

Executive Summary

DIALOGUE ON SUSTAINABLE DEVELOPMENT OF AFFORDABLE HOUSING

Cagamas Holdings Berhad (Cagamas Holdings) organised a Dialogue on Sustainable Development of Affordable Housing at Sasana Kijang, Bank Negara Malaysia on 4 July 2017. Aimed at creating a platform for the exchange of views, the session offered an opportunity for industry experts to deliberate on issues relating to affordable housing both locally and internationally.



From Left to Right:

Encik Nik Mohd Hasyudeen Yusoff, Chairman, Cagamas Holdings Berhad

Mr. Abhas K. JHA, Practice Manager, Urban and Disaster Risk Management (DRM), East Asia and Pacific, The World Bank

Datuk Abdul Rahim Ishak, Director-General, National Housing Department

Encik Shaik Abdul Rasheed Abdul Ghaffour, Deputy Governor, Bank Negara Malaysia

Dato' Siti Zauyah Binti Md. Desa, Deputy Secretary-General of Treasury (Policy), Ministry of Finance

Datuk Chung Chee Leong, Chief Executive Officer, Cagamas Berhad

Dato' Ahmad Fairuz Zainol Abidin , Deputy Chief Executive, Securities Commission Malaysia

Dato' Charon Mokhzani, Executive Director, Managing Director's Office, Khazanah Nasional Berhad

Mr. Chang Kim Loong, Honorary Secretary-General, National House Buyers Association (HBA)

Encik Shaik Abdul Rasheed bin Abdul Ghaffour, Deputy Governor of Bank Negara Malaysia presented the Keynote Address.

The Dialogue was moderated by the Chairman of Cagamas Holdings, Encik Nik Mohd Hasyudeen Yusoff and featured the following panellists:

- (1) The World Bank representative, Mr. Abhas K. JHA, Practice Manager, Urban and Disaster Risk Management (DRM), East Asia and Pacific;
- (2) Datuk Abdul Rahim bin Ishak, Director-General of the National Housing Department;
- (3) Dato' Charon Mokhzani, Executive Director, Khazanah Nasional Berhad / Managing Director, Khazanah Research Institute;
- (4) Mr. Chang Kim Loong, Honorary Secretary-General, National House Buyers Association of Malaysia.

The panellists presented various insights and valuable knowledge on subjects which included the global perspective in affordable housing provision, the Malaysian

Government's perspective and initiatives, case studies as well as the challenges faced by first time home buyers.

Over the course of the Dialogue, the key issues and challenges in affordable housing were identified as follows:

1. Mismatch in Demand and Supply for Affordable Housing

The demand and supply gap of affordable housing was caused by rapid socioeconomic changes, urbanisation and evolving population structures. The inadequate supply of affordable housing exists particularly in the low and lower middle income households segment. While the lower income group can receive help in the form of social housing, the middle income group, the median population which form the backbone of the country, are left to face the challenges of attaining home ownership on their own.

2. Escalating House Prices in Major Cities

The increase in house prices has attracted high end property development at the expense of affordable housing. This has resulted in the shortage of affordable housing, driving up prices of existing houses in the low and middle price segment. The housing affordability ratio was 4.4, indicating that houses in Malaysia as a whole, were 'seriously unaffordable'.

3. Lack of Integrated Planning and Implementation

There are multiple authorities both at Federal and State levels involved in developing affordable housing for different target groups. Improved coordination among these authorities is required to encourage the provision of affordable housing. In addition, the lack of an integrated database on housing supply and demand has hampered planning and implementation of affordable housing programmes.

Key Takeaways

Several ideas and recommendations were made during the Dialogue session. Among the key takeaways discussed included the following:

- (1) Sound, innovative and coordinated public policy is central to addressing the affordable housing challenge. This should reside with a central authority that

- leads, oversees and coordinates affordable housing initiatives for the nation that would promote greater strategic and operational cohesion at the national level. The central authority can also spearhead more effective communications and build stronger collaborations with key partners to advance the affordable housing agenda.
- (2) Innovative financing models to fund affordable housing projects should be further developed as current intervention measures largely focused on subsidising house buyers or the direct provision of housing. Financing for purchasers and builders can be made less risky and less expensive with better data (valid property appraisals, credit ratings, use of non-traditional credit-rating data) and proper controls; lenders can reduce underwriting costs and safely lower rates for borrowers. In addition, public-private partnerships through joint ventures can replace traditional methods of financing for the supply of public housing. Public funding could also be deployed more efficiently to crowd in private capital for affordable housing developments – for example, by providing cost-efficient funding to institutions that finance affordable housing projects.
 - (3) Business models that are based on sound commercial principles, good governance and appropriate risk management strategies. Schemes introduced could specify minimum technical standards, execution guarantees and other conditionalities for financing or payment. ‘Social impact bonds’ – which have gained interest in some countries such as the United Kingdom, United States, and Australia – are a useful example. These investment structures operate on a “pay-for-success” model, where the Government repays the costs of a programme plus a return, only if pre-defined social outcomes are achieved.
 - (4) A taskforce on Sustainable Development of Affordable Housing to be membered by The Ministry of Urban Wellbeing, Housing and Local Government (KPKT), City Councils (PBT), state investment agencies e.g. PKNS, financial institutions, housing market players and other key players such as Bank Negara Malaysia, Cagamas, Kumpulan Wang Simpanan Pekerja and Khazanah Nasional Berhad. The taskforce should work hand in hand in forming innovative solutions to address the issues at hand. For example, the task force could look into issues

such as the overhang housing units, compliance of housing developers, effectiveness of a One-Stop-Centre (OSC), eliminating roadblocks to house ownership and so forth.

- (5) Proven technologies and approaches as well as regulatory support can enable large-scale, low cost housing production. Industrial approaches (using components manufactured off-site i.e. Industrial Building System, IBS), standardisation, and improved purchasing and other processes can reduce cost and increase delivery of housing stock. Uniform building codes can spread these practices and the Government can use its purchasing power to build scale for industrial production, which can require high capital costs. The government may consider imposing rules and regulations that require developers who undertake housing projects to adopt minimum units built with IBS.
- (6) A central repository as a systematic way of monitoring and managing the demand and supply of affordable housing including granting access to those seeking to purchase or rent homes. This would promote greater strategic and operational cohesion at the national level. Regulatory processes that increase the cost of supplying affordable homes should be reviewed and streamlined.
- (7) Developing a Thriving Rental Market. The private rental sector can help reduce the supply-demand gap for affordable housing. To manage the demand for affordable housing, rental needs to be a viable option of choice, and not a last resort for households. Policy initiatives in other countries have focused on strengthening the legal and institutional frameworks underlying the rental market. Cities can aim to provide affordable rental options and transitional housing as part of the ladder or a kind of shared ownership schemes whereby households can either build equity gradually through rent payments (a rent-to-own model).
- (8) Rent-To-Own (RTO) be extended to the middle income group. 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) schemes should also be part of the housing policy program. It is proposed that RTO schemes be extended to include the medium income group for affordable housing. A RTO schemes 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 RTO scheme they are forced to continue renting.

- (9) Addressing the affordable housing gap does not necessarily mean investing in new buildings. Renewal is as important as new building. This includes revisiting abandoned housing projects. The existing housing stock and new units are complementary parts of the same solution. Existing housing, even in poor conditions, may serve residents better by placing them where they have social connections and access to employment. Cities need to provide housing where residents can flourish, whether by building new units or supporting refurbishment, repairs, and upgrading of existing stock.
- (10) To unlock land at appropriate locations for housing projects. In urban areas in Malaysia such as Kuala Lumpur, Penang and Johor, there are parcels of under-utilised or idle land including government-owned land that could support successful housing development. Land can be freed for development through idle-land regulations, land readjustment and pooling, and transit-oriented development. A tax framework can also be established in relation to vacant land or properties.
- (11) A city is an integrated housing market with a mixture of incomes. Cities need to think of housing as one market, in which decisions at the top trickle down through all income groups, and where market failures in any submarket have ramifications across the city. Designs of neighbourhoods and townships help to build communities that promote social connectivity, allowing for livability and long term sustainability.
- (12) Well-located, properly maintained affordable housing can be profitable. Housing built for lower income households runs a higher risk of dilapidation and value loss, but mostly due to weak asset management practices and poor choice of location. However, if housing is built where residents can connect to employment

and vital services, and if management realises scale efficiencies in operations and maintenance, properties can rise in value.

- (13) In order to reduce the cost of such properties without compromising on quality, it is proposed that incentives be given 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 Company.

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 and therefore such costs are passed on to the house buyers in form of higher selling prices. Since the Government has already privatized/corporatized all the above Utilities Company, 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. It is proposed that the Government offer tax incentives to developers to build affordable housing. The tax incentives can be in various forms i.e. in the form of tax exemption of up to 70% of profits derived from affordable properties, meaning 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.

Cagamas Berhad
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