

Sustainable Development of Affordable Housing – The Buyers Perspective

The National House Buyers Association (HBA) was invited by the National Mortgage Corporation of Malaysia (Cagamas) to present a paper on ‘Sustainable Development of Affordable Housing’ on 4.7.2017 at Sasana Kijang, Bank Negara Malaysia in the presence of the Regulators: (Bank Negara Malaysia, Securities Commission, Labuan FSA), Ministry of Finance, Ministry of Urban Wellbeing, Housing & Local Government, Khazanah Research Institute, representative from World Bank, Association of Banks, Malaysia, Key Corporates and Stakeholders. This dialogue session was graced by the Deputy Governor, Tuan Shaik Abdul Rasheed Ghaffour.

Below is an excerpt of the message that was conveyed:

“Harga Rumah Melampau” – that’s the desperate cry of the Rakyat against skyrocketing house prices as we have voiced out some six (6) years ago. In English, it means **“House prices are ridiculous”**.

The National House Buyers Association (HBA) has consistently called for government intervention to prevent a “homeless generation of young adult Malaysians” from emerging, especially in urban and sub-urban areas, who, if not for wild speculation, would be able to buy their own houses.

In time, Malaysia will face a “social crisis” with serious political implications if the majority of the lower and middle-income groups do not have affordable houses.

The matter is of grave urgency because the homeless hail from the lower middle class, first time house buyers - usually graduate couples or the self-employed earning reasonable income and expecting to buy a house to commence their family life in a fixed abode.

Difference between ‘Affordable Housing’ from ‘Social Housing’

1. It is important to differentiate Affordable Housing from Social Housing.

Social Housing are Low Cost to Medium Cost Housing such as PPR Units which are meant for the lower income groups or those classified as in the ‘urban poverty groups’. Typical household income in order to qualify for such Social Housing is below RM3,000 per month.

Such Social Housing typically only have 1-bedroom or 2-bedrooms and cost around RM35,000 to RM60,000 with build-up of about 650 sq ft only.

2. **Affordable Housing** are classified as properties intended to cater for the Median Population, i.e. the middle income group and are priced between RM150,000 to RM300,000 (up to RM350,000 in prime areas) and with a build-up of at least 800 sq ft (excluding the balcony) and with 3-bedrooms. The household income of this Middle Income Group is between RM3,000 to RM10,000 per month.
3. While the Lower Income Group can receive help in the form of Social Housing, the Middle Income Group are left to fend on their own. Yes, many would say that the conditions of Social Housing are less than ideal, but that argument is for another forum.
4. This dialogue is to talk about Affordable Housing for the Masses, the Median Population, the Middle Income Group which form the backbone of our country. In order to achieve a High Income Nation, it is important that the Government understands the aspiration and

suffering of this Middle Income Group and to also provide assistance to the Middle Income Group.

5. As mentioned, Affordable Housing are priced between RM150,000 to RM300,000 (up to RM350,000 in prime areas) and with a build-up of at least 800 sq ft (excluding the balcony) with a decent 3-bedrooms.
6. However, new properties launched by Developers that fall within this price range are very rare. Even Studio Units, with only 1-bedroom and build-up of only 550 sq ft. These shoe box units are sold in excess of RM500,000 in the Greater Klang Valley.
7. Most new launches by Developers are priced in excess of RM500,000 and are beyond the reach of the Middle Income Group. If this situation continues, Malaysia will face a housing crisis in the form of the “**Homeless Generation**”, where entire generation or even generations of the Rakyat will not be able to buy their dream homes.
8. This can potentially cause various social Issues in the long run and HBA has been raising alarm bells of this Homeless Generation crisis for many years. HBA is glad that various Government agencies such as Bank Negara Malaysia and Khazanah Research Institute has time and again acknowledged that there is a huge problem that must be quickly resolved.

Is RENT-TO-OWN (RTO) the answer to home ownership?

9. Due to the rising cost of living, the Middle Income group also find it very challenging even to buy Affordable category of Housing and also needs additional assistance. Typically, “Rent-to-Own” (RTO) should also be part of the social housing engineering program.

HBA also proposes a “Rent-to-Own” RTO Scheme” be extended to include the Medium Income Group for Affordable Housing.

10. A “Rent-to-Own Scheme” for Affordable Properties would greatly assist the Middle Income Group, especially the Sandwich Generation, house buyers with young children and elderly parents to provide for.

With the rising cost of living, this group of house buyers find it very challenging to save for the 10% down payment and service monthly housing loans based on their current income. However, due to escalating house prices, their income can never catch up and without a “Rent-to-Own Scheme”, they are forced to continue renting. There is a clear mismatch between house prices as against their household income.

11. This group is in dire need of a “Rent-to-Own Scheme” as legally owning a house provides financial security in their golden years so they do not need to continue renting when they are no longer economically active / able to work.

12. What is required is a holistic and sustainable development of Affordable Housing including a “Rent-to-Own Scheme” which requires the cooperation of all Stakeholders. HBA proposes that the Government setup an “Affordable Housing Taskforce” which includes:
 - a. Federal Government Ministries such as Ministry of Urban Wellbeing, Housing and Local Government, Ministry of Works, Ministry of Finance, Bank Negara Malaysia, etc
 - b. Equivalent State Government economic agencies like PKNS since land is under State jurisdiction.
 - c. Those giants GLCs that are involved in property development ie SP Setia, MRCB, Glomac, Sime Darby etc
 - d. Employees Provident Fund Board
 - e. Financial Institutions such as Commercial Banks, Islamic Banks and Development Financial Institutions and all licensed lending institutions.
 - f. Key players in the property sector such as Property Developers/ Vendors, Architects, Town Planners, etc.

This 'Affordable Housing Taskforce' shall coordinate and act as a single umbrella with collection of data and having a database – those housing units – in the planning stage, construction stage and completed ones. They should also collate those 'overhang' housing units that are already available for distribution.

Keys for sustainable affordable housing to be successful

13. For Affordable Housing to be successful, it also must be “sustainable” and not just for show: to build for only one project and one location. Hence, the keys for Sustainable Affordable Housing to be “successful” are:
 - a. to reduce the cost of such properties but not the quality;
 - b. to reduce the cost of such properties but not to up the developer’s profit margin;
 - c. being able to build such properties in the right numbers and in the right location;
Thus, HBA adage: **“They must build the right product at the right location with the right pricing and the right numbers”**.
 - d. being able to continue building such units over a medium to long term (say over the next 10-years to 20-years); and
 - e. able to replicate this model throughout Malaysia and not just in the Klang Valley.
14. The Affordable Housing Taskforce, comprising of intelligent people, can also think of solutions on how to implement a Rent-to-Own Scheme for the Middle Income segment to assist them to own their dream homes.
15. HBA has some suggestions in order to reduce the cost of such properties without compromising on quality which is for the Government (both Federal and State) to give incentives to private housing Developers to build more Affordable Housing such as:

i. Alienate land at lower cost to Developers to build Affordable Housing

The Government can alienate land to responsible housing developers at a lower price or charge lower conversion premiums on the condition that the majority of the land (at least 70%) is used to build Affordable Housing.

ii. Faster approvals for Developers to build Affordable Housing

The Government can also offer 'fast track approvals' for all projects involving Affordable Housing. This will allow the Developer to launch and build the Affordable Housing in a quicker time and realize their profits and cash flow faster thus reducing the holding cost and ultimately cost of the said property.

iii. Cost to lay last mile of Utilities to be borne by Utilities Co.

In the past, utilities such as electricity, water, telephone and sewage was owned by the Government and hence, Developers were required to bear the cost to lay the 'last mile' of such utilities. As Developers are not charitable companies, such costs are passed on to the house buyers in form of higher selling prices.

However, the Government has already privatized/ corporatized all the above Utilities Co. Hence, it only makes sense that the now privatized utility company start to bear the cost to lay the 'last mile'.

iv. Offer tax incentives for Developer to build affordable housing

Private Developers are profit maximizing entities and will build more Affordable Housing if there are profits to be made. Developers always claim that their net profit margin is only about 20% of the selling price of the said property. Hence the higher price the property, the higher the profits is to the Developer.

In our example on the table below on the left, assuming a selling price of between RM300,000 to RM500,000, the net profit after tax to the Developer ranges from between RM45,600 to RM76,000.

Hence, the Developer would prefer to sell the properties at a higher price to maximize the profits.

HBA proposes that the Government offer tax incentives to Developers to build Affordable Housing. The tax incentives can be in various forms but HBA would propose the incentives can be in form of Tax Exemption of up to 70% of profits derived from Affordable Properties, meaning that the Developer only pays tax for 30% of the profits derived from Affordable Housing. This form of tax incentives are already offered to certain companies in the manufacturing industry or certain specialized industries and should be easily implementable by the Inland Revenue Board.

In our example below for the same table at the right, it shows the effect on the Developer where there are Tax Incentives being offered and for the selling price of between RM220,000 to RM350,000, the net cash flow to the Developer is almost the same as selling the said properties at RM300,000 to RM500,000 without any tax incentives.

The Developer would prefer to sell the properties at a lower price if the net return is almost the same as selling the properties at a higher price as it would be easier to sell the said properties at a lower price as the target market would be larger.

		Existing			With Tax Incentives Special tax exemption equal to 70% of profits from Affordable Housing Hence, tax only on 30% of Profits		
Selling Price		300,000	425,000	500,000	220,000	300,000	350,000
Cost of Developer	80%	240,000	340,000	400,000	176,000	240,000	280,000
Developers' profit		60,000	85,000	100,000	44,000	60,000	70,000
Profit before tax / taxable profit		60,000	85,000	100,000	13,200	18,000	21,000
Tax Rate	24%	(14,400)	(20,400)	(24,000)	(3,168)	(4,320)	(5,040)
Total PAT of developer		45,600	64,600	76,000	40,832	55,680	64,960
Net Profit Margin		15.2%	15.2%	15.2%	18.6%	18.6%	18.6%
Effective Tax Rate		24.00%	24.00%	24.00%	7.20%	7.20%	7.20%

16. The proposed Affordable Housing Taskforce could ponder on the suggestions which we have made.

17. Other additional methods of helping Affordable Housing

- Preferential interest rates for Developers and Borrowers
- Key is proper selection and monitoring
- There should be no race biasness – all who deserves a affordable housing category get it irrespective of race and creed. There should be no quota system in the distribution.

Let's face it: RTO would not be a scheme that private developers would want to venture on their own without some form of partnership with the Government or tax incentives.

Conclusion

HBA fully understands and appreciates the vital role played by the housing industry in the nation's social and economic development. It is precisely for

this very reason that we have been critical of the weaknesses that are prevalent in the industry.

We believe that sustainable growth for the industry can only flourish in an environment of orderliness and good governance.

HBA urges all stakeholders to come together for the greater good of the country to think of solutions on how to create a “Sustainable Affordable Housing industry’ where profits are not the ultimate objective and stimulant but to put a roof over every Rakyat’s head.



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“Striving for House Buyers rights and interest”