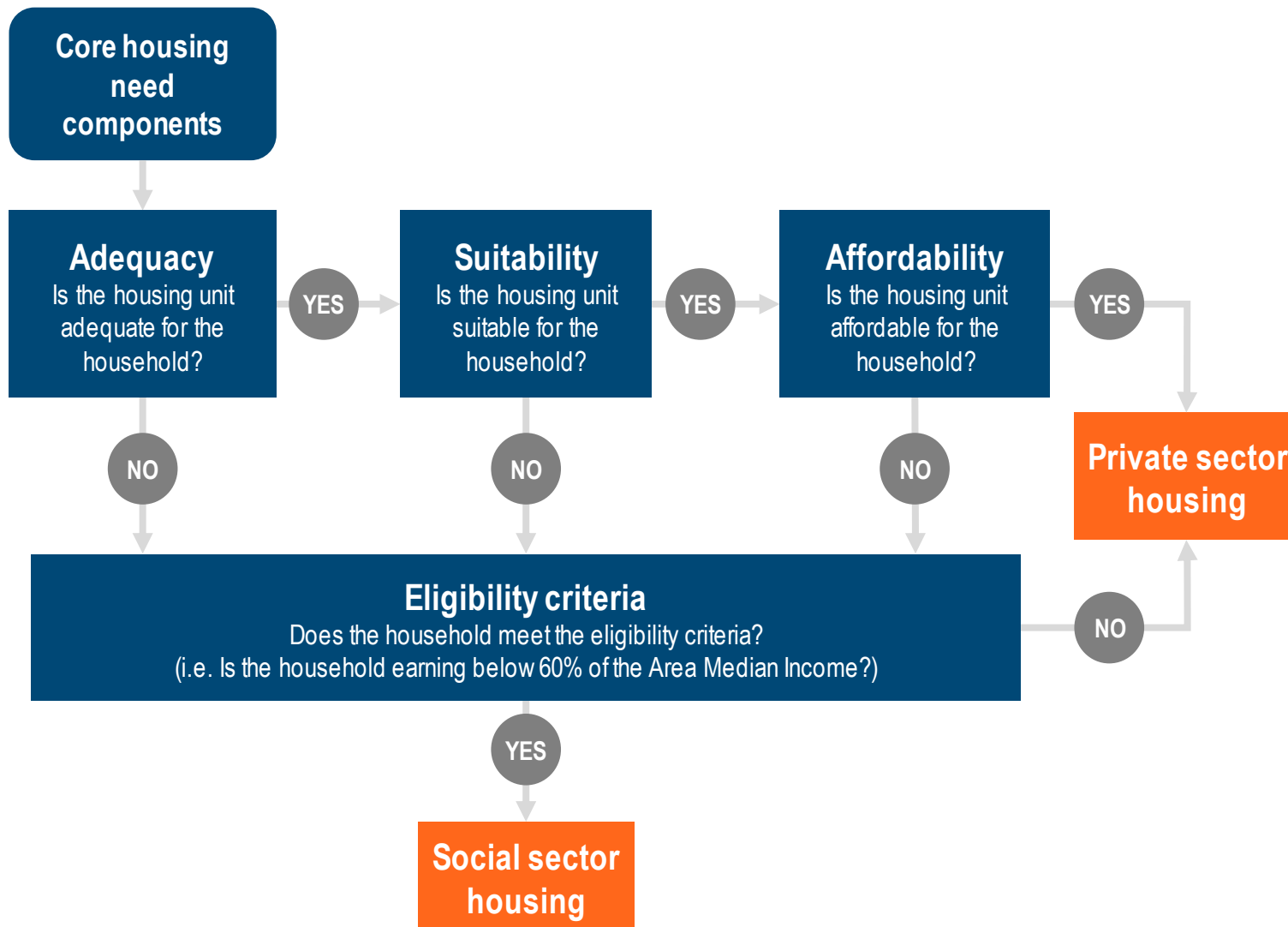
1. Reducing the Government's Budget for the provision of housing

2. Increasing ownership through a supply of housing that is affordable, NOT with 'innovative' financing

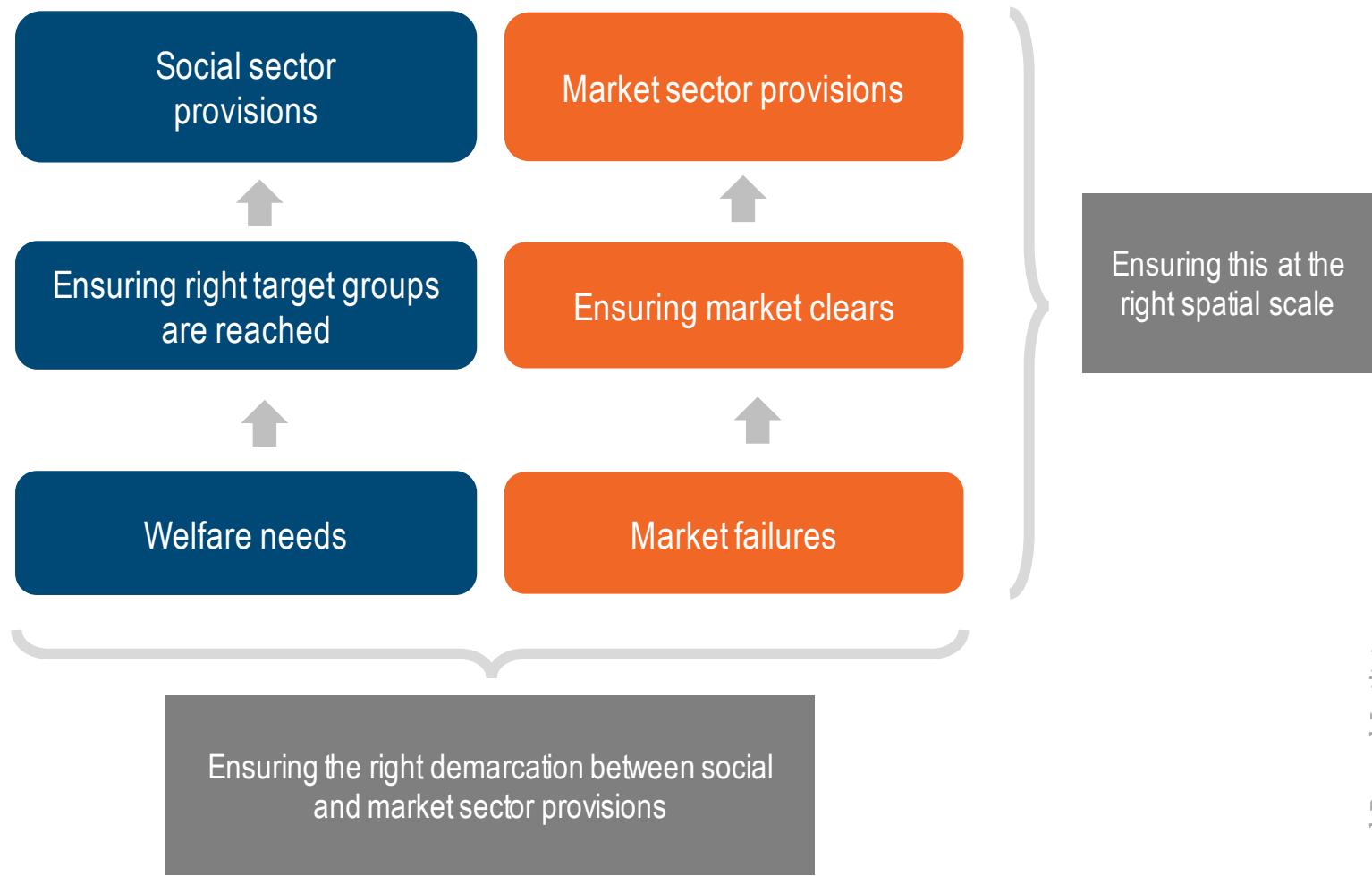# Reducing the government's budget for the provision of housing

+Core housing need – Estimating the social housing sector
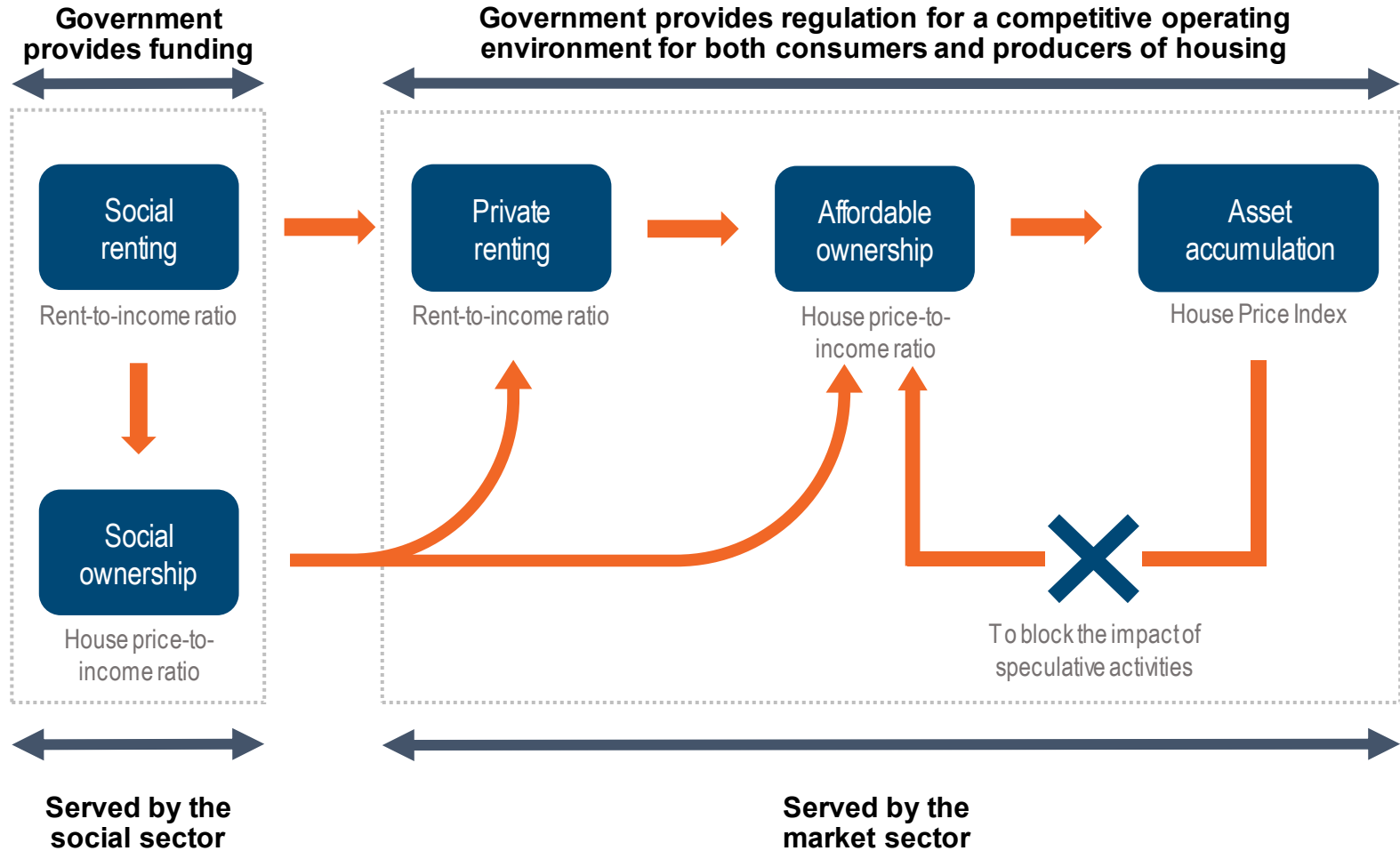
Estimation of core housing need

Core housing need components

Adequacy
Is the housing unit adequate for the household?

— YES → **Suitability**
Is the housing unit suitable for the household?

— YES → **Affordability**
Is the housing unit affordable for the household?

— YES → **Private sector housing**

NO (Adequacy) ↓
NO (Suitability) ↓
NO (Affordability) ↓

Eligibility criteria
Does the household meet the eligibility criteria?
(i.e. Is the household earning below 60% of the Area Median Income?)

— NO → **Private sector housing**

YES ↓

Social sector housing

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+Research Framework

Social Sector (core need) and Market Sector

Social sector provisions	Market sector provisions
Ensuring right target groups are reached	Ensuring market clears
Welfare needs	Market failures

Ensuring this at the right spatial scale

Ensuring the right demarcation between social and market sector provisions

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+Research Framework

The Role of Government in Both Sectors

Government provides funding

Government provides regulation for a competitive operating environment for both consumers and producers of housing

Social renting
Rent-to-income ratio

Private renting
Rent-to-income ratio

Affordable ownership
House price-to-income ratio

Asset accumulation
House Price Index

Social ownership
House price-to-income ratio

To block the impact of speculative activities

Served by the social sector

Served by the market sector

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+Core housing need – Estimating the social housing sector

Proposed qualifying income criteria

Assuming that a healthy housing market can provide homes to at least 50% of the population who earn above the state median income,

We consider households with a total income that is below 60% of the state median income to be at risk of requiring housing assistance in their locality.

Total population under the proposed qualifying income criteria

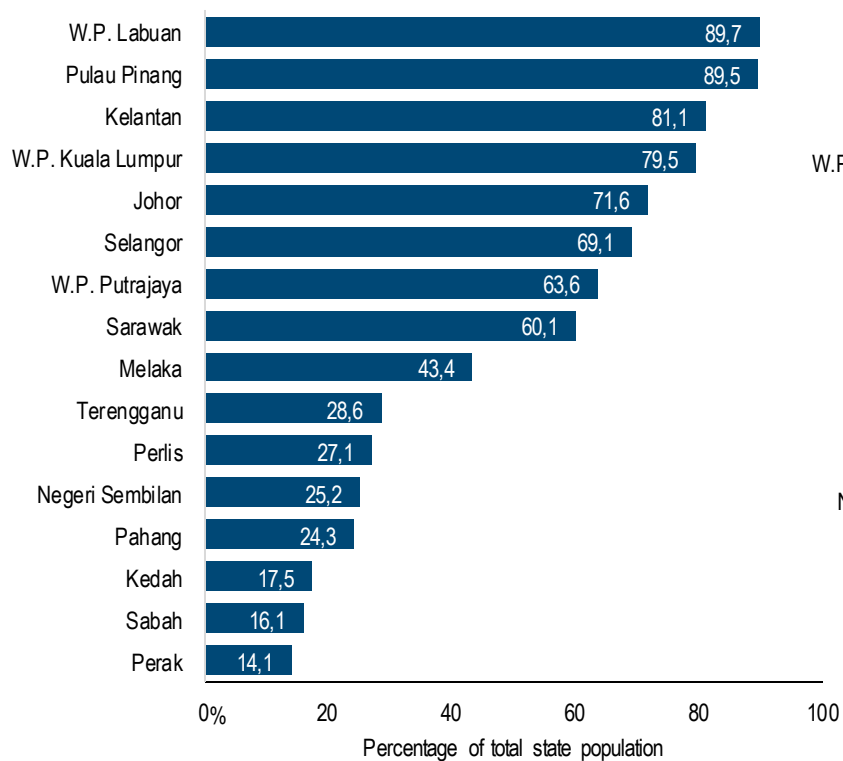| State	State Median Income (2016)	60% of State Median Income	Proposed qualifying income	% of households earning below qualifying income
MALAYSIA	**RM5,228**	**RM3,137**	**RM3,000**	**20.0**
Johor	5,652	3,391	3,000	15.5
Kedah	3,811	2,287	2,000	17.5
Kelantan	3,079	1,847	2,000	22.9
Melaka	5,588	3,353	3,000	12.0
Negeri Sembilan	4,579	2,747	3,000	25.2
Pahang	3,979	2,387	2,000	8.3
Pulau Pinang	5,409	3,245	3,000	13.8
Perak	4,006	2,404	3,000	29.7
Perlis	4,204	2,522	3,000	27.1
Selangor	7,225	4,335	4,000	14.6
Terengganu	4,694	2,816	3,000	15.5
Sabah	4,110	2,466	3,000	34.4
Sarawak	4,163	2,498	3,000	31.9
Kuala Lumpur	9,073	5,444	6,000	25.3
Labuan	5,928	3,557	4,000	39.3
Putrajaya	8,275	4,965	5,000	12.4

Source: DOS and author calculations

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+Core housing need - Welfare needs and state regulations

Housing assistance must be targeted, based on proposed qualifying income

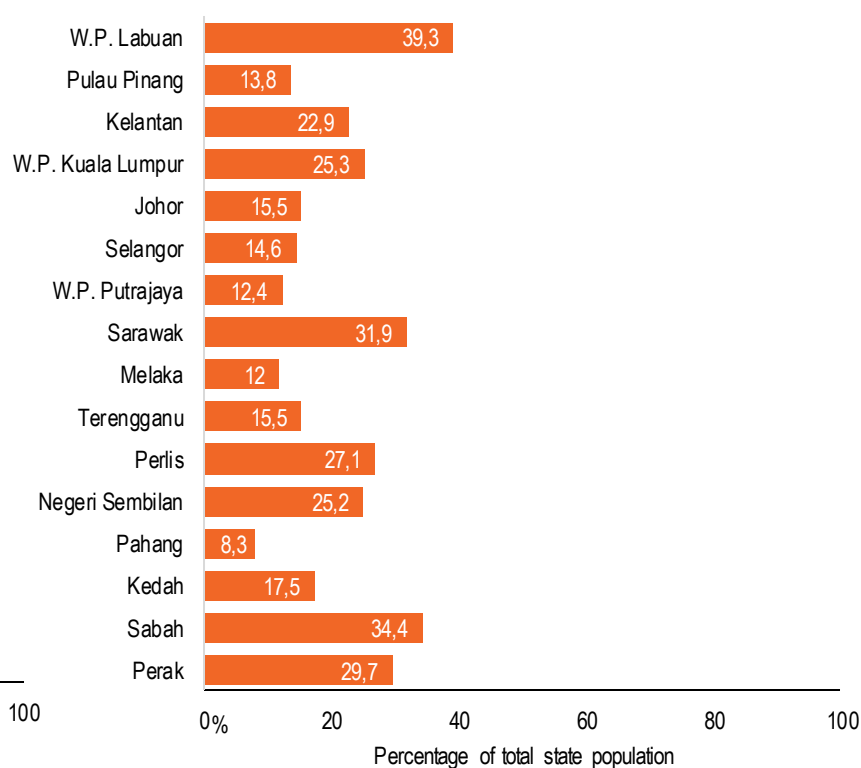## Existing conditions at states
Total population under state affordable housing programmes qualifying income criteria (%)

State	%
W.P. Labuan	89,7
Pulau Pinang	89,5
Kelantan	81,1
W.P. Kuala Lumpur	79,5
Johor	71,6
Selangor	69,1
W.P. Putrajaya	63,6
Sarawak	60,1
Melaka	43,4
Terengganu	28,6
Perlis	27,1
Negeri Sembilan	25,2
Pahang	24,3
Kedah	17,5
Sabah	16,1
Perak	14,1

Percentage of total state population

Proposed housing assistance
Total population under the proposed qualifying income criteria (%)

State	%
W.P. Labuan	39,3
Pulau Pinang	13,8
Kelantan	22,9
W.P. Kuala Lumpur	25,3
Johor	15,5
Selangor	14,6
W.P. Putrajaya	12,4
Sarawak	31,9
Melaka	12
Terengganu	15,5
Perlis	27,1
Negeri Sembilan	25,2
Pahang	8,3
Kedah	17,5
Sabah	34,4
Perak	29,7

Percentage of total state population

Source: State governments and author calculations

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+Targeted Assistance at State Level

Reducing the Government's Budget for the provision of housing

- Proposed qualifying income will be lower than B40 income threshold, meaning **only some B40 households will be eligible for assistance.**

Proposed qualifying income and household income thresholds, 2016

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Increasing ownership through a supply of housing that is affordable and NOT with 'innovative' financing

+ Increase ownership via more affordable supply of housing and not credit easing

Increasing ownership via a supply of housing that is truly affordable and NOT via 'innovative' financing

Housing affordability has not improved significantly since 2002 due to the **unresponsiveness of housing supply to effective demand. Low and middle-income households face challenges in accessing housing that is affordable to them.**

Innovative financing schemes and credit easing measures introduced recently by the government **will only support rapid house price escalations and artificially inflated house prices**.

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+Measuring housing affordability

How is housing affordability typically measured?

MM

MEDIAN MULTIPLE

Median house price of 3x or less than the median annual household income

- Easy to calculate
- Cross country comparisons over time is possible
- Excludes the role of finance

HCB

HOUSING COST BURDEN

Housing expenditure that is less than 30.0% of household income

- Accounts for the role of finance and non-housing expenditures of households
- Cross country comparison is possible but may be affected by differences in cost of living and financial systems

RI

RESIDUAL INCOME

Residual income that is sufficient to service monthly mortgage obligations

- Accounts for the role of finance and the household's spending patterns
- Requires detailed data on household income, expenditures & housing costs
- Limited cross-country comparability

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+Housing affordability in Malaysia

# What would the median multiple indicator look like for Malaysia?

Distribution of households by income category, 2016
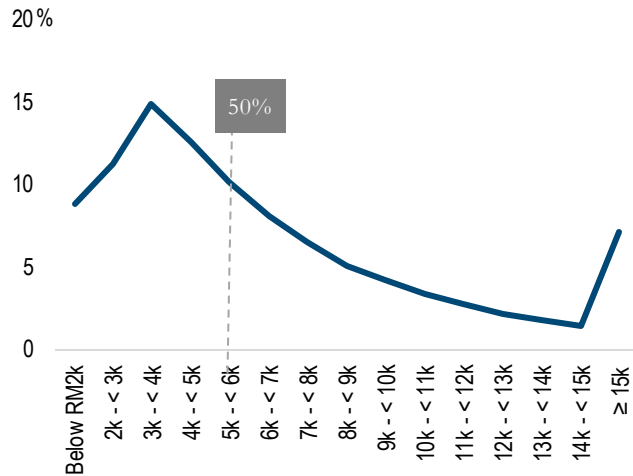
Source: DOS

The signal of a well-functioning housing market is when the median price for the whole of a housing market is 3x the median gross annual household income.

Mode = Median for market 2, 3, 4, 5 and 8

Median Market 8
Median Market 5
Median Market 3
Median Market 4
Median Market 2
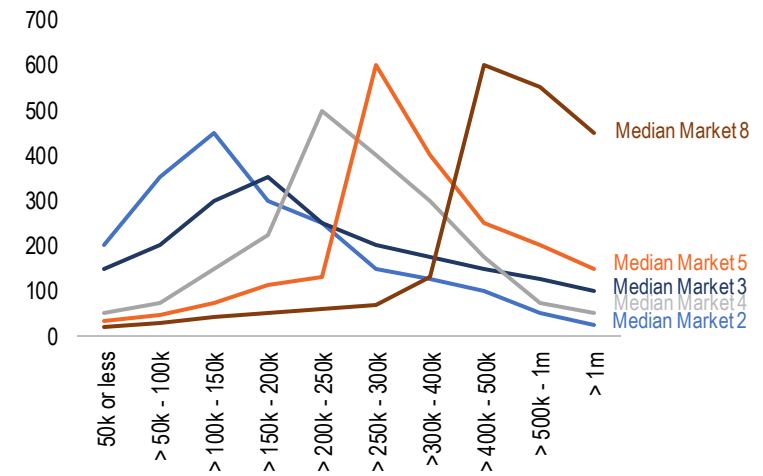
Our assumptions:
1. The median monthly household income is RM 5,228.
2. The range for house prices is following NAPIC's house price distribution.
3. Total number of units transacted is 2,000.
4. All the house price brackets (based on price range) are filled with value (units).
5. The mode house price (price with highest number of units) lies on the same bar as the median value
6. The lower quartile (Q1) and the upper quartile (Q3) are assumed to be at the middle of the price range.
7. The cumulative frequency for the price range where the median is located gives the exact value of 1,000 units.

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+Measuring housing affordability

RI & HCB skew prices higher due to the role of financing

The maximum price for an affordable home for the M40 under the Residual Income and Housing Cost Burden approach is 50% more expensive than the maximum price for the median multiple estimate.

Housing Affordability, 2016
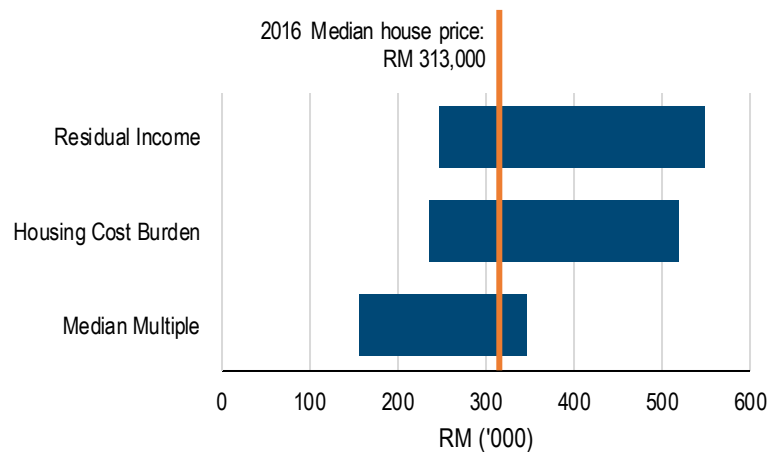
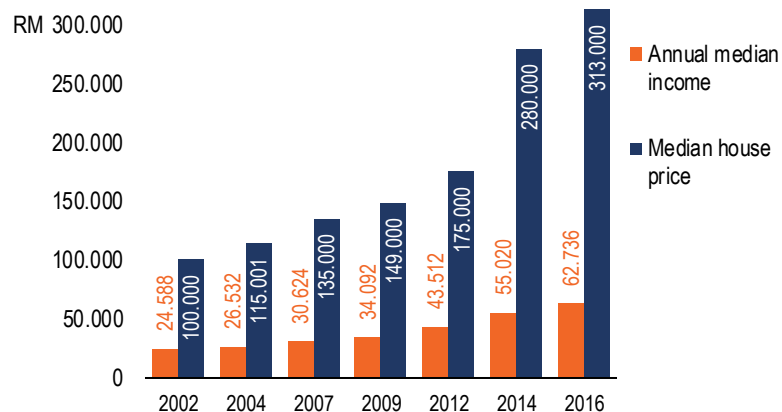| Affordability Indicator	Price range (RM)
Residual Income	248,000 – 548,500
Housing Cost Burden	236,000 – 520,500
Median Multiple	156,960 – 346,284

Source: NAPIC, DOS and author calculations
Note: The household income range for M40 in 2016 is RM4,360-9,619.

Most strikingly however, the price range for affordable homes under the RI and HCB approach clearly skews to the right when compared to the actual median house price for 2016.

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+Housing affordability in Malaysia

Housing affordability has deteriorated

Household income versus house prices, 2002 - 2016

RM 300.000

Legend: Annual median income (orange), Median house price (dark blue)

Bar values — Annual median income / Median house price:
- 2002: 24.588 / 100.000
- 2004: 26.532 / 115.001
- 2007: 30.624 / 135.000
- 2009: 34.092 / 149.000
- 2012: 43.512 / 175.000
- 2014: 55.020 / 280.000
- 2016: 62.736 / 313.000

Median multiple affordability, 2002 - 2016

Line values: 2002: 4,1 | 2004: 4,3 | 2007: 4,4 | 2009: 4,4 | 2012: 4,0 | 2014: 5,1 | 2016: 5,0

Compounded annual growth rate (%), 2002 - 2016

	2002	2004	2007	2009	2012	2014	2016
Median Income	6.1	3.8	4.8	5.4	8.1	11.7	6.6
Median House Price		7.0	5.3	4.9	5.4	23.5	5.6

Source: NAPIC, DOS and author calculations

Year	Median house price (a)	Market median-3 house price (b)	Difference (a - b)
2002	RM 100,000	RM 73,764	RM 26,236
2004	115,001	79,596	35,405
2007	135,000	91,872	37,128
2009	149,000	102,276	46,724
2012	175,000	130,536	44,464
2014	280,000	165,060	114,940
2016	313,000	188,208	124,792

The country's overall housing affordability worsened significantly between 2012 and 2014
- The median multiple affordability increased from 4.0 to 5.1
- The median house price increased at a CAGR of 23.5% from RM175,000 to RM280,000
- Median household incomes grew significantly slower at a CAGR of 11.7%, less than half the rate of increase in house prices

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+Housing affordability in Malaysia

Malaysia house price: the two periods

Malaysia House Price Index, 2000 – 2017

Source: NAPIC and author calculations

**Malaysia House Price, 2009 – 2017**
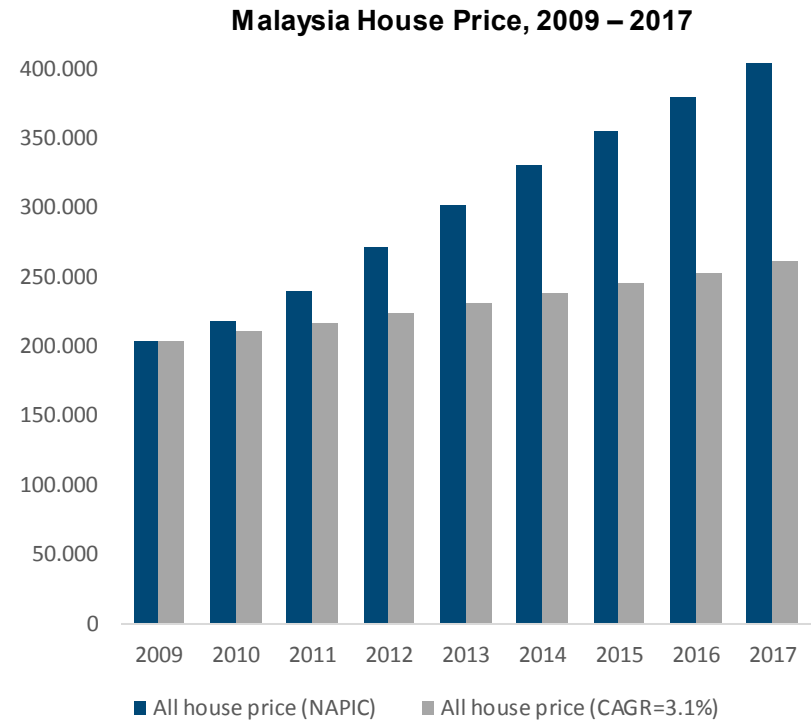
Source: NAPIC and author calculations

- All house price in 2016 was RM 379,843, in 2017 was RM 404,345
- Meanwhile, all house price for 2016 at CAGR of 3.1% is RM 253,186 (for 2017: RM 261,035)
- Starting 2009, house prices grew at CAGR of 9.1%

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+Financing demand of housing

There is a correlation between house prices and housing loan annual growth

House price and housing loan annual growth, 2007 – 2016


Housing loan

Correlation = 0.77
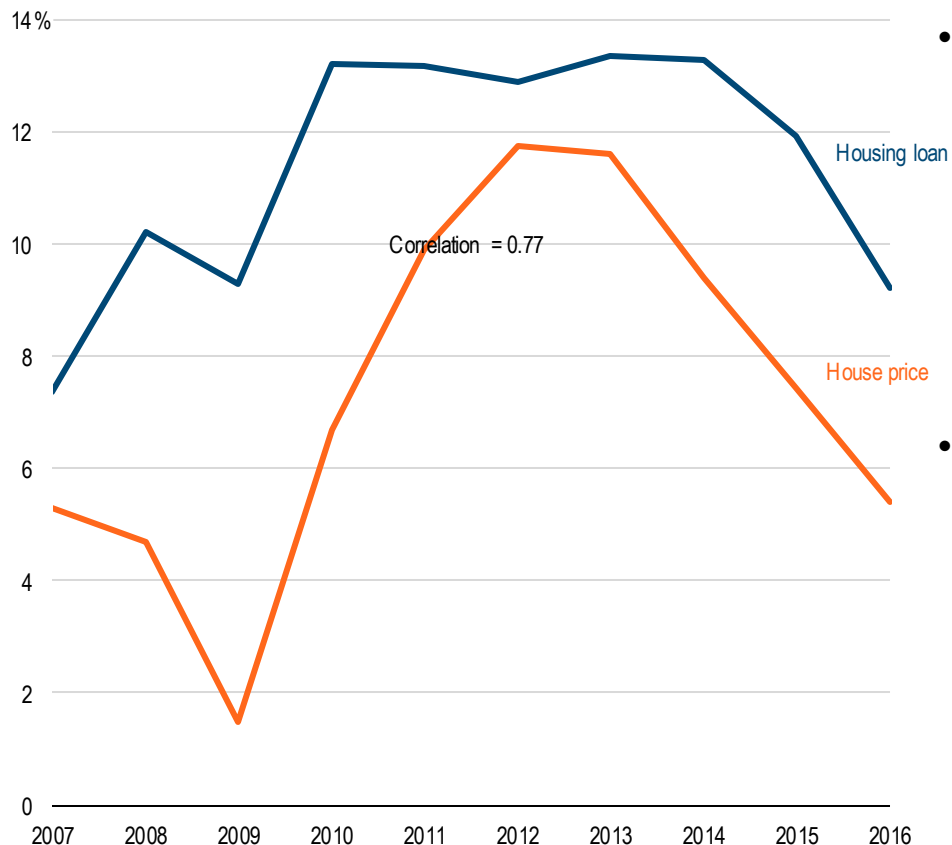
House price

- After a period of high growth in house prices that peaked at 11.7% between 2011 and 2013, the growth rate has moderated to 5.5% in 4Q 2016, moving closer to the average of 6.1% for the period between 2000 and 2016.
- Accordingly, the housing loan growth also moved in the same trajectory.

Source: NAPIC (n.d.a) and BNM (2017b)

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+Housing affordability in Malaysia

Housing supply does not cater to demand

Composition of residential properties launched, by price range, 2004 - 2016
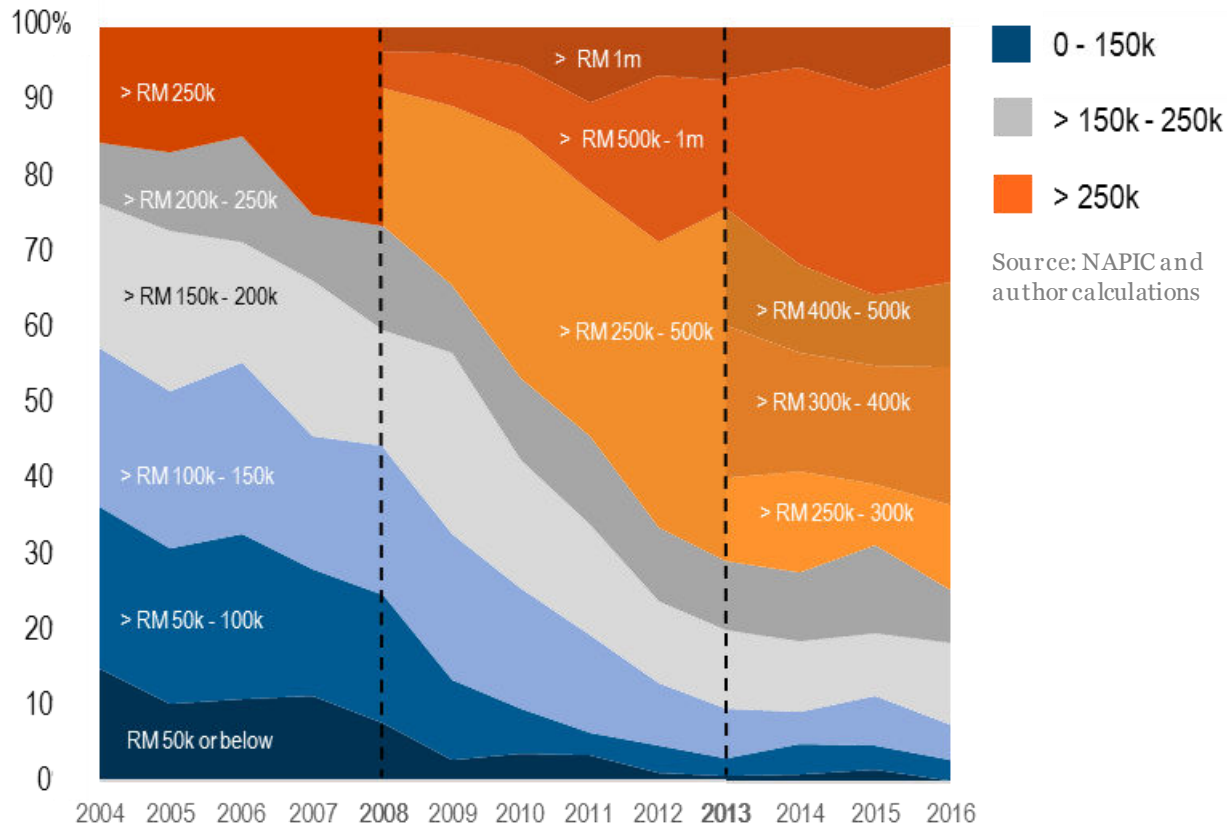
Source: NAPIC and author calculations

Source: NAPIC and author calculations

In 2014, the calculated market median-3 house price for Malaysia is RM165,060. In 2016, this figure is RM188,208. Newly launched housing units that are priced below RM200,000 made up less than 20% of the total units launched in 2014 – 2016.

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+House financing

Financing and ensuring housing affordability

Financing

B40 assistance via suitable financing schemes

M40 ensuring adequate supply of housing that is affordable

RTO for those without savings for down payment/credit standing issues

Although financing is important, it should not be the means to make owning a house affordable.

Broad indicators on the commercial credit market suggest that access to house financing remains ample for eligible borrowers. According to BNM, households with monthly incomes of less than RM5,000 in urban centres or less than RM3,000 in other areas face the biggest problem in obtaining bank financing for housing.

Government financing schemes should focus on low-income households (B40) and those who have not owned a house. More specifically, it should be targeted at low income households who have the financial capacity to pay but due to circumstances, are not able to access the commercial credit market.
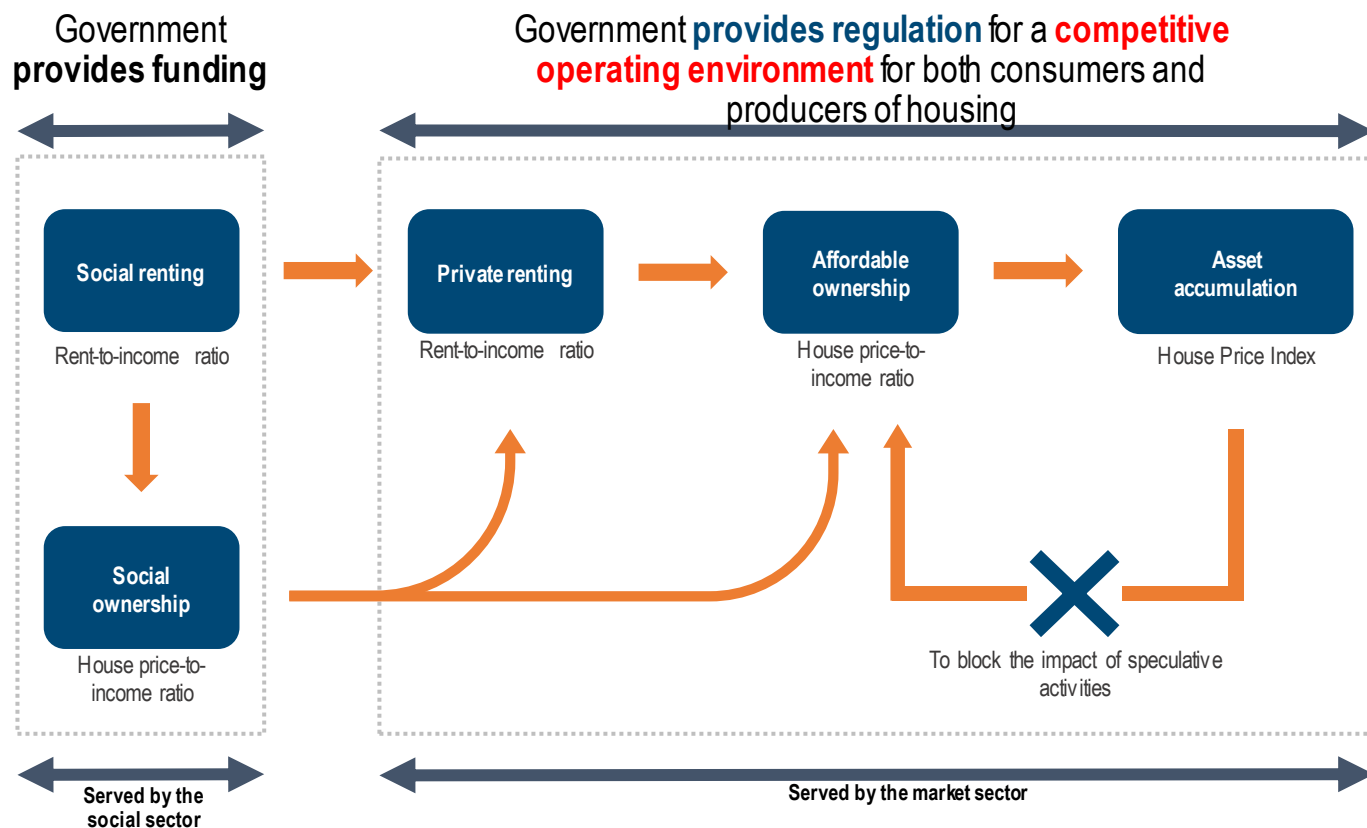
Efforts to assist the M40 should be done by ensuring adequate supply of houses that are affordable, not by credit easing. Government should provide regulation for a competitive operating environment in supplying houses that reflect people's needs and affordability.

For those not able to access credit, the Rent-to-Own program could be a viable option. However, this has to be done at an appropriate rental rate so that it will assist successful households' transition from renting to ownership.
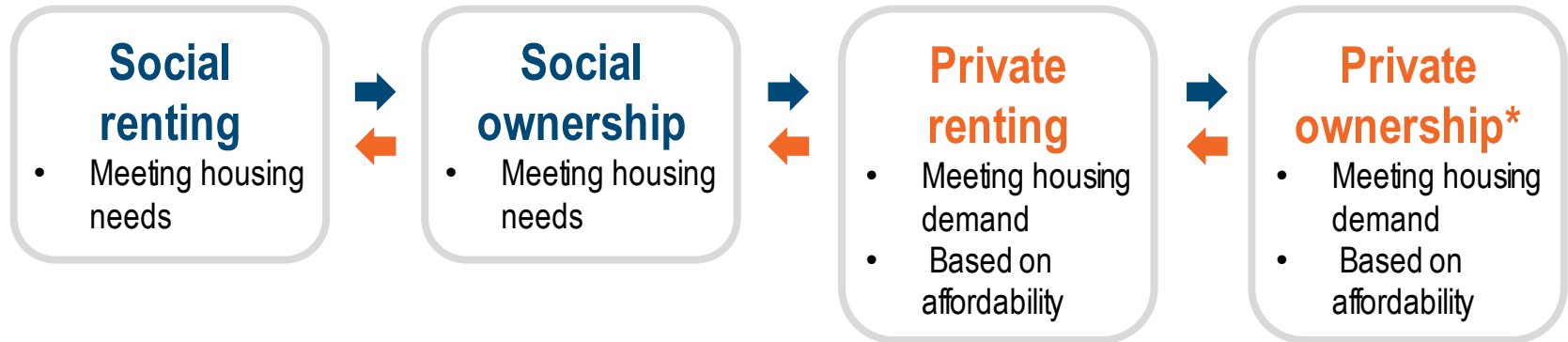
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Conclusions

+Conclusion - Welfare needs and state regulations

The different roles of government for the social and market sector

Government **provides funding**

Government **provides regulation** for a **competitive operating environment** for both consumers and producers of housing

Social renting

Rent-to-income ratio

Social ownership

House price-to-income ratio

Private renting

Rent-to-income ratio

Affordable ownership

House price-to-income ratio

Asset accumulation

House Price Index

To block the impact of speculative activities

Served by the social sector

Served by the market sector

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+Housing tenure choice

Flexibility to move back and forth between renting and owning

Social renting	**Social ownership**	**Private renting**	**Private ownership***
• Meeting housing needs	• Meeting housing needs	• Meeting housing demand • Based on affordability	• Meeting housing demand • Based on affordability

Note: * Fully owned or owned with mortgage

Housing tenure & affordability indicators

Rent-to-income ratio	Median house price-to-income ratio	Mortgage repayment-to-income ratio

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+DRN 2.0 Policy Framework
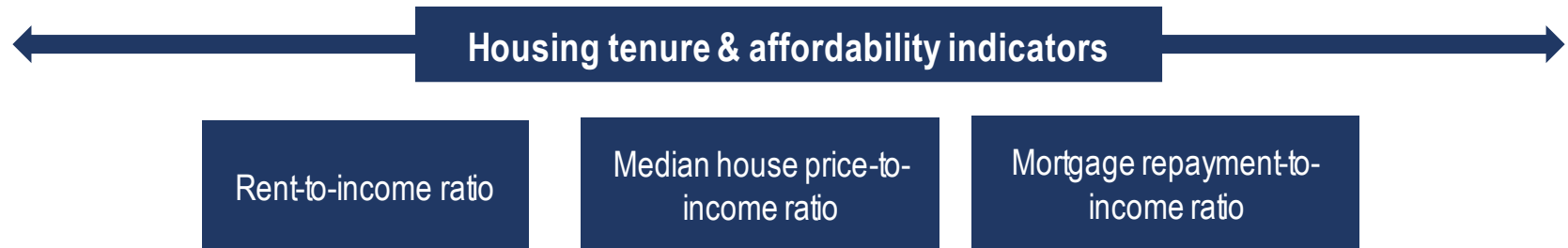
Proposed institutional framework

End
Thank You