



PROPERTY TALK 2019 “AFFORDABLE HOUSE VS AFFORDABILITY”

# AFFORDABILITY OF AFFORDABLE HOUSING



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# Presentation Outline



- Definition of Housing Affordability
- Definition of Affordable Housing
- Measurement of Housing Affordability
- Context of House Price and Affordability
- Suggested Solutions
- Conclusions

# Newspaper: Affordable Housing

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CORPORATE

THE EDGE MALAYSIA OCTOBER 23, 2017

## INFOGRAPHIC

SOURCE: THE DEPARTMENT OF STATISTICS MALAYSIA, JPPH, NAPIC, BANK NEGARA MALAYSIA AND THE EDGE ESTIMATES | COMPILED BY CINDY YEAP | INFOGRAPHIC BY TUN MOHD ZAFIAN / THE EDGE

### Houses in most states are unaffordable for households earning the 2016 median income

House price-to-income ratio (times)

Kuala Lumpur	6.88
Penang	6.32
Malaysia	6.17
Selangor	5.10
Terengganu	4.79
Pahang	4.67
Johor	4.51
Kedah	4.28
Kelantan	4.26
Negeri Sembilan	4.09
Perak	3.99
Perlis	3.26
Melaka	2.43

### Median multiple approach affordability threshold

Severely unaffordable  
5.1 & above

## What's 'affordable' housing in Malaysia?

Malaysians, along with many others across the globe, have been complaining about high house prices in recent years. So, what's considered "affordable" housing in Malaysia?

With the country's median monthly household income at RM5,228 last year, **houses would only be considered "affordable" at up to RM188,208**. That's using Demographia International's Median Multiple method, where a house is considered affordable if it is less than three times a household's median annual income.

**The average house price in Malaysia, however, was RM387,258** as at end-2016, according to data from the Valuation and Property Services Department – that is more than six times the 2016 median annual household income.

A house price-to-income ratio of 6.17 times puts Malaysia on the "severely unaffordable" scale, which is defined as above 5.1 times the house price-to-income ratio. In an earlier study, Bank Negara Malaysia

said house prices in the country were "seriously unaffordable" in 2014 with a house price-to-income ratio of 4.4 times.

The indications are that the average house price in Malaysia was above the affordability threshold of at least 80% of 6.95 million households last year. Affordability is worse for the bottom 40% of households in Malaysia (**B40**), whose RM3,000 monthly median income puts the housing affordability threshold at RM108,000. For the middle 40% (**M40**), the threshold is RM225,900 with median household income at RM6,275.

For the top 20% (**T20**), households with median income of RM13,148 a month, the affordability threshold is RM473,328. Even that is below the average house price in Kuala Lumpur of RM749,305 as at end-2016. The average price of a terraced house is even higher in central Kuala Lumpur (RM976,019) and Penang island (RM896,603).

# Newspaper: Affordable Housing

## Govt to build 100,000 affordable homes by end-2019

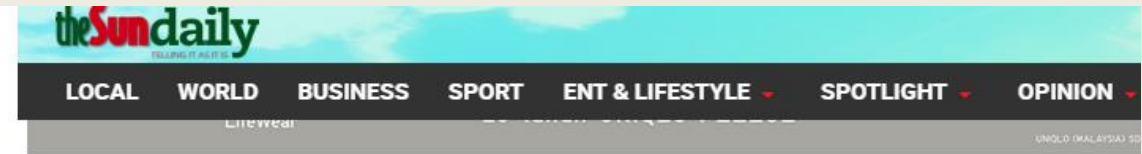
BUSINESS NEWS, CORPORATE  
NEWS, PROPERTY

Monday, 28 Jan 2019

8:32 AM MYT



The ministry has emphasised that it will address several issues which include lowering house prices by reducing compliance cost and implementation of industrialised building systems.



 > Business

## Most Rehda members expect take-up rate to weaken in second-half 2019

AMIR IMRAN HUSAIN SAFRI / 26 SEP 2019 / 23:11 H.



# Definition of Housing Affordability

Affordability is a situation when housing of an acceptable minimum standard can be obtained and retained **leaving sufficient income** to meet essential non-housing expenditure (Orna, 2017).

Affordability can generally be thought of as a continuum, which is itself a **relationship between income and relative prices** (Bertaud, 2018).

## Definition

Affordability is not an inherent characteristic of housing, but rather a **relationship between incomes and relative prices** (Glaser & Gyourko, 2003).

Affordability defined by the relationship between **household income and expenditure** (Sahib, 2015).

# Definition of Affordable Housing (Source: House Buyer Association (HBA))

**1** Price between **RM150K – RM300K**

**2** Built-up area: **900sqft (exclude balcony)**

**3** Location: **connectivity** to public transport

# Measurement of Housing Affordability

## **MM – MEDIAN MULTIPLE**

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

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

## **HCB – HOUSING COST BURDEN**

Housing expenditure that is less than 30.0% of household income

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

## **RI – RESIDUAL INCOME**

Residual income that is sufficient to service monthly mortgage obligations

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

# Measurement of Housing Affordability

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

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

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



# Household Income in Malaysia (DOSM, 2016)

## HOUSEHOLD

A person or group of people whether related or unrelated who usually live together in a **living quarters** and make provisions (expenses) for food and other necessities of life together.

In 2016, the average size of households in **Malaysia** was **4.1 persons**.

## INCOME RECIPIENT

Household members who receive income in the reference period with at least one income recipient.

In 2016, average income recipients in **Malaysia** was **1.8 persons**.

## HOUSEHOLD INCOME

Overall income that usually (accrued) earned by household members, whether in cash or in kind received repeatedly in the reference period. Income statistics presented in this report referred to Gross Income.

In 2016, median and mean monthly income in **Malaysia** were **RM5,228** and **RM6,958** respectively.



# Context of House Price and Affordability

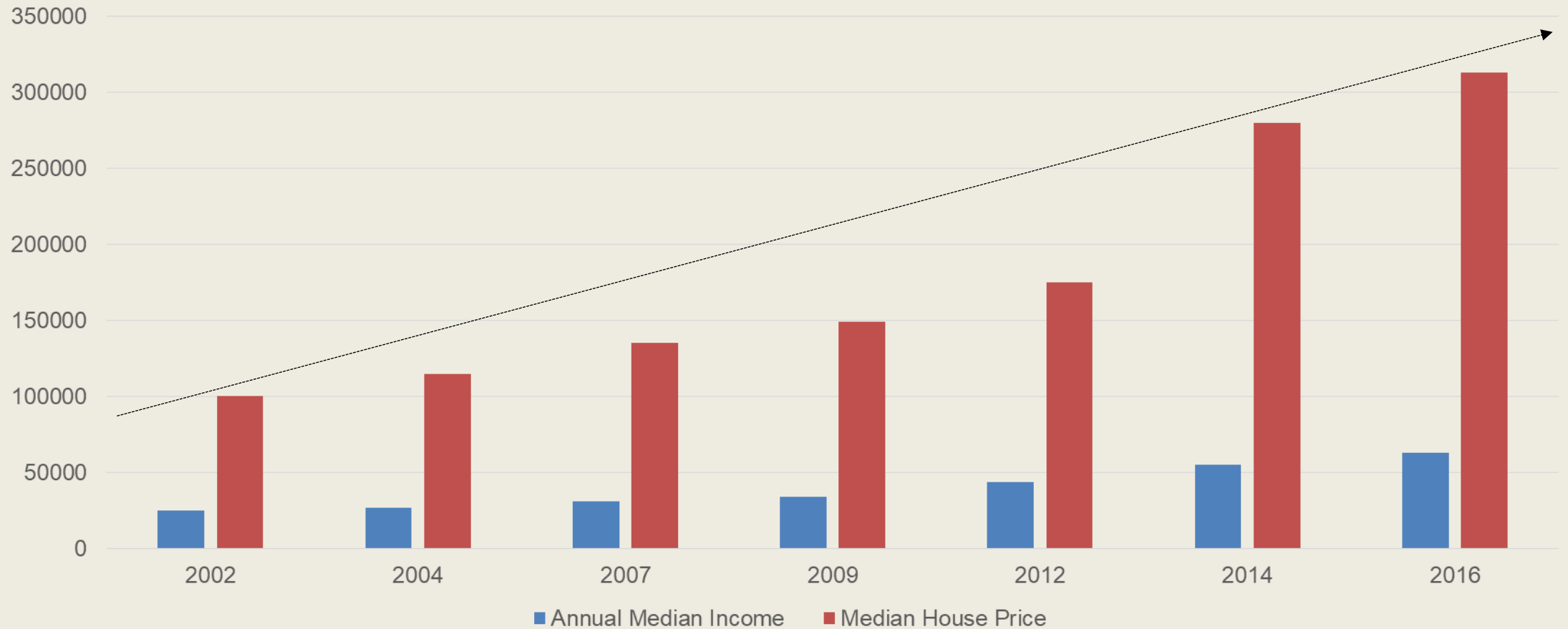
# Income to Property Price (Source: DOS, NAPIC)

- 1999 – 2000 (in tandem): **income growth rate of 4.77%** and **house price growth rate of 5.25%**.
- 2001 – 2010: **income growth rate 9.79%** higher than rate of **house price growth of 3.74%**.
- 2011 – 2017: **income growth rate is 0.90%** whereas **house price growth rate is 8.27%**.



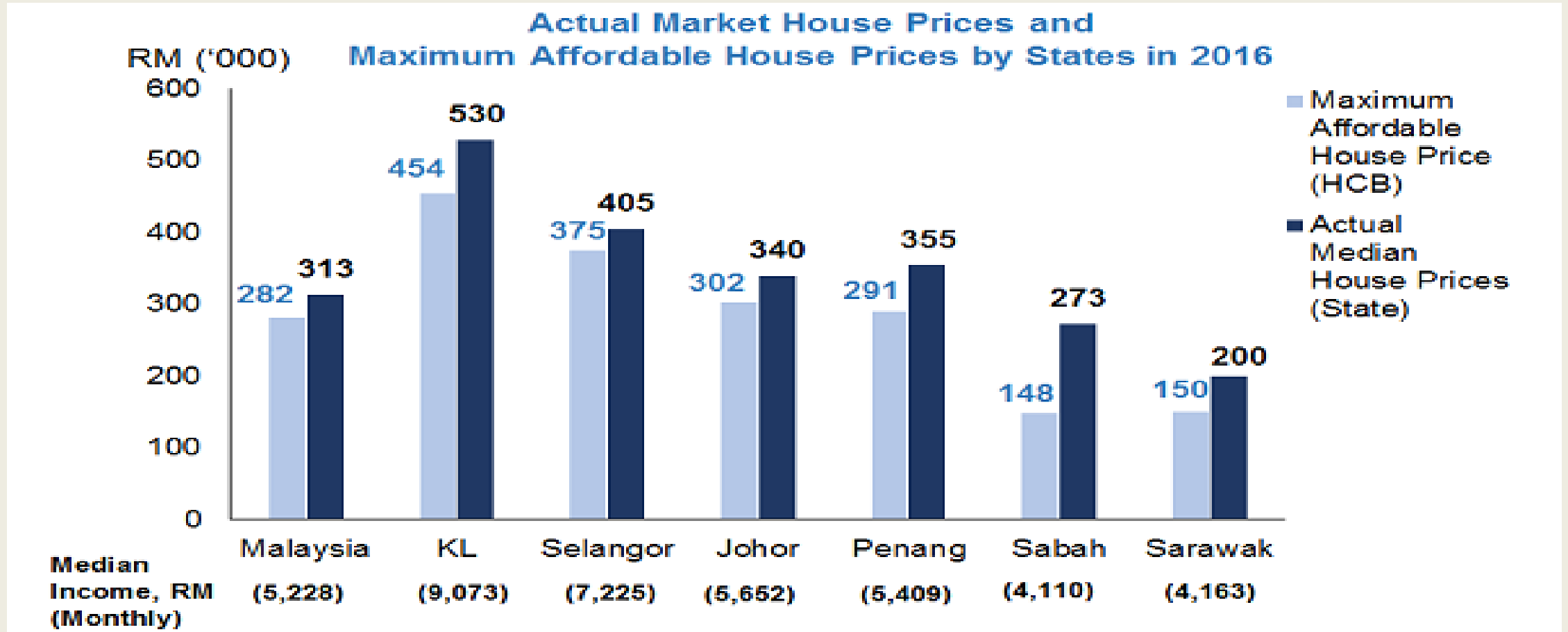
# Household Income vs House Price (RM)

(Source : KRI)



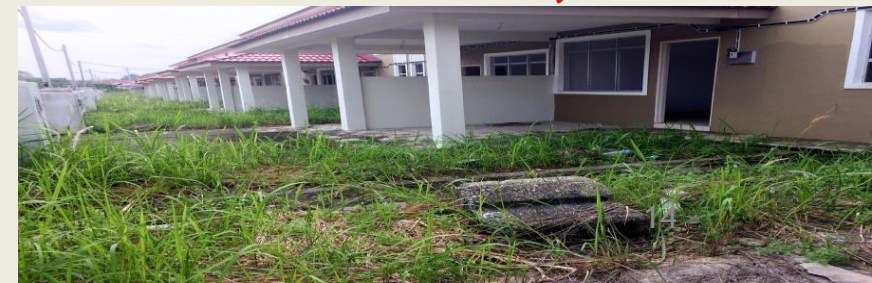
# Actual Market House Price vs Maximum Affordable House Price

(Source: Housing Watch Website)



# Housing Overhang (Source: NAPIC)

- From **2008 until 2018**, there has been an **increase of unsold houses** but these are mainly within the unaffordable price bracket.
- Since 2015, the surge has grown further with an overhang of 14,792 units in 2016 to **30,115 in quarter 3 of 2018 and 32,810 units in quarter 2 of 2019**.
- The rising unsold property stock is extremely evident in houses within the price bracket of RM500,000 to RM1 Million and more than RM1 Million.
- REHDA (2019) reported that those price in the **RM500,001 – RM700,000 range account for the bulk (23%)** of the unsold units, followed by those priced from **RM700,001 to RM1 Million (22%)** and those from **RM250,001 to RM 500,000 (22%)**.



# Residential Property: Overhang Units by Price Range & Percentage Share Q2 2019 (NAPIC, 2019)

Price Range (RM)	Units	% Share	Value (RM Million)
Below RM200,000	4,183	12.7%	492.28
<b>RM200,001 – RM300,000</b>	<b>7,328</b>	<b>22.3%</b>	<b>1,787.20</b>
<b>RM300,001 – RM500,000</b>	<b>8,788</b>	<b>26.8%</b>	<b>3,387.33</b>
RM500,001 – RM700,000	5,217	15.9%	3,116.85
RM700,001 – RM1 Million	3,081	9.4%	2,585.40
Above RM1 Million	4,213	12.8%	8,391.33
<b>TOTAL</b>	<b>32,810</b>	<b>100.0</b>	<b>19,760.39</b>

# Unsold Property (NAPIC, 2019)

## Malaysia : Overhang and Unsold Units by Property Type

Type of Property (Units)	Unsold										
	Overhang					Under Construction			Not Constructed		
	H2 2018		H1 2019		% Change H1 2019 vs H2 2018	H2 2018	H1 2019	% Change H1 2019 vs H2 2018	H2 2018	H1 2019	% Change H1 2019 vs H2 2018
	Units	Value (RM Billion)	Units	Value (RM Billion)							
Residential	32,313	19.86	32,810	19.76	1.5	80,984	81,627	0.8	19,865	16,080	-19.1
Shops	5,055	4.08	5,760	4.98	13.9	7,233	6,370	-11.9	385	371	-3.6
SOHO	1,343	0.67	1,670	0.76	24.3	4,965	5,356	7.9	884	872	-1.4
Service Apartment	11,371	9.16	18,186	14.57	59.9	37,285	34,267	-8.1	12,864	12,445	-3.3
Industry	1,183	1.98	1,047	1.65	-11.5	812	799	-1.6	176	30	-83.0

# Context of Housing Affordability

- **Market forces and Price Increase**

- Supply and Demand
- Housing Demand vs Housing Need (national and local context)
- Imperfection of housing market (Enhancement of data and information, monopolistic competition, profit margin)

- **Income of Our People**

- To consider inflation and cost of living
- Life style?
- [study \(2\).jpg](#)

# Suggested Solutions

1) Improve efficiency of the housing market

(Role of collaborative data sharing, big data and data analytic)

- Quantity and quality of housing
- Right housing at the right place and time
- “Right price”?
- Supply side solutions and housing sustainability
  - Build more affordable housing based on actual comprehensive study
  - Improve efficiency in supply of housing
  - Productivity on quality housing
  - Neighborhood at the right location

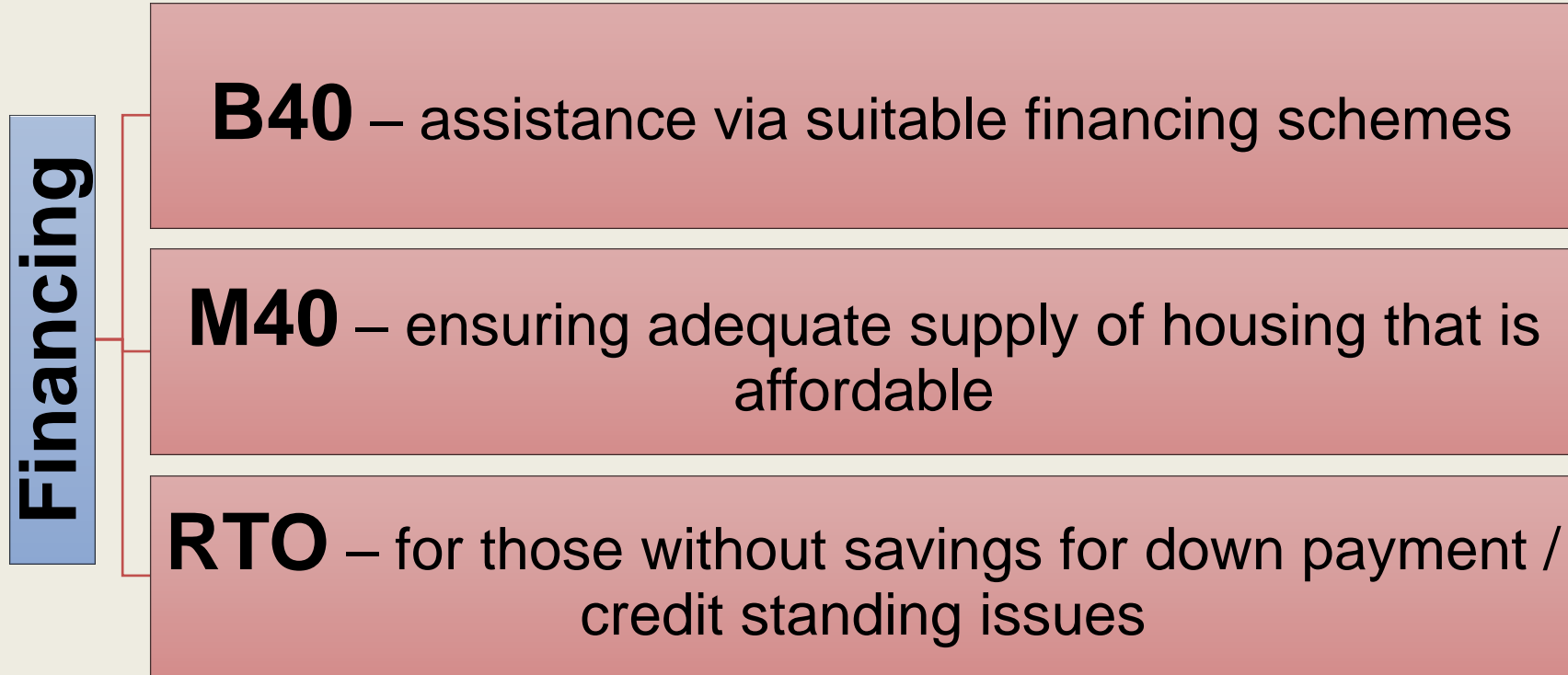
# Suggested Solutions

## 2) Real Income Growth of People and Issue of Life Style

- Must be based on proper study
- Life style – cut down on unnecessary spending, buy car, high end products (iphone, designer coffee, cable tv, designer, clothes, etc).

# Suggested Solutions

## 3) Support System



# Suggested Solutions

## 3) Support system

- Build then sell (already in Housing Development Act)
- Financing incentives
- Strategic Malay Reserve Land, Waqf and Native Land Development

# Continuous Government Support in Housing Agenda

- Provide regulation for a competitive operating environment for both consumers and producers of housing.
- Sustainable Development Goals (Economic, Environment and Social Goals)
- Housing ecosystem with **collaborative efforts from Government, Private Sectors and Academia**
- Continuous efforts to Increase Productivity of Housing Supply

# Productivity must be anchored in technology upgrading

- The **skill composition** of the residential construction sub-sector in Malaysia has not changed much from 2010 to 2015 despite improvements in labour productivity and that measures to induce structural change in the industry have not been effective.
- Industrial Revolution 4.0

# Technology upgrading supported by the housing delivery ecosystem

## **Sell-then-build**

- Poor workmanship
  - Late delivery
- Abandoned projects
- Disincentives modernization in residential construction



## **Build-then-sell**

- Shifting risks to developers
- Ensuring high quality of construction workmanship
- Key for modernizing construction

## **Fragmented procurement**

- Fragmentation between design and construction within the Traditional General Contracting (TGC)
- Reduces efficiency and raises cost of construction



## **Consolidated supply chain**

- Creating a fully motivated and cooperative building team
- Integrated design and construction on site that expedites time, reduce cost and improve quality

# Conclusions

- The crux of the issue of affordable housing and housing affordability is that house price has increased at a rate that is not matched by increase in real income of households.
- Addressing the mismatch should be the focus of housing policy to ensure houses are supplied accordingly and made affordable for people to buy.
- Suggested solutions must focus on continuous improvement of housing market efficiency and sustainability, addressing issues of real income and cost of living and support system.
- Conducive housing ecosystem is needed involving collaborative efforts from all parties.

Thank You