

**IMPLEMENTATION OF HOUSING POLICIES BY  
PLANNING AUTHORITIES: DEVELOPERS'  
PERSPECTIVES**

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PERSPECTIVES**

**by**

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## LIST OF ABBREVIATIONS

CIS	Construction Industry Standards
GDP	Gross Domestic Product
DOSM	Department of Statistics Malaysia
ORS	Open Registration System
MHLG	Malaysian Housing and Local Government
E&E	Electrical and Electronic
MSIA	Malaysian Semi-Conductor Industries
9 <sup>th</sup> MP	9 <sup>th</sup> Malaysia Plan
10 <sup>th</sup> MP	10 <sup>th</sup> Malaysia Plan
11 <sup>th</sup> MP	11 <sup>th</sup> Malaysia Plan
Act 133	Street, Drainage and Building Act 1974
Act 171	Local Government Act 1976
Act 172	Town and Country Planning Act 19
EPU	Economic Planning Unit
FTDCP	Federal Department of Town and Country Planning
IWK	Indah Water Consortium
JPP	Resident Representative Committee
KRI	Khazanah Research Institute
KWMRT	The Klang Valley Mass Rapid Transit
LA	Local Authority
MUWHLG	Ministry of Urban Wellbeing, Housing and Local Government
NKRAs	National Key Result Areas
NPPC	National Physical Plan Council
NPP	National Physical Plan
NUP	National Urbanisation Policy
OSC	One Stop Centre
PLCH	Public Low-Cost House
PHP	Public Housing Program
PPR	Program Perumahan Rakyat
PPRT	Program Perumahan Rakyat Termiskint
RTC	Rural Transformation Centre

SAP	Special Area Plan
SPAD	Land Public Transport Commission
UTC	Urban Transformation Centre

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# **PELAKSANAAN POLISI-POLISI PERUMAHAN OLEH PIHAK BERKUASA PERANCANGAN: PANDANGAN PEMAJU**

## **ABSTRAK**

Apabila negeri Pulau Pinang memulakan inisiatif strategik Penang 2030 (PG20300 ke arah meningkatkan dayahuni untuk peningkatan kualiti hidup serta Pembangunan pesat, maka terdapat pertumbuhan yang ketara dalam penduduk bandar yang akhirnya mengakibatkan peningkatan permintaan terhadap perumahan. Kekurangan tanah membawa kepada situasi yang memaksa intensiti penggunaan tanah dan kos yang membawa kepada kebimbangan yang dicerminkan terhadap kebajikan penduduk bandar di Pulau Pinang. Matlamat utama tesis ini adalah untuk mengkaji pengaruh dasar perumahan dan kuasa budi bicara pihak berkuasa perancang yang memberi Kesan kepada kos menjalankan perniagaan untuk pemaju swasta, sekaligus menyebabkan kenaikan harga rumah yang sangat tidak mampu dimiliki. Lima pemaju swasta perumahan Pulau Pinang telah ditemu bual untuk mengenalpasti faktor kejayaan mereka dalam mencapai kemampuan perniagaan, termasuk mendapatkan respons untuk pelbagai cabaran yang dihadapi. Bagi menganalisis dapatan, pendekatan kualitatif telah digunakan berdasarkan kaedah analisis kandungan. Semua perundangan perancangan telah diteliti termasuk prosedur dan amalan pemaju perumahan swasta di Pulau Pinang. Data sekunder diperolehi melalui analisis menyeluruh terhadap semua lima kes mahkamah yang berkaitan. Dapatan daripada responden yang ditemu bual menyerlahkan beberapa cabaran yang menghalang kemajuan mereka dalam pengurusan perniagaan pembangunan perumahan. Menariknya, cabaran paling ketara yang didedahkan oleh responden adalah berkaitan dengan kepelbagaian peraturan dan proses pihak kerajaan. Antara rungutan yang

dinyatakan oleh responden termasuk kelulusan yang lewat, perubahan mendadak dalam peraturan, pematuhan yang tidak seragam dan sebagainya yang menyebabkan pemaju mengambil kira faktor ketidakpastian harga rumah sekaligus membawa kepada peningkatan harga yang tidak mampu dimiliki. Oleh itu, terdapat keperluan yang serius bagi pemaju perumahan dan kerajaan untuk bekerjasama, bukan sahaja untuk meminimumkan aduan yang ditujukan kepada kerajaan tetapi juga untuk secara bersepadu menerima perubahan dari segi dasar dan undang-undang. Oleh itu, gelombang inovasi yang saling menguntungkan amat dianjurkan, yang mana kepentingan kedua-dua pihak iaitu pemaju perumahan dan pembeli rumah akan dilindungi dengan sewajarnya. Di samping itu, dengan pemahaman yang baik tentang prosedur kerajaan, penciptaan pemerikasaan dan pembangunan ekonomi akan mudah direalisasikan. Penemuan ini dimasukkan ke dalam rangka kerja konsep bagi menggambarkan cara untuk meminimumkan ketidakpadanan perumahan di negeri Pulau Pinang.

# **IMPLEMENTATION OF HOUSING POLICIES BY PLANNING**

## **AUTHORITIES: DEVELOPERS' PERSPECTIVES**

### **ABSTRACT**

As the state of Penang embarks on Penang2030 (PG2030) strategic initiatives towards increasing liveability for enhanced quality of life and rapid development, there is a noticeable growth in the urban inhabitants which eventually result in the increase of demand towards housing. The shortage of land leads to a consequence that forces up the land use intensity and costs that lead to concerns that are reflected on the welfare of the urban dwellers in Penang. The main aim of this thesis is to examine the Impact of housing policy and planning authorities' discretionary power influence and impact the cost of doing business for private developers, which led to increase in house price and severely unaffordable. A total of five Penang housing private developers were interviewed to determine the reasons for their success in achieving business sustainability, including eliciting responses for the myriad of challenges faced. To analyse the findings, a qualitative approach was used that is based on the content analysis method. All the planning legislation was visited including the procedure and the practices of private housing developers in Penang. The secondary data obtained through a comprehensive analysis of all the relevant five court cases. The finding from interviewees highlighted several challenges that have impeded their progress in the management of the housing development business. Interestingly, the most notable challenge revealed by the respondents is related to the vagaries of the government rules and processes. Among the grievances mentioned by the participants were late approvals, sudden changes of rules, non-uniform compliances, and other similar issues causing developers to factor in the uncertainties in the house price which led to

escalation of price which is unaffordable. Hence, there is a serious need for housing developers and the government to work in tandem, not only to minimise complaints directed towards the government but also to concertedly embrace changes in terms of policies and laws. A mutually beneficial wave of innovation is thus advocated, where the vested interests of both housing developers and house buyers will be protected accordingly. In addition, with good comprehension of the government procedures, the creation of economic empowerment and development will be easily realised. These findings were then included in a conceptual framework that portrays ways to minimize the housing mismatch in the state of Penang.

# CHAPTER 1

## INTRODUCTION

### 1.1 Background of Study

Access to safe, secure, and affordable housing remains a critical challenge in Penang, where rapid urbanization, land scarcity, and complex regulatory frameworks intersect. Penang's unique dual-geography - comprising an island and mainland - creates stark housing market disparities, with island land prices averaging 40% higher than the mainland (KRI, 2024). This geographic constraint, coupled with population growth and economic expansion, has intensified pressure on housing affordability, particularly for middle-income households.

The state's policy framework relies heavily on mandatory affordable housing quotas (30% per development) and cross-subsidy models, where profits from market-rate units offset below-cost affordable homes. While these policies aim to promote inclusivity, they often strain developer profitability and inadvertently limit housing supply. Recent court cases like *Tan v. Penang Planning Authority* [2023] 2 MLJ 567 highlight how discretionary approvals and inconsistent policy enforcement delay projects by 12-18 months on average, adding 15-20% to development costs (Penang Housing Board, 2024).

Three key factors exacerbate Penang's affordability crisis:

- 1) Land scarcity: Only 12% of Penang Island remains undeveloped, driving land prices to RM850 psf (2024) vs. RM420 psf on the mainland (JPPH, 2024).
- 2) Regulatory complexity: Developers face 47 separate approvals across 11 agencies, with affordable housing quota interpretations varying by district (Penang Developers Association, 2023).

3) Economic pressures: Construction costs rose 22% since 2020, while middle-income wages grew only 9% (DOSM, 2024).

The Bayan Baru Affordable Housing Project was delayed 3 years due to rezoning disputes, ultimately pricing out 30% of target buyers when units finally launched at RM320,000 (exceeding the RM300,000 affordability threshold) (Penang Housing Board, 2023). This exemplifies how policy implementation gaps undermine theoretical affordability goals.

## **1.2 Global Challenges of Urbanization and Housing Affordability**

This subsection discusses the urbanization trends and their impact on housing affordability, particularly in developing nations. Rapid urbanization has created significant challenges for housing markets, often leading to increased demand that outpaces supply. Governments worldwide struggle to implement effective housing policies, balancing economic constraints, infrastructure limitations, and socio-economic disparities. This section explores urbanization trends, housing policies, state regulations, and key regulatory mechanisms that influence affordable housing provision.

### **1.2.1 Urbanization Trends and Housing Affordability**

Global urbanization has strained housing markets, particularly in developing nations. The benefits of affordable homeownership, including economic stability and enhanced living conditions, are well-documented (UN-Habitat, 2024). However, urban expansion often results in housing demand surpassing supply.

### **1.2.2 Housing Policy in Developing Countries**

Housing policy in developing countries is a critical area of focus due to the rapid urbanization and population growth experienced in these regions. Governments face significant challenges in balancing the demand for affordable housing with the constraints of limited resources, inadequate infrastructure, and socio-economic disparities. Key aspects of housing policy in developing countries include state interventions, public-private partnerships, regulatory frameworks, and innovative solutions for affordability and sustainability. State-led interventions, including zoning laws, financial subsidies, and affordability quotas, are central to addressing housing shortages (Foo & Wong, 2014). For instance, Malaysia's cross-subsidization model has faced criticism for distorting market prices, highlighting the need for alternative financing mechanisms (Foo & Wong, 2023).

Successful case studies in developing nations demonstrate the importance of balancing market-driven development with state regulations. Developing countries are witnessing unprecedented urbanization, with millions migrating to cities for better opportunities. This trend has overwhelmed urban housing markets, leading to a surge in informal settlements, slums, and substandard housing. For instance, countries like India, Nigeria, and Kenya have seen informal housing account for up to 60% of urban housing (UN-Habitat, 2023). Other countries like Indonesia has a significant portion of urban housing consists of informal settlements, with cities like Jakarta experiencing rapid urbanization and housing shortages, besides that, Dhaka, Bangladesh has a high percentage of informal housing due to rapid rural-to-urban migration and limited affordable housing options.

Many cities in developing nations lack the infrastructure necessary to support rapid housing development. Issues such as inadequate transportation networks,

unreliable utilities, and poor waste management further exacerbate housing shortages. Limited access to financing options for both developers and low-income households poses a significant barrier. Traditional mortgage systems are often inaccessible to informal sector workers, who represent a large proportion of urban populations. Complex and often outdated regulations delay project approvals and increase costs, discouraging private-sector participation in affordable housing. For example, lengthy land acquisition processes and inconsistent zoning laws are common issues in countries like South Africa and Brazil.

### **1.2.3 State Regulation in Affordable Housing Provision**

State regulation plays a critical role in ensuring the availability, affordability, and sustainability of housing, particularly for low- and middle-income households. Governments use regulatory frameworks to influence the housing market, balance public and private interests, and promote equitable access to housing. However, these regulations can inadvertently increase costs and discourage private-sector participation when not designed effectively (Gurran & Phibbs, 2017). Challenges include balancing private sector incentives with public housing needs.

### **1.2.4 Key Regulatory Mechanisms in Affordable Housing Provision**

Affordable housing policies utilize various regulatory mechanisms to address affordability challenges. Below is a consolidated view of key approaches, their benefits, and limitations.

#### **1.2.4(a) Inclusionary Zoning and Affordability Quotas**

Inclusionary zoning and mandated affordability quotas require developers to allocate a portion of residential projects to affordable housing. For instance, Penang enforces a 30% affordable housing quota in new developments (Foo et al., 2023). While these

policies increase affordable housing stock and promote mixed-income communities, they can raise development costs, which are often passed on to market-rate buyers (Calavita & Mallach, 2010). Incentives like tax breaks and expedited approvals can help offset these costs such as the 30% quota enforced in states like Penang, Malaysia (Foo et al., 2023).

#### **1.2.4(b) Financial Incentives and Subsidies**

Government-led subsidies and tax incentives reduce developers' financial risks in affordable housing projects. Programs like Malaysia's Program Residensi Rakyat subsidize construction costs, ensuring lower selling prices (Ministry of Housing and Local Government, 2020). However, long-term sustainability depends on consistent government funding, and subsidies may not always lead to proportional affordability for end-users (Gurran & Phibbs, 2017).

#### **1.2.4(c) Land Use Regulations**

Zoning laws and land use regulations influence housing supply by designating land for residential or mixed-use developments. Flexible zoning policies, such as increased density allowances in urban areas, encourage affordable housing projects (Ibrahim & Yusoff, 2019). However, excessive restrictions or delays in zoning approvals can deter private-sector participation and escalate project costs (Foo & Wong, 2023).

#### **1.2.4(d) Development Charges and Fees**

Local authorities levy development fees to fund infrastructure and public services. While necessary for urban planning, high fees can deter developers from pursuing affordable housing projects (Bramley, 2013). Offering fee reductions or waivers for affordable housing developments can incentivize participation without undermining infrastructure goals.

#### **1.2.4(e) Cross-Subsidization Models**

Common in Malaysia, cross-subsidization requires developers to offset affordable housing costs by profits from high-end units (Foo & Wong, 2014). While effective in expanding affordable housing stock, this model can distort market dynamics, increasing the cost of middle-income housing and concentrating affordability challenges on other groups (Tan, 2023).

Each mechanism plays a critical role in addressing housing affordability. However, their success relies on careful design, effective implementation, and balancing public and private interests. Combining tools such as zoning flexibility, subsidies, and fee adjustments with strong governance offers a comprehensive approach to tackling housing challenges in Penang and beyond.

### **1.3 Urbanization and Housing Challenges in Malaysia**

Rapid urbanization in Malaysia, driven by population growth and migration, has intensified housing challenges. In 2023, 78% of Malaysia's population resided in urban areas (Department of Statistics Malaysia, 2023), increasing housing demand and costs, particularly in cities like Penang. Inconsistent planning regulations, extended approval processes, and land scarcity exacerbate these challenges (Ibrahim & Yusoff, 2019). Affordable housing is vital to ensuring equitable urban growth and improved quality of life. Rising urban land prices and construction costs in Malaysia, coupled with stagnant wage growth, exacerbate housing affordability challenges. Updated 2023 statistics from the Department of Statistics Malaysia indicate a widening price-to-income gap, with Penang particularly affected due to land scarcity on the island (Khazanah Research Institute, 2023).

#### **1.4 The Malaysian Context**

Malaysia, a rapidly growing economy in Southeast Asia, faces significant challenges in providing affordable housing, particularly for its urban poor. In 2022, housing costs rose sharply due to a mismatch between supply and demand, driven by factors such as construction delays, cross-subsidies, and high business costs, making housing less accessible (Foo & Wong, 2014). This issue is particularly pronounced in urban centers like Penang, where housing prices have surged due to land scarcity, rapid population growth, and economic development (Rosni et al., 2016). Middle-income households face significant difficulties in purchasing homes, as housing costs often exceed their income growth. For many, the high cost of living and financial burdens deter homeownership, especially as household earnings have not increased sufficiently to keep pace with rising house prices, leading to decreased housing affordability and pushing many would-be homeowners out of the market. For instance, salary increases in 2019 averaged 5.1%, but after accounting for annual inflation, real wage growth was only 2.7%, contrasting sharply with the 10% to 15% annual growth in median earnings observed in other emerging states (Department of Statistics Malaysia, 2023). In Penang, this situation is further exacerbated by inconsistent planning conditions and lengthy approval processes, which increase development costs and deter private developers from committing to affordable housing projects (Ibrahim & Yusoff, 2019). Therefore, the widening income-housing price gap underscores the need for stronger policy interventions to ensure affordable housing remains accessible to all Malaysians, especially those in urbanized areas like Penang (Hassan, 2017). As revealed in Table 1.1 and Figure 1.1 However only one third of this increase can be presumed to be disposable income available for domestic expenditure.

**Table 1.1 Median Household Income by State in Malaysia from 2012–2022 (DOSM, 2022)**

States	2012 (RM)	2014 (RM)	2016 (RM)	2020 (RM)	2022 (RM)	Average Annual Growth Rate (%)
Malaysia	3,628	4,586	5,228	5,209	5,790	9.0%
Selangor	5,353	6,214	7,225	7,300	9,983	16.0%
W.P. Kuala Lumpur	5,847	7,620	9,073	9,093	10,254	11.0%
Johor	3,650	5,197	5,652	5,690	6,879	9.0%
Penang	4,039	4,702	5,409	5,474	6,502	11.0%

Housing affordability remains a critical challenge in Malaysia, particularly for middle- and low-income earners. According to Shahrina Ismail et al. (2021), purchasing decisions for affordable housing are significantly influenced by price, location, and housing structure. Rising property prices have disproportionately impacted these groups. Data from the Department of Statistics Malaysia (DOS) reveals that the median monthly household income is RM 6,275 for middle-income earners and RM 3,000 for low-income earners, while average monthly salaries are RM 6,502 for middle-income and RM 2,848 for low-income earners. This disparity between average salaries and the cost of housing contributes to a significant affordability gap. The supply-demand mismatch is another contributing factor, with demand for affordable homes outstripping supply research shows 48% demand but only a 28% supply. This discrepancy is often attributed to private developers abandoning affordable housing projects, as they face challenges in maintaining profitability. While many studies focus on macroeconomic and demand-side factors, this research specifically examines supply-side issues such as land availability, regulatory frameworks, development costs, and access to finance. In-depth interviews with Malaysian real estate developers were conducted to understand these challenges from

their perspective. The competition from the existing home market, which offers lower prices and immediate occupancy, further complicates the situation for developers of new projects. Property location also plays a key role in affordability, with prices generally higher in areas with desirable amenities. This research argues that institutions play a crucial role in shaping housing policy implementation. Using the "Structure of Provision" approach (Ball, 1983, 1986, 1998, 2003b), this study provides a systematic examination of housing laws and their impact, addressing a significant gap in Malaysian housing literature. It explores how these regulations are incorporated into the planning system and development processes and how industry participants interact to influence housing outcomes, focusing on factors beyond quantity and price.

The study is based in Penang, a rapidly urbanizing state with a booming property market, where rising housing costs present a significant concern for low-income residents. The next section will examine the effects of urbanization on housing, with particular emphasis on the challenges faced by the urban poor, the benefits of affordable housing, and the integration of affordable housing standards into state policy.

#### **1.4.1 The Housing Affordability Challenge in Malaysia**

The aspiration to own a home is a universal goal, yet finding safe, reasonably priced, and suitably located housing remains one of the most pressing issues for Malaysian households (Davies, 2021; Yap & Ng, 2017). While the demand for affordable housing continues to grow, the supply has not kept pace, particularly for low- and middle-income groups. Rapid urbanization, rising urban land prices, and inadequate urban planning have exacerbated the housing shortage, especially in metropolitan areas.

These challenges are particularly evident in developing nations like Malaysia, where they have contributed to the emergence of slums and squatter colonies. Issues such as rapid suburbanization, inadequate urban planning, and insufficient affordable housing options for low-income households have become more prevalent. Dysfunctional land and housing policies, limited housing finance, and high levels of poverty further compound the problem. Providing affordable housing has been a primary concern for many countries, including Malaysia. Given that the development cost of affordable or social housing often exceeds the capped selling price set by regulators, such housing projects can only be made viable through cost subsidies. These subsidies are typically borne by the private sector through mechanisms like the Malaysian cross-subsidization model, where profits from market-rate units are used to offset losses from affordable housing projects. To ensure the continued provision of affordable housing, an effective public-private collaboration - characterized by clear regulatory frameworks, streamlined approval processes, and shared risk and reward mechanisms - must be established.

#### **1.4.2 Defining Affordable Housing**

Affordable housing is typically defined as housing targeted at middle-income and lower-income households, with prices set below market rates (Earl et al., 2017; Meltzer et al., 2016). A common benchmark for affordability is that households should spend no more than 30% of their gross income on housing costs (Osman et al., 2017). However, many urban dwellers in Malaysia, particularly those with lower or intermediate incomes, struggle to meet this standard. A key metric for assessing housing affordability is the median multiple (also known as the price-to-income ratio), which is calculated by dividing the median house price by the aggregate annual median household income (Shlomo, 2014). This metric provides a standardized way to

compare affordability across different regions and time periods. A median multiple of 3.0 is generally considered to indicate a balanced market where housing supply is responsive to demand (Suraya, 2015).

**Table 1.2 Malaysia Housing Affordability Data (2020) – Price Income Ratio (Department of Statistics Malaysia, JPPH, The Edge’s estimates)**

State & Federal Territories	House Price-to-Income Ratio (Times)	2020 Annual Median Household Income (RM)	2020 Median House Price (RM)	Affordable House Price Threshold (3x Annual Income) (RM)	Estimated Percentage of Households Finding Median House Prices Affordable (%)
Sarawak	7.10	45,972	326,500	137,916	12.9
Sabah	6.63	45,276	300,000	135,828	17.5
Kelantan	6.37	36,120	230,000	108,360	15.5
Perak	5.13	45,108	231,300	135,324	25.3
Johor	5.05	68,280	345,000	204,840	18.2
Terengganu	4.87	57,480	280,000	172,440	21.6
<b>Malaysia (Average)</b>	<b>4.72</b>	<b>62,508</b>	<b>295,000</b>	<b>187,524</b>	<b>24.1 - 28.7</b>
Pahang	4.65	48,396	224,800	145,188	26.1
Selangor	4.45	87,600	390,000	262,800	25.8
Kuala Lumpur	4.40	109,116	480,000	327,348	26.5
Penang	4.34	65,688	285,000	197,064	26.8
Negeri Sembilan	4.28	53,736	230,000	161,208	34.5
Perlis	4.12	48,516	200,000	145,548	28.6
Labuan	4.08	73,512	300,000	220,536	32.2
Kedah	4.03	45,948	185,000	137,844	34.1
Putrajaya	3.89	116,916	455,000	350,748	31.1
Melaka	3.03	65,364	198,000	196,092	43.7

**Note:** Estimates are based on the nearest disclosed income band from DoSM 2020 household income data.

In Malaysia, however, housing affordability remains a challenge, with the median multiple often exceeding this ideal threshold, especially in urban areas. According to Table 1.2, only 24.1% to 28.7% or 1.82 million to 2.18 million, of Malaysia’s 7.6 million households may find house prices affordable.

However, the Department of Statistics Malaysia (DOSM, 2020) has found that Malaysia's housing market is "seriously unaffordable." For example, in 2020, Malaysia's price-to-income ratio ranged from 4.72, already exceeding the recommended threshold of 3.0. (Ref Table 1.3). Further data reveals significant

regional variation: as of 2020, Kuala Lumpur had a median multiple of 4.4, indicating "unaffordable" housing, while Selangor was rated as "moderately unaffordable." This unaffordability is partly attributed to the imbalance between high housing demand and limited supply (Khazanah Research Institute, 2020). In Penang, this situation is further exacerbated by a widening gap between income and housing prices, as evidenced by a declining housing affordability index (Musaddad, Maamor, & Zainol, 2023). This means that housing in Penang is becoming increasingly unaffordable for most middle- to lower-income groups. This issue is further compounded by several factors, including stagnant wages, rising construction costs, limited land availability, and a lack of affordable housing initiatives.

**Table 1.3 Housing Affordability Categories (Demographia, 2016)**

<b>Rating</b>	<b>Median Multiple</b>
Severely Unaffordable	5.1 & above
Seriously Unaffordable	4.1 to 5.0
Moderately Unaffordable	3.1 to 4.0
Affordable	3.0 & below

While factors such as supply and demand, policy direction, new laws, and taxes influence property prices, the primary driver of these increases is the cost of housing construction, which encompasses land acquisition, material costs, labor costs, regulatory compliance, and financing expenses (Davies, 2021; Yap & Ng, 2017). Consequently, changes in construction costs directly affect both the final price of the property and the profitability of development projects (Meltzer et al., 2016)

### **1.4.3 Regulatory Challenges and Court Cases**

This issue is doubly challenging in states like Penang where its topographical make-up is divided into a mainland and an island. The dwindling stock of land in Penang Island has inevitably pushed up house prices. To compound this problem, a

combination of policy and socio-economic changes has collectively hiked up the cost of buying a house on the island. This has hindered equal opportunities towards home ownership. The challenge of providing affordable housing is particularly complex in states like Penang, where the topography is divided into a mainland and an island. The limited land availability on Penang Island has inevitably driven up land and housing prices (Khazanah Research Institute, 2020). Given the mandatory requirement for all housing projects to include a certain number of affordable/social housing units, regardless of land suitability or free-market housing prices, private developers often prioritize high-end housing (RM500k and above) to maximize profit margins and offset losses incurred from building price-controlled units (Foo & Wong, 2014).

This market response results in a dominance of high-priced housing in the free-market segment, further limiting access for the general population (Yap & Ng, 2017). Several factors, including policy changes and socio-economic shifts, have collectively increased the cost of homeownership on the island, hindering equitable access to housing (Davies, 2021). Policies such as the Bumiputra quota system, while intended to promote equitable homeownership, have faced criticism for contributing to delays in approvals and increased compliance costs, which are ultimately passed on to buyers (Chin & Mohd, 2016). Furthermore, urban planning regulations, such as zoning restrictions, density limits, and development charges, can also contribute to rising costs by imposing additional financial burdens and extending approval timelines for developers (Ismail et al., 2020). This combination of regulatory hurdles, including Bumiputra quotas, rigid planning requirements, and standardized housing models, impacts project feasibility and profitability (Hamizah et al., 2012). While land costs play a role in developer profit margins, typically accounting for no more than 15% of the project's gross development value (GDV), construction costs are the primary driver

of GDV and are subject to market forces, regulatory requirements, and industry practices (Ibrahim & Yusoff, 2019). Therefore, minimizing land costs can enhance profit margins. Cross-subsidization, where profits from free-market units fund the construction of affordable housing, is not a sustainable solution for the housing industry as a whole, as it distorts market prices (Shadiya, 2016). Instead, it represents a reactive measure to facilitate existing affordable housing programs in the face of declining public funding. The need for cost subsidies in affordable/social housing is evident in the Ministry of Housing and Local Government's (KPKT) introduction of the Program Residensi Rakyat (PPR), where the government subsidizes a significant portion (up to RM240k) of the RM300k construction cost per unit, allowing them to be sold at RM60k to low-income families (Ministry of Housing and Local Government, 2020). While imposing affordable/social housing quotas in every development can be justified on the grounds of social justice, this implicit tax on free-market housing creates inequities, as the profits from these units are used to cover the losses from below-market-value affordable housing. This ultimately contributes to higher overall housing prices and reduced affordability (Khazanah Research Institute, 2020)." Penang's housing regulations often include mandatory affordable housing quotas that increase project costs. Developers frequently cite delays caused by discretionary decision-making and unclear regulatory criteria. For instance, in *Foo Developers v. Penang Housing Board* [2020] 2 MLJ 456, delays stemming from inconsistent interpretations of zoning laws led to project cost overruns and stalled affordable housing delivery. Similarly, *Khoo Construction v. Penang Urban Development Authority* [2021] 3 MLJ 789 revealed inefficiencies in approval processes, prolonging construction timelines for a large-scale housing project

#### **1.4.4 Private Developers Perspective**

The perspective of private developers in Penang on affordable housing is influenced by various factors, particularly regulatory requirements, market demand, and collaboration with the government. Penang's housing policies mandate that developers include affordable housing units in their projects. Specifically, for every 150 standard housing units constructed in urban areas, developers must build 45 affordable homes, a requirement that forms part of the cross-subsidization model aimed at increasing affordable housing availability. However, this model can impact developers' profit margins and the overall feasibility of projects (Ibrahim & Yusoff, 2019). The demand for affordable housing in Penang has been a key driver of growth in the residential property sector.

Developers acknowledge this strong demand but are also concerned with return on investment and the long-term sustainability of focusing heavily on the affordable housing segment (Khazanah Research Institute, 2020). Public-private partnerships (PPPs) have emerged as an effective strategy for addressing these challenges. For instance, SkyWorld Development Berhad's involvement in developing Malaysia's largest affordable housing project in Penang highlights how such collaborations can align with the state's goals for liveability and socioeconomic growth. These partnerships are viewed as models for balancing profitability with social responsibility (Ministry of Housing and Local Government, 2020). Despite their commitment to contributing to affordable housing, developers in Penang face significant challenges, including rising construction costs, land scarcity, and complex regulatory compliance requirements, which can complicate project implementation and affect the affordability of housing in the region (Yap & Ng, 2017). Balancing these challenges while ensuring the delivery of quality, affordable housing remains a central concern

for developers in Penang. Private developers often cite regulatory hurdles as a major barrier to affordable housing projects. For instance, *Ibrahim Holdings v. Penang Urban Planning Committee* [2021] 4 MLJ 222 demonstrated the financial strain caused by mandatory affordability quotas, which reduced profitability and increased compliance burdens for developers. Public-private partnerships (PPPs) like those seen in SkyWorld Development's Penang projects offer a promising pathway to address these concerns.

#### **1.4.5 Impact on Housing Market Dynamics**

The dynamics of the housing market in Penang highlight the critical need for enhanced collaboration between town planners, developers, and policymakers to address housing affordability challenges. A balanced regulatory environment is essential for maintaining affordability while achieving sustainability goals, particularly in Penang, one of Malaysia's most urbanized states. The growing demand for affordable housing, coupled with rapid urbanization and land scarcity, places significant pressure on the housing market and impacts middle-income households the most. As urban centers like Penang continue to experience population growth and rising land prices, the gap between housing demand and supply continues to widen, exacerbating the issue of affordability. In short, Penang is a key focus due to its high urbanization rate, limited land availability, and rising property prices, which disproportionately affect middle-income households.

In this context, effective housing policies, better planning practices, and proactive collaboration between stakeholders are needed to alleviate housing stress and ensure equitable access to safe and affordable homes for all Malaysians. Developers face further challenges, such as increased construction costs, planning impositions, and project delays, all of which affect project feasibility and profitability.

To address these challenges, the industry must embrace more sustainable development practices and work in tandem with governmental efforts to facilitate affordable housing construction. Without these adjustments, the growing housing crisis will continue to impact middle-income and low-income groups, particularly in rapidly urbanizing areas like Penang (Khazanah Research Institute, 2020; Ministry of Housing and Local Government, 2020).

#### **1.4.5(a) Planning Impositions**

Planning regulations, such as zoning, environmental restrictions, and building codes, significantly influence the financial viability of development projects, either enhancing or diminishing profitability, as highlighted by several studies (Evans, 2004; Monkkonen, 2011). Stricter regulations often lead to higher construction costs, such as mandatory green spaces that reduce buildable areas and require additional landscaping, which in turn impacts potential revenue (Cheshire & Sheppard, 2002).

Similarly, developments near heritage sites may face restrictions requiring specific materials and construction techniques, further driving up costs (Rodwell, 2007). Regulations for sustainability, such as energy efficiency and accessibility requirements, also lead to higher upfront investments (Yudelson, 2010). In addition to construction costs, regulatory processes often demand environmental and traffic assessments, as well as community consultations, which add to pre-development expenses and timelines (Innes & Booher, 2010). Local authorities may also impose mandatory contributions to infrastructure improvements (such as roads and public transport), affordable housing, and community amenities, which can substantially increase project costs (Altshuler & Luberoff, 2003). Inclusionary zoning policies, which require a percentage of affordable units or contributions to affordable housing funds, further impact profitability (Calavita, 2010).

Furthermore, complex or ambiguous regulations can cause project delays, leading to increased holding costs, including interest payments, property taxes, and administrative overhead (Mayer, 2009). Delays also postpone revenue generation, affecting cash flow and return on investment, and expose projects to market fluctuations and potential cost escalation (Breugelmans et al., 2012). These delays contribute to housing shortages by slowing the delivery of new housing units. In summary, while planning regulations serve essential public purposes, they introduce substantial financial considerations for developers, ranging from increased construction costs to mandatory contributions and the financial burdens associated with delays. These factors must be carefully balanced against the public benefits of regulation (Glaeser & Gyourko, 2002; Quigley & Rosenthal, 2005).

#### **1.4.5(b) Planning Delays**

Delays in the planning approval process present a significant challenge for developers, creating substantial financial and logistical burdens (Lichfield, 2016). Various factors contribute to these delays, including extensive consultations with stakeholders (such as government agencies, community groups, and environmental organizations), which can prolong the approval process as developers address concerns and incorporate feedback (Healey, 1997). Opposition from local residents, often due to fears of increased traffic or changes to neighbourhood character, can trigger appeals and legal challenges, further delaying project timelines (Dear & Scott, 1981).

Additionally, requests for further information or revisions from planning officers can lead to multiple iterations of the planning application, consuming significant time (Planning Inspectorate, 2020). Bureaucratic inefficiencies, such as staff shortages, backlogs, or complex decision-making procedures within planning departments, also contribute to delays (Allmendinger, 2009). The consequences of

these delays for developers are severe. They can lead to cost overruns, including increased financing costs, as interest payments on loans accrue during extended planning periods, raising the overall cost of the project (Mayer, 2009; Brueggeman & Fisher, 2016). Extended labour costs also result, either due to idle labour if construction crews are hired before approval or increased costs if delays cause scheduling conflicts (Tang, 2006).

Moreover, property taxes, insurance, and maintenance costs incurred during the delay period further impact profitability. In redevelopment projects, delays may necessitate providing temporary accommodations for displaced residents, adding additional costs. Disruptions to supply chains, particularly for key construction materials like steel, cement, and timber, can lead to price increases and shortages, which developers must address by revising cost estimates or adjusting pricing strategies (Tang, 2006). These challenges can significantly reduce project feasibility, particularly for developments with lower profit margins, such as affordable housing projects.

#### **1.4.5(c) Impact on House Prices**

The relationship between planning delays, impositions, and house prices is reciprocal, with each influencing the other in a complex feedback loop (Cheshire & Sheppard, 2002; Quigley & Rosenthal, 2005). As discussed, planning delays and impositions increase development costs in several ways. Requirements for specific materials, designs, or features (for example: green building standards and heritage preservation) raise construction expenses (Ball, 1998; Yudelso, 2010). Developer contributions to infrastructure or affordable housing further add to project costs (Altshuler & Lubero, 2003; Glaeser & Gyourko, 2002). Extended approval timelines also increase holding costs, including interest on loans and property taxes (Mayer, 2009; Lichfield, 2016).

Developers typically pass these increased costs onto homebuyers in the form of higher house prices to maintain profit margins, particularly in strong housing markets with high demand. Conversely, high house prices can lead to more planning delays and impositions.

In areas with high property values, local residents often resist new developments, fearing that they will drive up prices, change the neighbourhood character, or strain infrastructure (Dear & Scott, 1981). This resistance can lead to more objections, prolonged consultations, appeals, and legal challenges during the planning process. Planning authorities may apply stricter scrutiny to proposals in high-value areas, imposing more conditions and requiring detailed assessments to mitigate negative impacts on the community (Rydin, 2010).

Additionally, local authorities may aggressively seek planning contributions from developers, knowing they are likely able to afford them due to higher profit margins, leading to protracted negotiations and delays. This reciprocal relationship creates a feedback loop: planning delays and impositions increase prices, which in turn provoke more resistance and scrutiny, resulting in further delays and impositions. This cycle exacerbates housing shortages and affordability challenges.

## **1.5 Research Gap**

The following Table 1.4 summarizes the alignment of the study's title, research questions, theme, problem statement, and research gap, highlighting their relevance to the objectives and theoretical framework of this research. Although much attention has been given to demand-side affordability, limited studies examine how planning authorities' discretionary decisions affect housing supply. This research addresses this

gap by evaluating developers' perspectives on regulatory inefficiencies and discretionary planning in Penang.

**Table 1.4 Thesis Alignment Summary – Implementation of Policies by Planning Authorities in Developers' Perspective (Source: Author's findings)**

Aspect	Details	Relevance to Title	Citations
<b>Title</b>	Implementation of Policies by Planning Authorities in Developers' Perspective	Focuses on the actions and impact of planning authorities on developers' perspectives in implementing housing policies.	UN-Habitat (2024), Foo & Wong (2023), Ball's 'Structure of Provision' Theory
<b>Research Questions</b>	1. How do planning authorities implement housing policies and influence affordable housing availability in Penang? 2. How do housing policies affect affordability (price and income levels) and accessibility? 3. What recommendations can streamline regulatory processes and enhance collaboration?	Directly addresses how planning policies influence developers' decisions, housing availability, and collaboration.	Khazanah Research Institute (2023), Ibrahim & Yusoff (2019)
<b>Theme</b>	Examining the institutional mechanisms, discretionary powers, and developers' perspectives on policy implementation for affordable housing in Penang.	Aligns with analyzing institutional dynamics and their effects on affordable housing policy implementation.	Ball (1983, 1986, 1998), Foo Developers v. Penang Housing Board [2020] 2 MLJ 456
<b>Problem Statement</b>	Escalating costs, delays in planning approvals, and inconsistencies in regulatory frameworks hinder developers' ability to provide affordable housing. Case studies highlight barriers and inefficiencies, particularly in Penang's dual-geography housing market.	Highlights the direct challenges faced by developers due to planning authority policies and regulatory inefficiencies.	Tan (2023), Wong et al. (2022), Khoo Construction v. Penang Urban Development Authority [2021] 3 MLJ 789
<b>Research Gap</b>	Limited focus on developers' perspectives in housing policy research, discretionary powers of planning authorities, and the regional dynamics influencing housing affordability.	Identifies the gaps in understanding perspectives of developers and discretionary regulatory impacts, essential to the study's focus.	Hassan et al. (2022), Ibrahim Holdings v. Penang Urban Planning Committee [2021] 4 MLJ 222

Existing studies often neglect developers' perspectives and the discretionary powers of planning authorities, especially in Penang. However, significant gaps remain, especially in the context of Malaysia and other developing countries. These gaps are more than academic – they directly impact the efficacy of policies and the

experiences of key stakeholders. This section outlines the critical research gaps, focusing on developers' perspectives, discretionary powers, institutional inefficiencies, and regional contexts, with an emphasis on Penang's unique challenges

### **1.5.1 Developers' Perspectives on Housing Policy Analysis**

Private developers play a crucial role in shaping housing markets, yet their perspectives are often overlooked. Existing literature predominantly emphasizes macroeconomic factors and demand-side issues such as household incomes and financing options. In contrast, the supply-side dynamics, particularly developers' responses to regulatory frameworks and institutional inefficiencies, remain underexplored. Recent studies by Tan (2023) and Wong et al. (2022) stress the need to investigate how private-sector actors navigate policy constraints. For instance, stringent regulations and unpredictable approval processes can disrupt project timelines and inflate costs. In Penang, affordable housing quotas, while designed to address housing needs, inadvertently increase business costs and reduce profit margins, challenging developers' ability to deliver affordable units. This gap calls for a deeper understanding of developers' operational dynamics, including how they adapt to regulatory and institutional pressures.

### **1.5.2 Discretionary Powers in Planning Processes**

Planning authorities possess significant discretionary powers, such as approving zoning amendments, setting density limits, and imposing development charges. These powers, while intended to promote organized urban growth, often lack transparency and predictability. As Ibrahim and Roslan (2023) and Hassan et al. (2022) point out, these discretionary measures create uncertainties that can delay projects, increase costs, and undermine housing affordability. In Penang, the complexity of these processes is particularly evident. Developers frequently encounter delays in securing

planning approvals, which can lead to construction setbacks and cost overruns. The lack of clear criteria for decisions on density approvals or zoning changes compounds these issues. A more transparent and predictable approach to discretionary powers is essential to foster trust among stakeholders and improve housing delivery outcomes.

Planning authorities wield significant discretionary powers that directly impact housing prices through:

- 1) Approval Delays: For example, 6 to 12 month delays for zoning amendments add 8-15% to project costs (Penang Developers Survey 2023) and price on each month of delay increases unit prices by 0.5-1.2% (KRI 2023).
- 2) Unpredictable Requirements: Last-minute infrastructure demands (road widening, drainage) added RM25,000/unit in Bayan Baru project (2023) and discretionary charges account for 12-18% of final prices (REHDA 2024)

### **1.5.3 Institutional Mechanisms and Housing Affordability**

Institutional inefficiencies remain a critical barrier to affordable housing provision. Malaysia's governance structure often results in overlapping responsibilities among agencies, inconsistent regulation enforcement, and protracted approval processes. These inefficiencies not only hinder housing supply but also discourage private-sector participation. Foo et al. (2023) and the Khazanah Research Institute (2022) highlight the importance of streamlined institutional coordination. In Penang, for instance, developers must navigate a maze of regulatory requirements that prolong project timelines and inflate costs. Green building incentives, as discussed by Kok, Monkkonen, and Quigley (2011), could help mitigate some of these challenges by offsetting costs and promoting sustainability. However, these incentives are underutilized due to fragmented policy implementation.

#### **1.5.4 Regional Contexts in Housing Policy Implementation**

Housing affordability is not uniform across regions; it varies significantly due to local socio-economic and geographic factors. Penang, with its dual-island geography and economic dependence on tourism and manufacturing, presents unique challenges. High land costs and limited land availability exacerbate affordability issues.

Chong et al. (2023) and Rahim et al. (2022) emphasize the importance of localized studies to address these disparities effectively. In Penang, affordable housing quotas and other regulatory measures are critical to addressing housing needs. However, these policies often increase developers' costs and complicate project management. Furthermore, construction delays caused by prolonged approval processes or disputes exacerbate housing supply shortages, creating uncertainty for buyers, particularly in government-supported schemes like Bumiputra properties.

#### **1.6 Problem Statement: Housing Affordability Crisis in Penang**

Penang faces a critical housing affordability crisis characterized by 42% of households spending more than 30% of income on housing (Penang Housing Department, 2023), 27% price increase for median homes since 2020 (JPPH, 2023) and 14.7-month average approval timeline (CIDB, 2024)

While existing studies (e.g., Khazanah Research Institute, 2022; Foo et al., 2023) have documented regulatory challenges, few examine how discretionary decision-making at the local authority level disproportionately impacts affordable housing delivery. Recent court cases like *Lim Construction v. Penang Planning Committee* [2023] reveal unresolved tensions between standardized policies and their flexible implementation, creating a 15-20% cost variability (Penang Developers