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An Overview of Low-cost Housing Demand-Supply Gap in Malaysia: The Way Forward

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Abstract

The purpose of this paper is to assess the low-cost housing (LCH) provision with a view to suggesting ways to abridge the demand-supply gap in Malaysian LCH. The Malaysian government over the years have attempted to make home ownership for all households regardless of the household income monthly but it seems this is becoming an illusion because of the increasing gap between the demand and supply of LCH provision. Therefore, this paper presents the preliminary findings of an on-going study that is examining the demand-supply gap in Malaysian LCH provision as well as role expected by the 5-year housing plan. It is little wonder that both the public and the private sector providers of LCH have not been able to meet up with the planned (demand) LCH as against what was achieved (supply) over a long period of time. Hence, this paper serves as a basis for further research into establishing the actual demand-supply gap of LCH provision in Malaysia. Compliance by all stakeholders to Malaysian 2011 National Housing Policy can no longer be over-emphasised and long overdue. Also, increasing the supply of LCH via tax incentives, government grants, government guarantees for house loans, and Bank Negara Malaysia's mandate investment lenders to lend to target group among others were recommended to abridge the demand-supply gap of Malaysian LCH.

Keywords: Demand-Supply Gap, Household Income, Low-Cost Housing, Malaysia.

Introduction

In the study of Abraham H. Maslow (1908-1970), one of the founders of humanistic psychology, a shelter is categorized under physiological needs in his pyramid of needs. Food first followed by the shelter in that first category of need (Maslow, 1943). Thus, housing is the second most essential human need after food (United Nations Habitat II, 2002). A number of international human rights instruments recognised the right to housing, Malaysia inclusive. Article 25 of the Universal Declaration of Human Rights recognises the right to housing as part of the right to an adequate standard of living (United Nations, 1968; World Bank, 1996). Although, the right to habitable housing is recognised by international human rights laws, how many developing countries have been able to provide housing to her citizens, although, housing a worldwide challenge? Abdul-Aziz (2012), Ebekozien, Abdul-Aziz, and Jaafar (2017A) assert that low-cost housing (LCH) provision is one of Malaysia national agenda equally for the low-income earners (LIEs). The LIEs for this paper is a term used to describe people that their household income does not exceed RM2,500 monthly (Ministry of Housing and Local Government [MHLG], 1998; Salleh, 2008; Abdullahi & Abd-Aziz, 2011). In Malaysia context three components make up the LCH, they are selling price not exceed RM42,000 (MHLG, 1998; Asek, 2007; Ebekozien, 2017B); household maximum income to be eligible and qualified for LCH should not exceed RM2,500 per month (MHLG, 1998, Abdul-Aziz, Tah, Olanrewaju, & Ahmed, 2017); and LCH building size is within 550-600 square feet or 50.8-55.4 square metre (MHLG, 1998, Ministry of Urban Wellbeing, Housing and Local Government [MUWH&LG], 2013).

However, the lack of an adequate number of LCH projects in Malaysia has been an acute problem for a very long time. Sulaiman, Baldry, and Ruddock (2005) report that beginning from 1982, the government co-opted private developers in the provision of LCH. It is a reality that the concept of LCH was born during the Fourth Malaysia Plan (1981-1985). Abdul-Aziz et al. (2017) report that the federal government has attempted to appeal to the private developer's sense of shared responsibility to provide LCH but this appeal was met with cold response during the 3rd Malaysia Plan (MP) and 4th MP. Over the years, some of the private developers developed a "tactic" to escape from the cross-subsidisation concept introduced by the federal by the coerced directive to the private developers to provide 30% LCH. The non-construction of LCH by some private developers has been linked to lax enforcement by the appropriate government agencies (Ebekoziem et al., 2017B). Sufian and Mohamad (2009) assert that inability to secure a formal accommodation by LIEs brought about informal homes (squatting). Thus, this has created a social challenge to the Malaysian government at various levels, although not as critical because of the zero-squatter programmes that were perceived as successfully (Ebekoziem et al., 2017C).

Several studies have been able to establish that there is a gap between the demand and supply of LCH provision in Malaysia, although, with different figures, this paper will bring this to the front burner for a further study with a view to establishing the provisional demand-supply gap of LCH in Malaysia. Abdullateef, Seong, and Lee (2016) postulate that Malaysia has a housing shortage of 12 million units inclusive of LCH as at 2016. Perhaps, according to the authors, towards the year 2020, this would require an annual supply of a minimum of 2 million homes. This is because the population is estimated to reach 32.4 million in 2020 and 36 million by 2030. Similarly, Bank Negara Malaysia (BNM) Annual Report (2015) asserts that the gap between the housing stock and the households widened to 2.5 million units in 2015 from 2.1 million units in 2005. The BNM submission was corroborated by BNM Press Release (2017) and cited National Property Information Centre's data, that says "30% of new housing launches in 2015-2016 were for houses priced less than RM250,000:00 compared to 70% during the 2008-2009 period", to justify that there is shortage of LCH provision. The Shortage of LCH is already a source of concern among Malaysians. There is even a threat that the housing policies programmes have been overemphasizing on the provision of LCH while there are insufficient medium-cost houses in the housing markets. Yet, the impacts of these various policies have not been able to stabilize the gap in demand-supply of LCH provision in Malaysia. Hence, the need for this paper to evaluate the demand-supply gap based on the 5-year housing plan from the 2nd MP to 11th MP with a view to proffering the way forward cannot be overstressed.

Low-Cost Housing Demand and Supply

This section reviewed literature relevant to the LCH demand and supply concepts in all ramifications. The people that make the demand for homes are called the house-buyers. Fernandez (2013) identified three categories of house-buyers in Malaysia; they are owner-occupiers, investors, and lastly speculators. Owner-occupiers, who make up most house-buyers in Malaysia, can be further divided into first-time house-buyers and upgrades. First-time house-buyers are usually a priority target group insofar as the Malaysia's Government is concerned. For this paper, first-time house-buyers will be the focus. Malaysian housing demand has been on the increase, this is corroborated by MUWH&LG (2013) that about 71% of the Malaysian population reside in urban areas. This contrasts with 1957 when 89% of the population lived in rural areas. Therefore, Figure 1 reveals that when demand and supply quantities are plotted according to price, the supply curve moves upward with price, while the demand curve moves downward with the price (Spaulding, 2017).

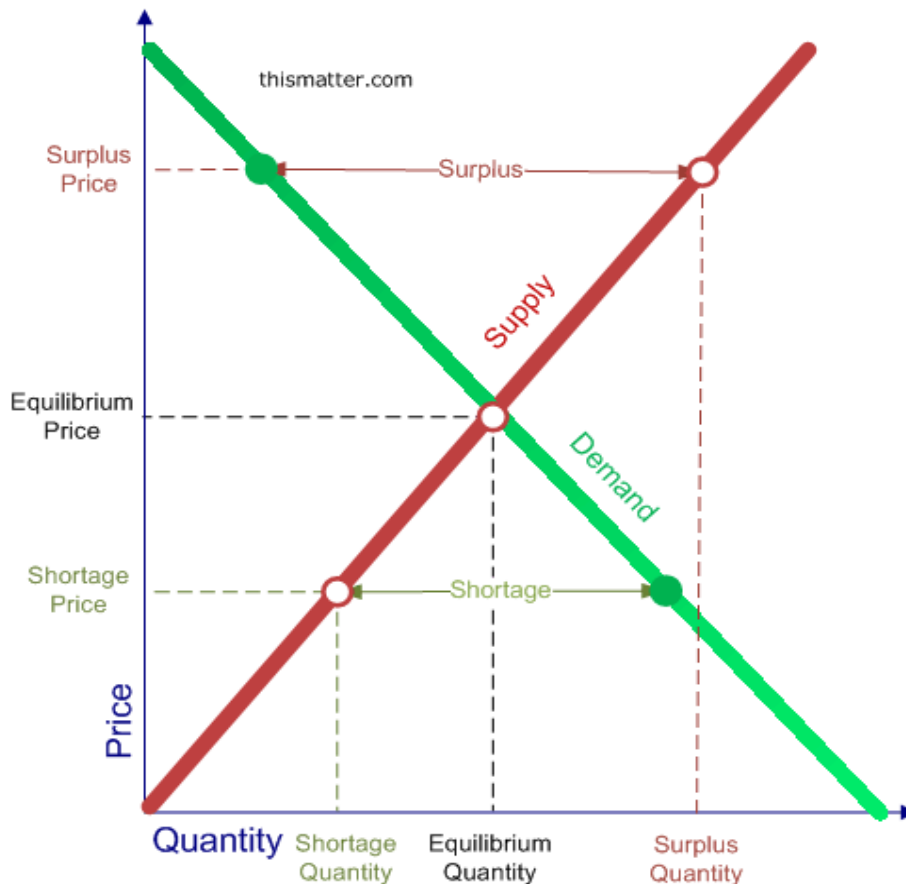


Figure 1: Supply-Demand Market Equilibrium
Source: Spaulding (2017)

The issue of urbanization migration is not peculiar to Malaysia; countries on their fast-growing industrialization are all affected. Woetzel, Ram, Mischke, Garemo, and Sankhe (2014) report in their new McKinsey Global Institute (MGI) Report, a blueprint for addressing the global affordable housing challenge, that a third of urban dwellers, 1.6 billion people, could struggle to secure decent housing by 2025. The authors opine that yet around the world, in developing and advanced economies alike, cities are struggling to meet that need. The fear is that if current trends in urbanization and income growth persist, by 2025 the number of urban households that live in low-quality housing or are so financially stretched by rental costs that they forego other essentials, such as healthcare, could grow to 440 million, from 330 million; this is alarming and calls for concern. The implication of this is that the global affordable housing gap would affect one in three urban dwellers, about 1.6 billion people. The authors proffer approaches to address this as follows unlocking land supply, reducing construction costs, improved operations, and maintenance, and lastly, lowering financing costs for LIEs and genuine developers' accessibility to finance for development.

Table 1 sourced from the various MP reveals the planned and actual LCH provided by the public developer (government) and private developers respectively in each MP period from the 2nd MP to the 11th MP. For this paper, LCH demand is the number of LCH dwelling units that are needed by the intending LIEs at a point in time. Similarly, LCH supply is the number of low-cost residential building units that are provided by the key players or providers in the accommodation sector at a point in time. Table 1 reveals that there is a shortage of LCH based on the significant difference

between planned and actual from the 4th MP to the 11th MP. This is worrisome in consideration of the age demographic, that is, less than 23% of the population will be 14 years and below, 68% between age 15 years and 64 years, and about 9% aged 65 years and above in 2030 (Eleventh Malaysia Plan, 2016). This is an indication that the demand for LCH will continue to increase because the age category that has the highest is the category that needs homes. Also, not less than 40% of the population belongs to the LIEs group and the income gap between them on the average is widening (Malaysian Digest, 2017). There has been an intractable gap between government's supply efforts and actual achievement over the years, worsened by a population growth from about 8.2 million in 1960 to more than 31.7 million in 2016. The demand for housing is income elastic (it grows faster than income) and price inelastic (for many, demands will not fall as prices rise) (Stephen, 2017). We are faced with a situation where the cost of living has spiralled callously upwards and the purchasing power of the average salary man has slumped.

Table 1: Public Sector and Private Developers Housing Targets and Achievements (in units)

Malaysia Plan	Public sector		For-profit private developers	
	Low cost		Low cost	Total
Second* ('71-'75)				
Planned	44,000		-	44,000
Actual	13,244		-	13,244
Third (76-'80)				
Planned	73,500		-	73,500
Actual	26,250		-	26,250
Fourth ('81-'85)				
Planned	176,500		90,000	266,500
Actual	71,300		19,170	90,470
Fifth ('86-'90)				
Planned	398,570		370,400	768,970
Actual	201,900		88,877	290,777
Sixth ('91-'95)				
Planned	126,800		217,000	343,800
Actual	46,497		214,889	261,386
Seventh (96-00)				
Planned	60,000		140,000	200,000
Actual	60,999		129,598	190,597
Eighth ('01-'05)				
Planned	175,000		39,000	214,000
Actual	81,108		94,029	175,137
Ninth ('06-'10)				
Planned	192,000		40,000	232,075
Actual	103,219		97,294	200,513
Tenth ('11-15)				
Planned	78,000		80,000	158,000
Actual	12,025		32,948	44,973
Eleventh (16-20)				
Planned‡	250,000		N.A.	250,000
Actual‡	-		-	-

Source: Author's compilation from various Five Years Malaysia Plan and modified

‡ No targets and achievements available.

Table 1 reveals the planned and actual homes from the public sector (government) and private developers housing targets and achievements from 1971 to 2020. Evidence from Table 1 reveals that there is a shortage of supply of homes based on the significant difference between planned and actual (2001-2015). A detailed analysis of Table 1 reveals that the shortage of LCH commenced from 4th MP (1981-1985) to the 10th MP (2010-2015) where the planned and actual LCH units are available. A critical assessment of Table 1 based on the planned and actual LCH shows that the public sector has failed the masses over the years but a reasonable progress has been made by the private developers yet not satisfactory. The reason for unsatisfactory is not farfetched, recent research has shown that there are leakages linked to the private developers because of lax enforcement from government agencies (Ebekozi et al., 2017B).

A lot needs to be done if the vision 2020 as envisioned by Malaysian Government as a fully developed country along with all dimensions: economically, socially, politically, spiritually, psychologically, and culturally is to be achieved (Shuid, 2013). The 11th MP indicates that about 250,000 units of LCH are under various LCH programmes. Sarawak (2015) reports that the Assistant Minister of Housing Datuk Abdul-Karim Rahman Hamzah said “under the 11th MP, the Housing Development Corporation (HDC) has promised to build 8,361 units of LCH in Kuching, 405 units in Sibul, 1,512 units in Bintulu, 1,905 units in Miri, 372 units in Mukah, 500 units in Limbang, 380 units in Kapit and 98 units in Kanowit”. However, the implementation of these projects is subject to availability of fund approved by the government. The paper is hoping that states and federal will complement each other in the provision of LCH by doing the needful. There are allegations of LCH leakages traced to some state governments and the counter allegation by some state governments that federal government do divert LCH approved budget to other sectors and play politics in releasing grant and loan to state governments for LCH provision (Ebekozi et al., 2017B). These allegations include allocation of LCH sponsored by the federal via people housing programme to non-eligible persons and lack of transparent evidence of how LCH loan fund was used by some state governments respectively. This is regrettable, something needs to be done.

Thus, there is agitation from certain quarter to re-direct emphasis of housing policies from LCH to low-medium and medium-cost housing with a view to meeting the needs of the middle-income groups, especially the lower-middle income, living the LIEs to their fate (Salfarina, Nor, & Azrina, 2011). Therefore, there is need to address the LCH demand-supply gap and get it right with a view to mitigating poor standards of living, squatters, urban slums, un-affordable rental price, high mortgage payment, abandonment, dilapidation of the existing housing stock, and above all achieve the mission of vision 2020. The previous model of LCH delivery in Malaysia seems not to be working out well. A scenario where the government imposes LCH provision on private developers and private developers feel that the government have a responsibility to provide shelter for her citizens resulted to moot point at many platforms. Also, the high rejection rate of financial institutions of LIEs house-buyers loan application has helped matter neither in abridging the LCH demand-supply gap in Malaysia. What about the exclusive right of land matters to states? All these need to be addressed.

The Way Forward

World Bank Press Release (2017) opines that improved housing has further been proven to have a positive impact on public health, education and labour force outcomes. Hence, improved housing is inevitable in Malaysia. Based on the reviewed literature on LCH demand-supply gap in Malaysia with a view to abridging the gap, this paper proffers the following recommendations

and suggest new mechanisms so that low-income house-buyers can gain access to homes in Malaysia:

1. There is need for the government lead agencies identified in the 2011 National Housing Policy (NHP) to be resuscitated and perform their schedule diligently; including data sharing (open registration system) at all level. Similarly, the monitoring committee should be empowered in terms of human and financial capability in addition to enabling environment with a view to ensuring that the plan is implemented successfully.
2. Collaboration and cooperation between all stakeholders are essential to abridging the LCH demand-supply gap in Malaysia. In this regard, the government should direct utility companies to provide their capital projects on these new locations. This task should not be left for the private developers.
3. Easy financing for house-buyers to purchase homes is germane. Although banks compete to offer housing loans, studies have shown that LIEs rejection rate is high. Hence, the need for Bank Negara Malaysia to review existing policies and inject new mechanisms and programmes that will make LIEs gain access to house loan effortlessly.
4. The National Land Code (Act 56 of 1965) which vests all land in the government is an obstacle to making land available for housing development. There is the need for the amendment of this Act 56 with a view to making land transactions easier and make land available for all who want to genuinely invest in LCH provision. Also, the harmonization of the various state laws in respect of land matters cannot be over emphasised because uniformity of land laws is germane to housing provision. Hence, the need to inscribe in the land title of LCH that only LIE is eligible for the transfer.
5. Fortunately, in Malaysia, there is a mechanism for risk sharing that encourages banks and other financial institutions to extend mortgage loans to LIEs. The unfortunate thing is that it only covers the public sector and few private sectors that are contributors to the Employees Provident Fund (EPF). How many Malaysian LIEs falls under this category? Not up to 30%, hence, the government need to develop a mechanism that will capture other Malaysians with a view to achieving their dreams of becoming a house owner in their life time. Employers of labour in the private sector should be monitored to ensure they comply with the rule. EPF has assisted many Malaysians to either make part or full payment of their house loan, so, should be strengthened by the government.
6. There is no doubt that a stable macroeconomic environment is necessary to abridging the LCH demand-supply gap in Malaysia. Previous studies have shown that lenders, investors, and borrowers prefer a stable economy where decisions can be taken without any apprehension. The Malaysian Government should use all available apparatus with a view to ensuring that inflation and interest rates are kept at manageable levels (preferably single digits).
7. One of the greatest barriers to the large-scale provision of LCH is the tax burden. The imposition of Government Service Tax (GST) at various levels of the housing-development process adds significant costs as much as 25 percent of the cost of a house, even before titling fees and stamp duties are taken into consideration. There is a need for Malaysia to align with some other developed nations that have successfully used tax holidays, deferrals or tax exemptions on construction materials or home sales, or similar tax-related provisions for LIEs to achieve home for all.
8. Loong (2016) reports that from 2013 to 2016, a total of 134 abandoned private housing projects were recorded in Peninsula Malaysia. The major reason is the lacuna in the Sales and Purchase (S&P) Agreement. Therefore, banks should stipulate as a condition to give loan to developers to open Housing Development Account (HDA), a statutory requirement, same bank and require the instalment of purchase by purchasers paid into same account with authority to be deducting the developer's loan from the HDA. This

will mitigate project abandonment by fraudulent developers who borrow money from the bank on the security of the purchaser's property and same time received the purchasers instalment paid into his another account.

Conclusion

The goal of abridging LCH demand-supply gap can be achieved, but the necessary ingredients should be put in place. The Malaysian Government should know that only government cannot achieve this task, hence investors are needed. Investors can work in difficult environments in the short-term if there is convincing evidence that reforms that will improve the investment climate will be implemented as quickly as possible. The legislation that will review the land laws and improve the investment climate can be achieved by studying what other countries have done in terms of international best practices. Thus, the goal of ensuring macroeconomic stability, Malaysian Government provision of mortgage insurance to all (both formal and informal LIEs) to gain access to finance to buy a home cannot be overstressed. If Malaysian Government sincerely implements these suggestions, then, this paper would have birth useful and practicable policies, life-impacting development and solved problem confronting humanity, hence the need for further research to test the suggested mechanisms.

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