

Tackling the issue of affordable housing

Affordability of houses should not be defined by individuals but by commonly agreed upon “common sense” rules. Generally speaking affordability is normally calculated as a percentage of the household income and, if we look at today’s household expenditures, we should not allocate more than 30 to 35% of the total income to the house loan repayment (house expenditures to income ratio).

If we look at affordable housing from this perspective, we first need to define how much Malaysian households are getting every month or, in other words, the average income per-capita in Malaysia.

Latest statistics are calculating it, middle of 2013, at RM3,200 per month on a Nation-wide basis.

I think we should all agree that we cannot give (actually shouldn’t be us but the Federal Government) the same affordability rating to Kuala Lumpur and Seremban, just as an example. We need to have a Federal Government definition of house affordability at least on State by State basis. I’ve tried to do that using available Government statistics dated December 2012 on population and per-capita income and the result is in the table below.

2012 PER CAPITA INCOME STATISTICS							
State	State by state (est) Population in 2012	GDP 2012 @ const prices	GDP 2012 per Capita at current prices		35% of monthly income = Loan repayment	Affordable House value (30 yrs loan @ BLR-2.3 4.4%)	
		2012	Yearly	Monthly		Per capita	Per household
		RM Billion	RM	RM	RM		
Kuala Lumpur	1,718,680	114,106	73,931	6,161	2,156.32	480,000	720,000
Sarawak	2,501,000	71,874	40,414	3,368	1,178.74	260,000	390,000
Pulau Pinang	1,654,640	52,530	37,006	3,084	1,079.34	240,000	360,000
Selangor	5,626,240	176,239	36,135	3,011	1,053.94	240,000	360,000
Malacca	832,320	21,953	33,550	2,796	978.54	220,000	330,000
Negeri Sembilan	1,040,400	27,717	32,511	2,709	948.24	220,000	330,000
Pahang	1,560,600	30,750	26,197	2,183	764.08	165,000	247,500
Johor	3,337,360	68,791	24,574	2,048	716.74	160,000	240,000
Terengganu	1,144,440	19,627	22,733	1,894	663.05	145,000	217,500
Perak	2,396,960	39,627	20,569	1,714	599.93	135,000	202,500
Sabah	3,437,360	44,434	19,010	1,584	554.46	125,000	187,500
Perlis	208,080	3,535	18,119	1,510	528.47	120,000	180,000
Kedah	2,080,800	25,307	15,814	1,318	461.24	105,000	157,500
Kelantan	1,654,640	13,461	10,617	885	309.66	70,000	105,000

As we can all see, once we look at affordability proportional to “per-state-income” surprises are coming. While an average middle class member in Kuala Lumpur can still afford a house of

RM500,000 a Selangor Sr Admin can hardly buy a house above RM250,000 while in Kedah or Kelantan the affordability value drops till RM70,000.

Few considerations are surely due as till now we have spoken about “per-capita” income while, as per a statistic dated 2012, an average Malaysian household has 4 members out of which at least 2 are working. If we look at the last column of the table above values are surely more realistic and in line with actual happenings. However once we calculate the value per square feet generated by the values above divided by a “livable” size of house (4 members per house hold need at least 3 bedrooms and 2 bathrooms) which, as per local standard, is 900 sq. ft. we find that the greatest part of available homes are actually unaffordable.

There are several ways of looking into this phenomenon, from a consumer/end user point of view the blame for sure goes to the “greediness” of the developers that want to make to high profit, HBA is shooting on developers and investor clubs while developers are complaining that the government should do more till possibly emulating the Singaporean Authority who has taken care of Public Housing in an exemplary way. Least but not last the Government complains that a number of “house buying easing tools” have been studied and placed into practice but there is neither response from the public nor the developers. Using a bit of common sense, hopefully I have enough of it, I would like to say that “the right is always halfway” and of course I admit that is very easy to talk, write and someone might be even saying dreaming comfortably seated in my office and without a real “touch” on the situation. Actually, I have to say, I have been working for developers for a long part of my life and I’ve touched more than once this problem and this is why I’m doing my best to use logic and common sense to look into a possible solution of the problem.

If we pretend to find a solution that will make all parties very happy then we will be surely living into a dreamland kind of situation as it is chimeric thinking to get everybody fully satisfied. The best thing is to get all parties to talk to each other in a practical, non-political, way and work together to find and actuate a “practical solution”.

The possible framework for an “affordable housing” platform

Government

- 1) Stop imposing the weight of low cost housing subsidization on developers by mean of the “compulsory low cost housing” for project located on more than 5 acres. It doesn’t make sense and the “subsidy”, at the end, is contributing to raise the construction costs of medium-high and high end houses bringing them to unaffordable level.
- 2) Alternatively to the compulsory low cost construction the Government should propose either free land in a more appropriate area, possibly served by efficient public transportation, where the developers will only have to support the cost of construction while having more available space for higher profitability products within the original project. Alternatively impose a fixed or proportional to RM psf “low cost/public housing contribution” on all development project and then take care by itself of the construction of low cost housing through one of the many available Government owned construction companies. Personally I prefer the second one as

it opens an interesting a very viable solution to another big problem that we are all forgetting. Low cost / high-rise building maintenance and loan serving behaviors of lower income group members.

- 3) Stop selling low cost flat and apartments but simply rent them and with the rental collected perform a more than basic building maintenance. End users will enjoy a much more livable and safer environment while paying a more affordable, if compared to the loan repayment, rental that will allow a more flexible monthly family budget.

In the event that the Government will still prefer to have developers to take care of low cost housing construction, then a good incentive might be the given possibility to construct a small number of simple two storey shop-house within the low cost area which will procure a decent profit to balance the subsidization of the housing component. This concept is part of part of a detailed and in depth study done by one of the Malaysian Architects Firm I've been getting the pleasure to work with, AA Design Group, through its co-founder Ar. Saiful Anuar Abdul Aziz. He said, and I fully agree with him, the best "simple and original makanan" can only be found nearby the low cost areas, still grandma cooking style possibly.

Developers

Here I will need to use some diplomacy as some of them are my current clients and others might be thinking to engage our REI Group for marketing consultancy or services but I must say they should start looking into different construction technologies and become more innovative. Construction costs are on a rising trend and no one can deny it and most probably we will experience an even worst trend in the next 12-18 months due to the forthcoming enforcement of GST. Even though might be sounding illogic, I think there should be a much higher investment in R&D to experiment different ways, technologies and products to be used as alternative to those ones becoming almost unaffordable. The introduction of GreenRE by Rehda is surely a good and smart move in this direction; let's hope to see more in future.

Both developers and Government should also seat to constructively discuss and find a good and practical framework for a gradual implementation of the BTS instead of moving toward opposite directions.

House Buyers Association and other NGOs

Let me first of all praise the great work done in the last few years in tackling errant and tricky developers to bring them to complete the work started or by defending the rights of house buyers. Last year on October 25th you have been achieving most of your speculation curbing targets through the tabling of Budget 2014 that I personally look at as a very good move to bring long term sustainability in the Malaysian Property Market. On the other hand I would rather prefer to hear more practical and feasible proposal to solve the housing affordability problem. Indiscriminately shooting at developers, investor clubs, bulk or en-block purchase, group purchasers and so on is not a feasible solution while seating at a round table to find appropriate solutions surely is. I hope the Secretary General of HBA that I know and respect for his work will not add me to the "to be curbed list" for this comment but I've been asked to say what I honestly

think about the affordability problem and this is part of it. Not to be forgotten, property investors, at least the medium long term ones, are offering an extremely viable and “ready to use” solution for affordable housing to all those purchasers that, because of their income being in that unfinanceable range of RM3,000 to RM5,000, cannot buy a house by offering them fair rental options within the same range of a possible budget for the loan repayment of the same property.

Buyers and end users

In this case I will only express few short comments mostly on the highly emotional behaviors that Property purchasers have here in Malaysia. I’ve been working in this industry in a number of different countries and I’ve seen quite a wide range of purchasers’ behaviors but none of them has been as emotional as here in Malaysia. I’m giving a number of public presentation on the Malaysian Property Market and in most of them I always recommend the use of rational and logic arguments when purchasing a Property. Purchasers, please, do not decide on the spot and always conduct a proper due diligence on the project and developer to make sure that the decision is the right one. In other words do not simply buy because someone is recommending that particular project to you but because after carrying on proper research and collect proper information you decide to buy because you decide to buy. On the other hand and going back to the main topic here, buyers of affordable houses should not expect to find reasonable prices for livable houses within highly priced hot spots, unfortunately the two things do not match. New infrastructure are under construction, LRT line 1 and 2 extensions – MRT Line 1 and 2 – a future/possible LRT Line 3 from Klang/Shah Alam to PJ plus a number of new highways and expressways, and in few years it will be possible to live in Kajang or Sungai Buloh where houses prices are more reasonable and work in the KL commuting every day by rail instead of the more expensive wheels.

Many more are the issues that should be addressed and spoken about to resolve once forever the housing affordability challenge but the space is not enough and, first, I would like to see if there might be any reply to the possible starting solutions proposed above.

I’ve chosen Malaysia as my first home because I’ve liked what I found here in the late 90s, politically stable with a good and consistent economic growth, good planning, great people to live with and fantastic climate for a Mat Salleh coming from a four seasons country with temperatures ranging from Co 40 in summer to Co -15 during winter time this is paradise. In Malaysia we are still living in an exciting time of the Malaysian Economy and Property Market history. New Property and Economic hot spots are surging in the north with Kota Baru and the Northern Educational Hub, in the East with Kuantan as East Port of Malaysia, in the central region Ipoh with the lush greenery environment perfect to plan a long lasting retirement homes and health tourism market just to mention some of them. New Property Market’s Niches are foreseeable with a forthcoming boom for retirement homes and double key-system houses and Iskandar Malaysia is flourishing within the 2005 planning and time frame defined by Kazanah Nasional Bhd and Irda in 2005 as the most Strategically Sustainable Location in South East Asia.

This forthcoming Year of the Horse or 2014 will surely be a challenging year but we should look at it and saying that “the tough start playing when the game becomes tough”. Constructing and selling will be not the challenges of 2014, the real deal in this just started 2014 is going to be the challenging and changing panorama of home financing or mortgage. BN has introduced a new set of rules and more are to come to maintain the market sustainable and healthy. Both purchasers and developers will have to be fast in adapting to the new situation in a positive and creative way and this will be somehow further stimulating the whole industry.

Affordable house buyers, by looking at the forthcoming challenging future might be taking into consideration a wise and action packed advise: “if the mountain is not coming to me, then better I go to the mountain” or in other words Kuala Lumpur affordable home buyers looking into the property market of Serdang, Seri Kembangan, Kajang, Bangi might be having good and positive surprises type, size and price wise. The same applies to Klang Valley purchasers who travelling a more south between Bangi and Seremban might again find good offers for much bigger houses. A lot of big developers are preparing launches within the southern and western corridor of the Greater Klang Valley and opportunities are there for everybody to profit of. It’s enough to know what you are looking for and then.....look for it!

Sources:

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REI Group Market Survey, Market Analysis and Archive