

Malaysia's Housing Policy, Low-Income Households' Housing Affordability

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Contributor: Ong Huay Ying, Jian LIU

Housing affordability is a long-held issue in Malaysia and housing policies for low-income households have been implemented over years. However, there is a contradiction that housing affordability of low-income households has not been met, while a bulk of affordable housing is still vacant. In 2019, Malaysia enacted the National Affordable Housing Policy (DRMM) which was intended to improve housing affordability for low-income groups. In such circumstances, the questions are, why Malaysia's long-term implementation of affordable housing policies cannot guarantee housing affordability and whether the DRMM can effectively improve housing affordability as expected.

Keywords: housing affordability ; housing policy ; affordable housing ; Malaysia

1. Introduction

In 2019, Malaysia can be defined as a developing country comprised of 32.6 million people, 7.3 million households, and a total supply of 6.02 million homes, with its average household size decreasing to 3.9 persons from 4.1 persons in 2016 ^[1]. Shrinking household size, population growth, and urban migration have created an increasing demand for affordable housing. According to UN-Habitat ^[2], affordable housing is broadly defined as housing which is adequate in quality, location, and pricing that can sustain other basic living expenses. The term "affordable housing" is also often used to describe a housing unit that is affordable for those whose income is lower than the median household income in a place. The term "housing affordability" is often used to determine whether housing is affordable for households. There are three approaches commonly used to measure housing affordability, namely Median Multiple, Housing Cost Burden, and Residual Income ^[3]. In Malaysia, the Median Multiple method is used to evaluate the housing market and housing is considered affordable when the median price for the housing market is not more than three times the annual median household gross income ^{[3][4][5]}. Based on the 2019 Household Income and Basic Amenities survey ^[6], the Malaysian annual median household gross income was MYR 70,476; thus, affordable housing should have a market median price of MYR 211,428. However, as household income levels reveal a variance among states, the price of affordable housing is in two ranges; either less than MYR 150,000 or between MYR 150,001–MYR 300,000 ^[7]. In this paper, affordable housing refers to a housing with a selling price that does not exceed MYR 300,000.

The National Property Information Centre (NAPIC) ^[8] showed that 30,664 units of new residential property were unsold in 2019, among which 32.4% was affordable housing. This reflects the contradiction that whilst the housing affordability of low-income households cannot be met, a bulk of affordable housing is still vacant. In 2019, Malaysia enacted the National Affordable Housing Policy (DRMM) which was intended to solve this contradiction and to improve the housing affordability for low-income groups. In such circumstances, this paper attempts to find the reasons why low-income households have low housing affordability and whether the DRMM can guarantee housing affordability of low-income groups.

Drawing on a series of studies that have been completed, there are few that have reviewed the evolution of Malaysia's affordable housing policy to deal with the issue of housing affordability. Shuid ^[9] divided the evolution of Malaysia housing provision system from 1971 to 2011 into four phases to analyse the key players in housing provision. Masram and Misnan ^[10] used the housing provision framework to analyse the key affordable housing policies of Malaysia. There are even fewer that have evaluated the effect of the long-term policy implementation to address housing affordability. International experiences have proved that housing affordability can be solved by increasing the quantity of affordable housing and lowering housing costs. Malaysia has implemented both strategies, but the housing affordability issue has never been solved. The real scenario is that whilst housing affordability of low-income groups is not achieved, the majority of affordable housing supplied for low-income households remains unsold. What caused this scenario to happen in Malaysia is an interesting question to ask and the answer to this question will be an academic contribution that can help to enhance the strategy to improve the housing affordability issue effectively. Moreover, up to now, no researcher has attempted to explore whether the DRMM could guarantee the housing affordability of low-income groups. This is the first study that draws attention to DRMM strategies in improving the housing affordability of low-income groups. The findings have important implications for the revising of the DRMM strategies to improve the housing affordability of low-income groups. The results will also influence future housing policies in Malaysia.

2. Housing Affordability and Its Influencing Factors

Housing affordability is a global issue which many countries have attempted to overcome. It is not an inherent attribute of a housing unit, but rather a relationship between housing and people [11], depending on one's ability to pay for a housing unit. Housing affordability is often related to "affordable housing" for low-income groups, but it is a problem regardless of whether people are rich or poor. As mentioned earlier, the Median Multiple method is used to assess the Malaysian housing market. Based on the concept, in this paper housing affordability is defined as the ability of Malaysian low-income households (B40) to own a house, with the housing price-to-income ratio not exceeding three. Low-income households include poor households with a monthly income of less than the poverty line income (PLI). The analysis of housing affordability in this paper is limited to home buyers due to the insufficient data on rental housing.

A deep understanding of the influencing factors of housing affordability is crucial to determine the reasons for low housing affordability. The international literature indicates that housing affordability is generally affected by four dimensions, i.e., household income, housing price, home financing ability, and housing planning. However, there are many factors that impact housing prices [11]. According to Mostafa [12], housing prices vary along with the changes in regional economics. The development cost which consists of land cost, hard costs (construction costs), and soft costs (consultant fees and processing costs) can also alter housing prices [13]. Meanwhile, housing obtains its price due to the factors surrounding supply and demand, which can be proved in the cases of the US [14] and Australia [15]. In those countries, the disparity between housing supply and demand has led to either an increase or decrease in housing prices. Thus, the influencing factors of housing prices are interpreted in this paper in terms of land cost, construction cost, compliance cost, supply and demand, and economic factors. Based on international experience, eight factors are identified as the most significant in view of their influences on Malaysia's housing affordability.

3. Policy Initiatives of Malaysia's Affordable Housing Development

In Malaysia, before the National Housing Policy was issued in 2012, housing policy evolved through the country's five-year development plans. Low-cost housing was considered as affordable housing when it was subsidised and was allocated only to low-income people with several eligibilities set by the government [16]. **Table 1** shows in chronological order the government's initiatives of affordable housing development with different policies in different periods since 1957, as well as their implementation effects.

Table 1. Policy initiatives of Malaysian government in affordable housing development since 1957.

Phase	Backgrounds and Challenges	Initiatives of Government		Implementation Effects
		Name of Policy	Strategies	
1957–1970	Rural–urban migration, squatter and overcrowding problems	<i>First Development Plan for Malaya and Secondary Five-Year Plan (1956–1965)</i>	<ul style="list-style-type: none">- Improve basic infrastructure and rural development- Focus more on benefit of civil servants	<ul style="list-style-type: none">- 23,236 government quarters and 8938 low-cost housings constructed- Shortage of low-cost housing
		<i>First Malaysia Plan (1966–1970)</i>	<ul style="list-style-type: none">- Housing Crash Programme- Laws enacted for squatter clearance	<ul style="list-style-type: none">- 21,790 low-cost housing constructed, 73% of the target

Phase	Backgrounds and Challenges	Initiatives of Government		Implementation Effects
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1971–1985	Tragedy of 13th May 1969, <i>New Economic Policy (NEP)</i> was established	<i>Second Malaysian Plan (1971–1975)</i>	<ul style="list-style-type: none"> - Housing programs carried out in line with <i>NEP</i> objectives - Low-cost housing built by state governments with subsidised Federal loans - Core Housing concept 	- 13,244 units completed, 50.5% of the target
		<i>Third Malaysian Plan (1976–1980)</i>	<ul style="list-style-type: none"> - Control on housing costs - Provision of funds - Housing loan repayment period extended from 20 years to 25 years 	- 26,000 units completed, 35% of the target
		<i>Fourth Malaysian Plan (1981–1985)</i>	<ul style="list-style-type: none"> - Low-cost Housing concept - 30–50% of private housing projects for low-cost housing at maximum MYR 25,000 per unit 	<ul style="list-style-type: none"> - Public sector: 71,310 units completed, 40.4% of the target - Private sector: 19,170 units completed, 21.9% of the target
1986–1997	Economy depression from 1986 to 1987	<i>Fifth Malaysia Plan (1986–1990)</i>	<ul style="list-style-type: none"> - Promote open market policy - Reduction in public housing development budget - Establishment of one stop agency - Establishment of Recovery Fund for Abandoned Housing Project in 1990 	<ul style="list-style-type: none"> - Private sector: 88,880 units completed, 24% of the target - Public sector: 74,330 units completed, 61% of the target - Housing Scheme: Special low-cost Housing Program
	To provide adequate housing and ensure houses built are accessible and affordable for all citizens, especially low income group	<i>Sixth Malaysia Plan (1991–1995)</i>	<ul style="list-style-type: none"> - Implementation of the concept of Human Settlement - Implementation of cross-subsidies method - Establishment of Low-cost Housing Fund in 1993, Housing Foundation for the Poorest People, and Low-cost Housing Revolving Fund in 1994 - - 	<ul style="list-style-type: none"> - Private sector: 214,889 units completed, 98.9% of the target - Public sector: 46,497 units completed, 36.7% of the target as inapt project sites, and high construction costs - Housing Scheme: Special Low-cost Housing Program

Phase	Backgrounds and Challenges	Initiatives of Government		Implementation Effects
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1998–2010	Asian Financial Crisis from 1997 to 1998, economy breakdown, squatter problem was rising in 1990s	<i>Seventh Malaysia Plan (1996–2000)</i>	<ul style="list-style-type: none"> - In 1998, low-cost housing price inclined to MYR 42,000 per unit - Implementation of Low-cost Housing Revolving Fund to encourage private involvement. 	<ul style="list-style-type: none"> - 190,597 units completed, 95.3% of the target - Housing Scheme: Integrated People's Housing Program (SPNB), 1998
		<i>Eighth Malaysia Plan (2001–2005)</i>	<ul style="list-style-type: none"> - <i>Housing Development Act on Control and Licencing 1966</i> amended in 2002 - Computerised open registration system implemented 	<ul style="list-style-type: none"> - 210,529 units completed, 85% of the target - Housing Scheme: <i>Program Perumahan Mampu Milik; Program Perumahan Mesra Rakyat</i>
		<i>Ninth Malaysia Plan (2006–2010)</i>	<ul style="list-style-type: none"> - Provision of adequate, affordable, and quality houses, with greater emphasis on appropriate locations and conducive living environment 	<ul style="list-style-type: none"> - 95,800 units completed, 91.2% of the target - Housing scheme: <i>Program Perumahan Rakyat; Program Perumahan Mesra Rakyat</i>
2011–2015	In 2010, <i>National Transformation Policy</i> was introduced to achieve the <i>Government Transformation Programme</i> .	<i>Tenth Malaysia Plan (2011–2015); National Housing Policy, 2012</i>	<ul style="list-style-type: none"> - Implementation of the Build-Then-Sell concept - Enforcement of government to include 20% low-cost and 20% medium-cost housing units in housing projects - Launch of new financing schemes - Launch of maintenance programme to maintain the condition of affordable housing 	<ul style="list-style-type: none"> - 102,201 units completed or 56.3% of the target - Various housing schemes introduced for both low- and middle-income households

Phase	Backgrounds and Challenges	Initiatives of Government		Implementation Effects
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2016–now	Unsold property in Malaysia due to mismatch of supply and demand and unaffordable housing price for the target group	<i>Eleventh Malaysia Plan (2016–2020); National Housing Policy (2018–2025); National Affordable Housing Policy, 2019</i>	<ul style="list-style-type: none"> - Construction of affordable housing on waqf land (land donated by Muslim society for charitable purpose) - Development of the National Housing Data Banking system - Introduction of the Rent-to-Own financing scheme - Introduction of the Home Ownership Campaign in 2019 	<ul style="list-style-type: none"> - From 2016 to 2017, 139,329 units completed or 30.9% of the target - Various affordable housing programs launched for those low- and middle-income households

Source: Tabulated by the authors according to relative documents [\[17\]](#)[\[18\]](#)[\[19\]](#)[\[20\]](#)[\[21\]](#)[\[22\]](#)[\[23\]](#)[\[24\]](#)[\[25\]](#)[\[26\]](#)[\[27\]](#)[\[28\]](#)[\[29\]](#)[\[30\]](#)[\[31\]](#)[\[32\]](#)[\[33\]](#)[\[34\]](#).

4. Conclusion

In Malaysia, low-cost housing has been injected into its affordable housing policy and has evolved through the Malaysian five-year plans since its independence until 2012, when a formal housing policy was established as a National Housing Policy. Through this evolution, the government realised the necessity of managing affordable housing development more effectively and introduced the National Affordable Housing Policy in 2019. Over the decades, the government has taken different initiatives and focused on different target groups in affordable housing development. In the early period, the principle of affordable housing development was to provide low-cost housing for low-income groups. When the time passed and the demand of M40 for affordable housing increased, the government began to develop median-cost affordable housing for M40. This led to a scenario where more parties had the opportunity to be involved in affordable housing projects. Consequently, the housing development projects were changed from public sector-led to private sector-led and then were turned into joint ventures between the public and private sectors. Housing affordability has become the main concern of Malaysia's housing policy after efforts for decades, leading to the formulation of a specific housing policy to strengthen the government's initiatives in overcoming the housing affordability issue. The policy review shows that the housing affordability of low-income groups is still not guaranteed though Malaysia has long implemented affordable housing policies to improve housing affordability.

The reasons that cause low housing affordability among low-income groups are low household income, high land cost, construction cost, compliance cost, mismatch of supply and demand in terms of quantity, instability of national economy, low home financing ability, and incomprehensive housing planning due to information insufficiency. They explain why the long-term implementation of housing policies cannot significantly guarantee Malaysian housing affordability as expected. In particular, insufficient analysis on household data that delivered inaccurate statistics to developers has caused a mismatch of housing supply and demand in terms of type of properties and location, resulting in a high vacancy rate of affordable housing and low housing affordability. The DRMM was anticipated to effectively improve the housing affordability of low-income groups in three aspects: (1) supply affordable housing more precisely by implementing the strategy of centralised affordable housing authority, creating a unified housing database, strengthening development control and ensuring appropriate dwelling condition; (2) reduce housing costs by preparing land for affordable housing and reducing compliance cost and construction cost; and (3) improve home financing ability by improving financial literacy and offering various housing schemes. However, the exclusion of household income and economic factors may cause the ineffectiveness of the DRMM and, as a result, housing affordability of low-income households cannot be guaranteed.

To guarantee housing affordability, household income should be steadily increased, particularly in view of its relevance to housing prices. This, of course, depends on the strength of the national economy, which affects not only government's ability to deliver enough affordable housing but also the job opportunities and wage levels for households. Thus, the DRMM strategies could not guarantee housing affordability of low-income households without any consideration of these two factors. To further improve the anticipated effectiveness of housing affordability, due attention should be paid to the two factors in future decision-making, while the current affordable housing policies that prove to be effective should be continuously enforced, and the existing affordable housing stocks should be more efficiently utilised.

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