

Housing for the nation

World Bank says subsidy is not the solution. What is important is land use and availability of jobs and transportation when selling affordable housing.

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DURING an Uber ride, a chatty 20-something spoke of the paddy fields he had left behind in Kedah, the "rice bowl" of Malaysia. He had just seen his mother off at the railway station and was feeling rather nostalgic.

Zaff came to the city two months ago in search of work.

He is using Uber for the time being to find his way around the city, chat with passengers and hopefully learn to be a bit more street wise.

Zaff is among the many who leave their home states to come to the Klang Valley each year, part of the urban migration process.

During that ride from Kuala Lumpur to Petaling Jaya, Zaff spoke about the paddy fields he had left behind.

Zaff's parents live in a kampung house, which is excluded from Malaysia's formal housing statistics.

When he was living with his parents, housing was not an issue. It is now.

Which brings to mind Khazanah Research Institute's managing director Datuk Charon Mokhzani's remark in early July. Presenting his paper "Making Housing Affordable", Charon said affordable housing "is not a problem unique to Malaysia... but (it is) a problem in big cities."

House prices matter to those in the Klang Valley, which comprises the city and its suburbs, as though "it is the most important problem," but it is not so, for example, for those in Kuala Terengganu, Charon said.

There are differing views, like everything else. At the same event, Cagamas Holdings Bhd chairman Nik Mohd Hasyudeen Yusoff said housing is a major challenge for the government and has its social repercussions if not managed well.

Both of them were at the Cagamas-hosted dialogue "Sustainable Development of Affordable Housing" on July 4. Whichever view one takes, as exemplified by Zaff's move to the city, priorities change over time, and under different circumstances and so as Charon says, "different priorities exist."

But Charon goes one step further, that "there is a need to promote what is important."

This explains why, he says, it is so difficult to talk about "what is priority?" in the context of affordable housing.

"The solution to high prices is not giving away money. Who do you want to help - those earning below RM2,000, or below RM3,000?" Charon asked.

What is priority?

Charon's question is penetrating. "Is it right to give money to people who earn RM10,000 a month? Are

Affordable housing dialogue key takeaways

- > A national central authority to promote cohesion
- > Innovative financing models to fund projects
- > Setting up of a taskforce
- > Use proven technologies i.e. Industrial Building Systems
- > Develop a rental market with rent-to-own models
- > Revisit abandoned sites
- > Use ideal/underutilised sites
- > Planned neighbourhoods and townships
- > Maintenance
- > Incentivise private developers

we prioritising the right way because right now, we have affordable housing schemes for the Top 20 who earn more than RM8,000 a month. When there are housing schemes like these, why would developers want to bring down prices?"

"Why should (only) rich people have the ability to live near the city centre?" he asked.

It is at this point that the high overhang, even for housing in the RM200,000 and RM400,000 range, comes under scrutiny. As at March 31, 2017, the total overhang for all types of housing has reached RM10.08bil and 17,809 units, excluding serviced apartments.

The term "overhang" refers to unsold but completed properties. There is no housing within this price range in the Federal Territory, where the city of Kuala Lumpur is located.

In fact, according to the National Property Information Centre (Npic) Overhang Table Q1 2017, in the Federal Territory, there is zero overhang for housing of RM500,000 and below because there are no units launched for anything less than half a million ringgit.

Launched units, on a cumulative basis, totalled about 7,400 units. About 10% remained unsold as at March 31, 2017. The Federal Territory has a population of 2 million.

As a comparison, Kedah, Zaff's home state also has a 2 million population, but has 8,667 launched units, of which 38%, or 3,304 units, remained unsold.

Out of every 100 units unsold in Kedah, 33 units are within the RM200,000-RM400,000 range, 58 units below RM200,000.

Other states reveal equally high unsold units in the RM200,000-RM400,000 range, Pahang, 57% , Selangor, 13%.

As Socio-Economic Research Centre executive director Lee Heng Guie says: "This calls into question why the affordable homes are not



The World Bank: There must be an economic base close by and transportation, otherwise there will be no demand.

selling well?"

Lee says houses priced RM200,000-RM400,000, considered as affordable range, make up 28% of total overhang as at 1Q17, rising from 25.4% at 4Q16.

An analysis of the unsold units between 1Q16 and 1Q17 show that affordable prices ranging between RM200,000 and RM400,000 saw significant increases of between 12.1% and 68.9% in the number of unsold units.

Unsold units in these price range (RM200,000 and RM400,000) have been high in recent years (26.7% of total unsold in 2014; 31.6% in 2015 and 25.4% in 2016), according to Lee's analysis.

"This is not about supplying more if there is no genuine demand or the location is not supported by public amenities, good public transport mode and connectivity," Lee says.

Npic has brought up the high overhang to the different authorities about two years ago when the overhang value was hovering around the RM4bil range.

At a recent dialogue on Sustainable Development of Affordable Housing hosted by Cagamas Holdings Bhd, it was recommended that a taskforce be set up to look into the high overhang problem and other housing issues in the country.

World Bank's view

The World Bank's Urban and Disaster Risk Management (East Asia and Pacific) practice manager Abhas K. Jha says the affordable housing challenge is an issue faced by both developing and developed countries.

This can be seen in the Grenfell

Tower inferno in Kensington, London where some 80 perished. Closer home, are the slums of Metro Manila, Abhas says.

"Giving money will not work," he says.

"Mistakes are made again and again" when governments try to subsidise affordable housing, he says. Instead, what is key is land use.

"Access to cheap land is key to affordable housing," he says, but there is a qualifier. There must be an economic base close by and transportation, otherwise there will be no demand.

The US has a housing and transport index and this is "key," he says.

The neighbourhood matters a lot, otherwise a slum will emerge. There must not be "pockets of extreme wealth and poverty," he says. This was Grenfell's problem where the poor and marginalised were concentrated in one place.

He says stakeholders have to design and plan neighbourhoods where all income levels live together with schools, healthcare and other amenities nearby.

Key issues

Three key issues were identified at the Cagamas-hosted dialogue. It was agreed that there is a mismatch in demand and supply for affordable housing, as a result of rapid socioeconomic changes, urbanisation and evolving population structures.

The scarcity is especially in the low and lower-middle income groups. While the lower income group can receive help in the form of social housing, the middle income group, the median popula-

tion which form the backbone of the country, are left to face the challenges of attaining home ownership on their own.

The second challenge is rising house prices in major cities. The rise in house prices has attracted high end property development at the expense of affordable housing, which resulted in the shortage of affordable housing, driving up prices of existing houses in the low and middle price segment, Cagamas said in its executive summary of the event.

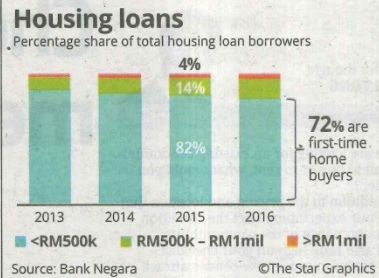
The third challenge is the lack of integrated planning and implementation. The Cagamas dialogue concluded that there is a need to improve coordination among the multiple authorities and agencies involved in developing affordable housing for the different target groups.

Also, the lack of an integrated database on housing supply and demand has hampered planning and implementation of affordable housing programmes.

Rush to build

Raine & Horne associate director James K.M. Tan says the glut in unsold units priced up to RM400,000 in the country is due to a lack of demand because of poorly located units, a mis-reading of the market and a lack of sufficient research in demographics and mobility patterns.

Some authorities also made it mandatory for developers to have 50% of the units in their project to be affordably priced although the location is unsuitable because it may be too far from town or commercial centres and there is a lack of public transport in the vicinity.



Bank Negara: Housing loan approval rates remain high

OVERALL housing loan approval rates in Malaysia continue to be high, despite the misconception that cooling measures have led to an increase in loan rejections.

According to Bank Negara's quarterly bulletin, it was a myth that housing loan rejection rates are as high as 60%.

"The overall housing loan approval rate remains high at 74.2% (average 2012 to 2016: 74.1%). The approval rate is the ratio of the number of housing loan applications approved by all banks in Malaysia to the number of housing loan applications received by the banks during the same period."

Bank Negara says banks approved a total of RM22.3bil of house financing in the first quarter of 2017 to 90,137 borrowers.

"Of these, more than half was for buyers of affordable housing units priced below RM500,000. "Generally, housing loan applications were rejected if the borrower was already highly leveraged with weak credit history and had insufficient documentation to support ability to repay loan obligation."

Separately, the central bank says it was a myth that first-time buyers are unable to obtain housing loans because of the impositions of macro-prudential measures.

"The measures introduced by the bank since 2010 were for two specific purposes, namely to curb excessive speculative activity in the housing market and deter over-borrowing."

Bank Negara says the maximum loan-to-value ratio (LTV) of 70% introduced in 2010 is imposed only on borrowers with three or more outstanding housing loans.

"Therefore, this measure does not affect eligible first-time house buyers, who typically qualify for an LTV of up to 95% (including mortgage reducing/ decreasing term assurance)."

"In fact, it improves the chances of first-time buyers getting a loan as it shifts financial institutions' focus away from the speculators."

According to the central bank, about 72% of housing loan borrowers in 2016 were first-time buyers of homes priced below RM500,000.

Bank Negara says the maximum housing loan tenure of 35

years is more than sufficient for borrowers to settle their loans by retirement.

"Increasing the housing loan tenure will add to the total cost of financing and also would not significantly improve one's debt service ratio."

"To illustrate this point, assuming the tenure for a housing loan of RM500,000 is increased from 35 to 40 years, the total cost of financing will increase by 17.4% or RM97,428 while the monthly instalment will only reduce by 4.4% or RM12."

The central bank says the developer interest bearing schemes (DIBS) are similar to adjustable rate mortgages – which is one of the key causes of the subprime mortgage crisis.

"These schemes should not be allowed as they encourage excessive speculative activity in the property market and cause artificial increases in house prices."

"Property values indicated that the price difference between houses with DIBS and without DIBS can be as high as 30%. Homebuyers generally were unaware of this fact due to lack of transparency and non-disclosure of material information."

Bank Negara realises that buying and owning a house is a long-term commitment and represents a significant financial obligation for an individual.

It points that rigorous financial planning and the availability of sound financial buffers against unexpected events are critical.

The central bank says it is aware that for a household earning RM5,000 a month, there is very little amount of money left for savings or emergencies (when paying for a home that costs RM300,000) after deducting the monthly instalment for a housing loan and monthly household expenditures.

"Measures to promote responsible lending and borrowing are intended to deter borrowers from incurring debts that could lead to financial hardship."

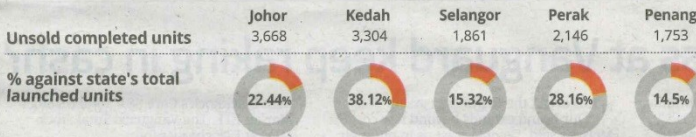
"It minimises the risk of borrowers having to carry an excessive debt burden and losing their homes to foreclosure if they are unable to service the debt," says Bank Negara.

Overhang units

Total completed unsold units as at March 31, 2017 **17,809**

Unsold completed units

% against state's total launched units



Rise of the unsold - 1Q16 vs 1Q17



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What is needed, he says, is proper coordination and research into the suitability of a location, especially when it comes to affordable housing.

"If there is no market, even 'cheap' properties will not have takers," Tan says.

In order to take the pressure off escalating prices, the government should give tax incentives and waiver of development charges/contributions, he says.

"Cost of development has risen substantially with our currency (falling in value) and the snowball effect of the goods services tax. Contributions to the statutory authorities have also risen substantially," Tan says.

City Valuers managing director P.B. Nehru says pricing and location are key determinants, particularly for the affordable segment.

A RM300,000 to RM400,000 launch in Rawang, Semenyih, Ijok, Sepang may have difficulty getting 100% sales. In all probability, it may have an unsold rate, or overhang, of between 20% and 30%.

"But this will not be the case if the same project, at the same price range, were to be launched in Kepong, Cheras, Klang, Batu Caves or Taman Melawati. In these locations, the project will be fully sold," he says.

"It is not just the price range (even if the price appears to lie within the acceptable 'affordable' range definition) but project's exact location.

"The term 'affordable' is relative and there is a need for greater consideration when it comes to location. So any data on overhang, on an overall country or state basis requires further studies into exact

ly where the projects are located," Nehru says.

"Why should someone pay RM300,000-RM400,000 for an 'affordable' home in Semenyih if the same is available in Cheras or Puchong at the same price?"

This principle of relativity in terms of location/price applies to different price range, irrespective of whether it is Selangor, Johor, Kedah or Perak.

As countries around the world consider the challenges of making housing affordable, the World Bank representative Abhas K. Jha leaves behind a key message:

"There is a crisis in social housing caused by avoidable mistakes being repeated again and again.

"Good policy requires well targeted public resources, a deep well functioning private sector and sound regulations."