Introduction

Housing is one of the most important human basic needs. It not only acts as a shelter, but also entails the social and economic well-being of the people. According to several studies, housing significantly contributes to physical and mental health, education, employment, economic growth, environment, and overall social life. In fact, in social democratic nations such as Sweden, housing is considered a natural human right. Hence, the right to adequate and affordable housing, regardless of wealth and social standing is inalienable to the pursuit of human well-being.

In Malaysia however, houses remain relatively unaffordable for many people based on accepted bands in their price to income ratios (PIR). According to a World Bank Report entitled “Making Ends Meet”, the PIR is effectively an index based on a multiple of the median wage and is the most commonly used global measurement to determine housing affordability. The ratio is determined by dividing the median house price by median household income.

Based on the PIR, housing affordability is divided into 4 categories. A PIR at 3.0 or lower suggests affordable housing. A PIR from 3.1 to 4.0 indicates “moderately unaffordable” housing. However, a PIR from 4.1 to 5.0 suggests “seriously unaffordable” housing and lastly, a PIR of 5.1 and above signals “severely unaffordable” housing (as illustrated below). The aim of the government should therefore aim for a healthy PIR level to achieve the optimum socially accepted level of housing.

<table>
<thead>
<tr>
<th>PIR</th>
<th>Affordability</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.0 and below</td>
<td>Affordable</td>
</tr>
<tr>
<td>3.1-4.0</td>
<td>Moderately unaffordable</td>
</tr>
<tr>
<td>4.1-5.0</td>
<td>Seriously unaffordable</td>
</tr>
<tr>
<td>5.1 and above</td>
<td>Severely unaffordable</td>
</tr>
</tbody>
</table>

Based on the graph above, housing in Malaysia has been seriously unaffordable since 2002 based on the PIR. Nevertheless, the ratio had improved slightly to 4.0 in 2012, being “moderately unaffordable”. However, the index increased dramatically to 5.1 in 2014 indicating that housing affordability had rapidly become deteriorated after 2012. In 2016, however the index stabilized at 5.0, classifying housing in Malaysia as “seriously unaffordable” again.

1 Issues and challenges in contemporary affordable public housing schemes in Malaysia: Developing an alternative model, International Journal of Housing Markets and Analysis, November 2019

2 Malaysia Economic Report, World Bank Group, December 2019
It is clear that housing affordability in the country had generally not improved significantly between 2002 and 2016. It should be noted that the median house price increased at a compound annual growth rate (CAGR) of 26.5% over the period, from RM175,000 to RM280,000. Meanwhile, median household incomes grew significantly slower at a CAGR of 11.7%, less than half the rate of the median housing price increase.

Taking a closer look at the housing affordability in each state, it can be discerned that all states have similar issues of housing unaffordability, but that each state faces this problem to varying degrees. In states such as Pulau Pinang, Kelantan, Negeri Sembilan and Sabah, housing has been categorized as “severely unaffordable”. Meanwhile, the states of Perlis, Melaka and Sarawak face a far lower degree of housing unaffordability where housing is “moderately unaffordable”.

The deteriorating nature of housing affordability in Malaysia comes at the detrimental to its people. As rising mortgage payments resulting from higher house prices will end up constituting a larger proportion of total household expenditure, it reduces the income earner’s capability to spend on other essential items such as food, education and health.

Income earners in the Middle 40 (M40) and Bottom 40 (B40) percent strata are particularly vulnerable to the rise in house prices amid reducing incomes resulting from the COVID-19 pandemic. True to Engel’s Law of household expenditure, low and middle-income households tend to spend more than half (65%-85%) of their budget on essential items such as food, making their household expenditures relatively specialized and food-intensive.

Hence, given increasing housing unaffordability amid reducing incomes, many in that strata face a stark and critical trade-off, ie. choosing to spend on either rent or food. It is therefore of utmost importance to understand the demand and supply, as well as other factors that have led to the decline of housing affordability in Malaysia.

**INSAP Views: Why is Housing So Unaffordable in Malaysia?**

*Increasing Demand from Urban Migration Amid Unresponsive Supply Responses*

According to the World Banking Group, Malaysia’s rural-to-urban migration is cited as one of the main reasons behind the rise in urban housing demand. The Department of Statistics Malaysia (DOSM) outlined that the percentage of individuals living in urban Malaysia had increased sharply by a factor of nearly 3, from 26.8% in 1970 to 71.0% in 2010, this is projected to continue reaching 88.0% in 2050.³

³ Evolution of Migration for Urban and Rural, DOSM, 2019
This phenomenon of increasing rural-to-urban migration is driven by several pull factors, since the start of Malaysia’s push toward industrialization and efforts by the New Economic Policies (NEP) to increase rural participation in more urbanized activities. In addition, the attraction towards a better quality of life through better-salaried jobs, amenities, infrastructure and educational opportunities compared to rural areas.

As a result, the rapid rate of rural-to-urban migration has likewise raised the demand for well-connected, adequate and affordable housing in urban Malaysia. As the demand for urban housing increase, prices soon rise to reflect the sharp movement in demand-side factors.

Despite the sharp increase in effective demand for affordable housing in urban Malaysia, the supply of affordable urban housing has failed to meet the effective demands of the market. This relative mismatch between affordable housing and its effective demand has caused a large divergence between what consumers can afford and what they can find. For example, in 2016, despite having an overall PIR at “seriously unaffordable” levels, only 18% of new launches that year were below RM200,000 while 35% of new launches were above RM500,000, indicating a severely limited level of housing supply for lower-income households.

Estimates from the World Bank indicate that 56% of households earning RM3,000-RM5,000 per month in Kuala Lumpur experience severe housing unaffordability, having no access to housing within their capacity to afford. Meanwhile, households with incomes between RM6,000 and RM10,000 have moderate levels of difficulty finding affordable housing, mostly attributed to households in the higher income bracket competing for the same houses costing between RM250,000 and RM500,000. While households earning over RM10,000 monthly have an oversupply of available housing within their income bracket. These estimates are further illustrated in the graph provided below.

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4 Migration Policy and the Challenges of Rural and Urban Population in Malaysia, Asan Hassan, July 2004
5 National Property Information Center (2016)
6 Making Ends Meet, World Bank Group, December 2019
There are myriad reasons on why the supply of affordable housing has not responded with the demands of the market.

Importantly, the openness of our real estate market for foreign buyers and the weakening of the Malaysian Ringgit has increased the attractiveness of Malaysian real estate assets over the past several decades.

International market openness prevents Malaysian real estate assets, particularly from the higher price bracket (above RM600,000) from reducing in the face of low domestic demand for such housing. In addition, existing owners of expensive real estate assets would resist the pressure to reduce their fair value market price as it comes at the cost of damaging the asset holder’s equity position.

In short, there are many key and important reasons behind Malaysia’s failure to match and manage the dynamics of real estate supply and demand, which will be elaborated on in the following sub sections.

**Relaxation in Mortgage Lending Policies, Tenure and the Ease of Financing**

Access to financing plays a crucial role in ensuring sustainable demand for housing, however in the Malaysian context, it has become the main channel for consumers to afford a house. The deterioration in housing affordability has been primarily addressed by the introduction of many schemes aimed at making it easier for consumers to borrow, or by providing subsidies to the cost of housing. Easier home financing and increased access to credit has resulted in increased leverage and indebtedness of many households with severe consequences on household consumption as fiscal budgeting for other spending purposes are reduced to accommodate mortgage loans.

After the Global Financial Crisis in 2008, Malaysia like many other economies relaxed its lending restrictions and implemented measures to stimulate growth in the asset market. Following these measures, equity markets rebounded sharply in 2010, property prices soared, buoyed by the inflow of foreign capital as well as a relaxation in domestic mortgage issuance.

House prices in Malaysia from 2010 to 2015 rose by a CAGR of 9.5%, outpacing gains in per capita economic output and household incomes. The rapid pace of inflation in real estate asset prices fuelled concerns that the real estate market was experiencing a speculation-driven bubble, lifting house prices above the affordability of everyday Malaysians looking to buy homes for themselves.

The acceleration in the approval of domestic housing loans and the influx of foreign capital has been heavily responsible for the sharp rise in housing prices. Despite broad macroprudential measures in 2014 to address unsustainable high-end development in the real estate market as a result of speculative activities, commercial credit indicators still suggest that access to home financing remains ample for eligible borrowers.

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2 Cover Story: Time to unwind, The Edge, April 2017
Malaysia’s structural federalism has impacted the provision of affordable housing in Malaysia in various ways. According to a report by Bank Negara Malaysia, there is poor coordination between different levels of government in the provision of affordable housing in Malaysia. This is due to the fact that there are too many affordable housing schemes in Malaysia which are managed by different government agencies, contributing to challenges in policy coordination. As a result, this has caused mass inefficiency in the provision of affordable housing in Malaysia, and has contributed to confusion among the public on available affordable housing schemes conducted at either state and federal levels.

Apart from this, based on research, poor coordination and communication between different levels of government in the implementation of affordable housing schemes constitutes one of the most important reasons for delays in approving the advertising permit and developers’ licence (APDL). The APDL needs to be approved firstly at the federal level then subsequently at the state level before reaching its developers. Poor state and federal coordination have significantly increased waiting times and made new development projects more difficult to approve. The APDL acts as a sales permit for housing development is vital to the developer and any delay in the approval process indirectly increases the development cost for its developers. Therefore, the slow response from the government must be addressed to ensure the efficient provision of affordable housing.

Another way the federal-state divide influences the provision of affordable housing is through housing grants provided by the federal to the state governments in providing affordable housing to low and middle-income households. Despite it being the responsibility of the federal government to allocate grants to the state level in the provision of low-income housing, it was found that the federal governments limit the amount of grants provided through the National Housing Department. Leading to federal-state frictions where state governments are unable to deliver affordable housing units.

In short, there is a lack of efficient coordination between the federal and state governments in addressing housing affordability in Malaysia. However, under the leadership of the incumbent Housing and Local Government Minister Zuraida Kamaruddin, the situation has improved slightly as she has made efforts to address such coordination issues such as the formation of a National Affordable Housing Council shortly after being appointed to the office.

One of the main challenges faced by developers in constructing affordable housing is the lower profit margin brought about by a combination of both the capped selling price and increasing building and construction costs. According to the managing director of Mah Sing Group Bhd, Leong Hoy Kum, the profit before tax margin for affordable housing is approximately 18%, which is comparatively lower than the margin for high-end or commercial housing estimated around 20% to 25%.

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8 Affordable Housing: Challenges and the Way Forward, Cheah Su Ling, Stefanie Joan Almeida and Ho Su Wei, 2017
10 The Low-Middle Income Housing Challenges in Malaysia, Ernawati Mustafa Kamal, Kong Seng Lai and Nor’Aini Yusof, 2020
12 The Role of Federalism in Malaysian Low-Cost Housing Provision: The Unexplored Dimension, Andrew Ebekozien, Abdul-Rashid Abdul-Aziz and Mastura Jaafar, 2019
In addition, the chief executive officer (CEO) of Rahim & Co International Sdn Bhd, Siva Shanker, also expressed that the margins for affordable housing units are so low that they are almost non-existent. This environment is however still manageable for big developers, but it places much more pressure on small- and medium-sized developers as they are not as financially stable as large real estate developers. Siva also asserted that developers sometimes would have to sell such affordable housing units at a loss, contributing to significant financial risk in participating in this category of housing.

Within the last decade, construction costs have been increasing. According to an academic research paper, the three main elements in construction costs are in materials, machinery and equipment. It was found that among the 3 main elements, materials experienced the highest price increase from 2009 to 2013. As illustrated in the table below, out of 5 materials examined, bricks recorded the highest price change, at a 51.9% increase during the four-year period.

<table>
<thead>
<tr>
<th>Building Materials</th>
<th>Rate (RM) 2009</th>
<th>Rate (RM) 2013</th>
<th>Difference (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bricks (Pallet)</td>
<td>0.27</td>
<td>0.41</td>
<td>51.9</td>
</tr>
<tr>
<td>BRC A10 Steel Reinforcement</td>
<td>16.36</td>
<td>16.64</td>
<td>1.71</td>
</tr>
<tr>
<td>River Sand (Normal)</td>
<td>25.00</td>
<td>37.00</td>
<td>48.0</td>
</tr>
<tr>
<td>Cement</td>
<td>14.25</td>
<td>16.95</td>
<td>18.9</td>
</tr>
<tr>
<td>Low tensile round iron R10, MS 146</td>
<td>2073.33</td>
<td>2500.00</td>
<td>20.6</td>
</tr>
</tbody>
</table>

The increase in the price of materials is further confirmed by Department of Statistics of Malaysia (DOSM) who stated that the price of building materials in Malaysia has increased for almost all building materials where the increase in bricks, cement and concrete had recorded the highest increase.

Another major input cost is the labour involved. According to researchers, labour costs amounts to an estimated 30% to 50% of overall construction project costs. This is because developers in Malaysia generally prefer conventional labour-intensive building methods due to its lower cost compared to new building methods such as Industrialised Building System (IBS) and pre-fabricated housing which require higher investment capital. Meanwhile, most workers in the construction industry are comprised of foreign nationals as local workers are uninterested in jobs considered underpaid and manually intensive. In turn, unskilled foreign workers tend to remit most their salaries back to their home countries, increasing Malaysia’s capital outflow.

Despite the industry-wide practice of hiring foreign workers, there are problems associated with their employment. According to research, the main challenge with hiring foreign labour are the high costs associated with their employment. This is due to minimum wage laws and a foreign labour levy in Malaysia. There has been an increase in the minimum wage by RM100 to RM1,200 for employees in 56 major towns and municipality councils across the nation. Meanwhile, the levy for each foreign worker in construction sector (RM1,250) is higher compared to other sectors such as plantation (RM590) and agricultural (RM410), contributing to higher construction costs and lower profit margins.

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15 https://www.thedegemarkeets.com/article/no-affordable-housing-no-approvals
17 Special Release 2 (For Building and Structural Works) Oktober 2020, DOSM
The high costs involved in hiring foreign workers highlight the need for the construction industry to move from a labour-intensive model to capital-intensive production process. This can improve the ratio of variable costs to fixed costs, leading to better economies of scale.\(^2\) Since fixed costs remain static as output increases, such costs can be spread over the increased total output produced. As a result, the average total cost will tend to fall as output increases, saving cost in the long term.

In this regard, Malaysia should embrace new building methods such as IBS and modular integrated construction (MiC). It was reported that in Malaysia, the application of IBS in private developed projects remains very low, amounting to only 14% of total private developed projects. This is 5 times lower than government projects using IBS (70%).\(^3\) In addition, it was reported that Malaysia is far behind its counterparts in Asia in prefabricated construction technology. Only two countries (Singapore and Hong Kong) in Asia have used MiC, which is a more recent prefabricated construction technology compared to BIS in construction, while projects in Malaysia still primarily focus on foreign labour in construction.

Therefore, the issue of high construction costs needs to be addressed to ensure that developers in Malaysia can continue to supply affordable housing to the low- and middle-income households at an acceptable cost margin, though this may require large initial capital investments in the short-term.

**High Regulatory Cost**

According to the Khazanah Research Institute, though there is an increase in construction costs from 2008, house prices have increased by a significantly higher magnitude during the same period, revealing significant gaps between house prices and overall construction costs. Hence, this disproportionate increase between the price and construction costs suggest that there might be significant hidden regulatory cost involved in development projects.

According to a Cagamas report, regulatory costs constitute a significant share of total development costs. These regulatory costs can be divided into two cost categories, namely compliance and contribution costs. It is estimated that the compliance and contribution costs can collectively amount to 8% to 20% of the gross development value of a property project.\(^4\) Meanwhile, the Housing and Local Government Minister Zuraida Kamaruddin revealed that compliance costs may actually amount to 20% to 25% of the overall development cost.\(^5\)

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22 https://www.economicshelp.org/blog/glossary/capital-intensive/
23 https://www.edgeprop.my/content/1737900/lowering-cost-new-building-methods
24 https://www.edgeprop.my/content/1454158/compliance-cost-and-what-it-means
In the above graph, estimated preliminary (compliance) costs in Malaysia constitute an average of 11% of total construction costs. It was revealed that compliance costs in Malaysia are considered relatively high for its level of economic development, reaching levels comparable to developed economies like Germany and Ireland. Malaysia is markedly higher than countries such as Singapore (8%) and China (7%). In addition, it is approaching the levels of compliance costs in the United States (13%) and Hong Kong (12%). This indicates that much of the cost pressure in the housing market is indeed caused by the high regulatory cost barriers present.

Profit-oriented developers are likely to pass on these compliance costs to the consumer, resulting in higher selling prices, forcing home buyers to apply for larger mortgage loans and interest payments. Further illustrated in the graph below, compliance costs can potentially contribute anywhere from RM9,000 (2.1%) to RM150,000 (35.1%) of a typical house unit selling price.

![Graph showing compliance costs in Malaysia](https://www.iproperty.com.my/news/how-rising-compliance-cost-is-impacting-housing-affordability-in-malaysia/)

**Figure 3: Impact of compliance costs on house prices.** (Source: REHDA Selangor)

In short, regulatory costs are indeed one of the biggest contributors to the high price of housing units in Malaysia. As developers pass on these costs to the final consumer. Hence, it is important for the government to reduce the unnecessary regulatory cost burden on such developers towards more sustainable levels for the benefit of the overall market.

**INSAP Views: Youth Home Ownership**

High prices and long-term loan commitments for real estate are driving people away from the idea of owning their own homes, especially among the nation’s youth. The problems caused by the rising cost of living coupled with stagnant salary growth are the main culprits for this situation. Thus, it’s not surprising to see that many in the younger generation are taking a wait and see approach to real estate ownership.

According to research, many young people in countries including China, Japan, Hong Kong, the United Kingdom and Malaysia face difficulties in owning a home, forcing them to continue living with their parents or rely on the rental market. A survey conducted within the research subject found that only 24.5% of young people below 35 in Greater Kuala Lumpur own their own house. Meanwhile, 47.4% of respondents rent and 28% are living with their families. In fact, the level of difficulty for young people below 35 to afford a house is found to be three times greater than for other age groups.

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27 Housing Affordability and Pathways among Malaysian Young Professionals in Greater Kuala Lumpur, Nor Suzylah Sohaimi, Alias Abdullah, Syafiee Shuid, 2017
One of the main issues surrounding housing affordability among youth is the persistently sluggish growth in incomes. As previously noted, from 2002 to 2016, the CAGR in the median housing price was estimated at 26.5%, significantly higher than the CAGR in median household incomes at 11.7%, indicating a high level of deterioration of housing affordability in Malaysia. However, housing affordability issues are generally more pervasive among younger generations than their older counterparts due to their drastically slower income growth.

According to the World Bank, it was disclosed that even though the incomes of all age groups grew faster than inflation, the income of younger workers in Malaysia grew at a drastically slower rate compared to others. For younger workers aged between 20 and 29, the CAGRs for median employment income for men and women were at 2.1% and 2.6% respectively for the period between 2004 to 2016. However, for older workers aged between 40 and 49, the CAGRs for men and women were 3.8% and 5.0% respectively. Hence, income growth for older workers grew at about twice that of younger workers, indicating an increasing wage inequality and stagnation for younger workers.

Further, according to BNM’s Economic Development 2018 report, starting real salaries (wages after adjusting for inflation over the decade) have actually declined for those with tertiary education compared to 2010, where a fresh graduate who earned a real salary of RM1,458 in 2010 now earns RM1,376 in 2018, while a masters holder who earned a real salary of RM2,923 in 2010 now earns RM2,707 in 2018.

The sluggish income growth of the youth can be observed in the following graphs. Based on the graph on the left below, in 2004, the median monthly employment income for male workers aged between 20 to 29, is about 70% of male workers aged between 40 and 49. In 2016 however, that percentage gap dropped drastically to 58%, expanding the monthly wage gap between younger and older male workers. However, on the graph to the right, it was found that monthly employment income for women aged 20 to 29 and 40 to 49 was indistinguishable between 2004 to 2012. After 2012 however, the gap widened dramatically. This may indicate a shift in labour demand toward more experienced workers amid a general slowdown in economic competitiveness, with GDP growth unable to keep up with the growth in fresh graduates entering the labour market. Comparing both charts show little distinction between the median wages for men or women aged 20-29.

The sluggishness of income growth among the youth may point to yet another important reason why many in the age group are unable to own any real estate assets. This has to do with the fact that many youths fail to adequately qualify for mortgage loans in the first instance.

28 The Economic Reality for Malaysia’s Youth, The Malaysian Reserve, Feb 2020
Compounding the problems of a low starting salary, the fact remains that many youths in Malaysia are overleveraged, with an estimated 40% of millennials admitting to spending more than they can afford according to the World Bank\(^9\). As mortgage loans are highly dependent on the applicant’s monthly income after all other commitments are settled, only a fraction of youths would ultimately qualify for a mortgage.

Notwithstanding this, due to the increasingly uncertain economic landscape caused by global events, financially savvy youths would prefer to wait until they are able to save a substantial portion of the income before undertaking any long-term loan commitments.

As seen above, the monthly repayment on a mortgage for an affordable property priced between RM150,000 to RM300,000 ranges from RM559 to RM1,117, assuming no changes to the lending rate. If we were to assume the reported nominal median wage for 20-29 years old with tertiary education of RM2,500 as estimated by the World Bank in Malaysia Economic Monitor Report 2019, and monthly living expenses as defined in the EPF expenditure guide for Malaysian Individuals and Families\(^30\), the results for different classes of individuals is shown below.

<table>
<thead>
<tr>
<th>House Price (RM)</th>
<th>150,000</th>
<th>200,000</th>
<th>250,000</th>
<th>300,000</th>
<th>350,000</th>
<th>400,000</th>
<th>450,000</th>
<th>500,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Down Payment (10%)</td>
<td>15,000</td>
<td>20,000</td>
<td>25,000</td>
<td>30,000</td>
<td>35,000</td>
<td>40,000</td>
<td>45,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Maximum Loan Tenure (Years)</td>
<td>35</td>
<td>35</td>
<td>35</td>
<td>35</td>
<td>35</td>
<td>35</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Assumed Mortgage Rate (BR + 1% Spread)</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Monthly Repayment</td>
<td>RM559</td>
<td>RM745</td>
<td>RM931</td>
<td>RM1,117</td>
<td>RM1,304</td>
<td>RM1,490</td>
<td>RM1,676</td>
<td>RM1,862</td>
</tr>
</tbody>
</table>

*BR refers to Base Rate, as of October 2020, the average BR among 16 financial institutions in Malaysia was 2.51% Source: imoney.com, Author’s Calculations*

As a result, banks are hesitant to offer mortgages due to the extraordinarily high risk involved.

In the above example, a fresh graduate would need to save continuously for 2.8 years to afford a down payment on a RM300,000 home (considered affordable in Kuala Lumpur and Selangor), while simultaneously cutting down on other expenses to be able to afford the monthly mortgage payment. Moreover, banks would rarely undertake the higher risk of default or late payment from young fresh graduates unless they have a substantial portion of the loan principle saved up, making home ownership for youths both unaffordable and financially unsustainable.

Another important factor which contributes to the home affordability issue among the youth is the lack of financial literacy. According to Sunway University Business School lecturer Dr Henry Cheah Chee Wei, due to a serious deficiency in financial literacy, many youths have defaulted on their National Higher Education Fund Corporation (PTPTN) loans, seriously damaging their credit scores.\(^31\) In 2019, the World Economic Forum reported that 51% of PTPTN borrowers had not made the required scheduled payments, in addition to their credit card debts, forcing many young graduates to declare bankruptcy.\(^32\) It is worrying that 60% of bankrupt debtors between 2013 and 2017 were aged 25-44. As a result, banks are hesitant to offer mortgages due to the extraordinarily high risk involved.

In short, a strategy to tackle both sluggish income growth and low financial literacy among the youth is imperative in solving the problems of housing affordability and enhancing the social and economic wellbeing of the nation’s youth.

\(^9\) Malaysia Economic Monitor, The World Bank, 2019
\(^30\) EPF Releases Belanjawanku, An Expenditure Guide for Malaysians, RinggitPlus, March 2019
\(^31\) https://www.edgeprop.my/content/1464542/low-financial-literacy-hindering-homeownership-malaysia
\(^32\) https://www.weforum.org/agenda/2019/06/asia-s-student-debt-time-bomb/
Housing Schemes in Force from 2015 to 2020

According to the Malaysia Economic Monitor Report published in December 2019, in total, there are about 18 public housing schemes in Malaysia. These schemes can be grouped into three categories, namely supply-side schemes, demand-side schemes and rental or rent-to-own schemes.

<table>
<thead>
<tr>
<th>No</th>
<th>Scheme</th>
<th>Barisan Nasional (BN)</th>
<th>Pakatan Harapan (PH)</th>
<th>Perikatan Nasional (PN)</th>
</tr>
</thead>
</table>
| 1  | Projek Perumahan Rakyat (PPR) | • Launched in 1998  
• To relocate squatters 
• To fulfil the housing needs of all age groups with low incomes | • Continued by PH | • Continued by PN |
| 2  | Perumahan Penjawat Awam Malaysia (PPAM) / Program Perumahan Awam 1 Malaysia (PPA1M) | • Launched in 2013  
• To assist low- and middle-income civil servants to own houses in strategic locations at an affordable price | • Continued by PH | • Continued by PN |
| 3  | MyHome | • Launched in 2014  
• To motivate private sector to build more affordable houses 
• Assisting all households with incomes between RM3,000 and RM6,000 to buy small houses worth up to RM300,000 | • Continued by PH | • Continued by PN |
| 4  | Perumahan Rakyat 1Malaysia (PR1MA) | • Launched in 2011  
• To develop affordable housing for the low- and middle-income group in the key urban areas  
• 32 development projects were terminated in 2020 following a rationalization exercise | • Continued by PH | • Continued by PN |
| 5  | Rumah Selangorku | • Launched in 2014  
• To assist low and middle-income group in buying affordable houses in key urban centres in Selangor | • Continued by PH | • Continued by PN |
| 6  | Residensi Wilayah formerly known as Rumah Mampu Milik Persekutuan (RUMAWIP) | • Launched in 2013  
• To help low and middle-income groups own affordable housing in the Federal Territories of Malaysia | • Continued by PH | • Continued by PN |
| 7  | Rumah Mesra Rakyat | • Launched in 2008  
• To help all individuals in lower income groups with access to land, in building and owning more comfortable, affordable homes | • Continued by PH | • Continued by PN |
<table>
<thead>
<tr>
<th>No</th>
<th>Scheme</th>
<th>Barisan Nasional (BN)</th>
<th>Pakatan Harapan (PH)</th>
<th>Perikatan Nasional (PN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>BNM Fund for Affordable Homes</td>
<td>• Launched in 2019</td>
<td>• To help the low-income group to purchase affordable homes by providing financing</td>
<td>• Continued by PN</td>
</tr>
</tbody>
</table>
| 2  | Skim Pinjaman Perumahan                     | • Launched in 1976  
• To fulfil the financing needs of low-income group to own their first house  
• Designed for all low-income Malaysians outside of the public sector with a maximum loan limit of RM60,000 with a 2% service charge on the loan. | • Continued by PH                                                                                                                                                                                                     | • Continued by PN                                                                                                                                                                                                     |
| 3  | My First Home Scheme                        | • Launched in 2011  
• To allow low- and middle-income home buyers to get home financing up to 110%  
• Specifically targeted for low-income youths and individuals who are unable to meet the 10% down payment.  
|                                          |                                                                                                                                                           | • Continued by PH                                                                                                                                                                                                     | • Continued by PN                                                                                                                                                                                                     |
| 4  | Youth Housing Scheme                        | • Launched in 2015  
• To provide low- and middle-income youth aged between 21 to 45 years old with home financing  
• Partnership with BSN that covers first time homeowners up to RM500,000 and provides RM200 monthly for the first two years.  
|                                          |                                                                                                                                                           | • Continued by PH                                                                                                                                                                                                     | • Continued by PN                                                                                                                                                                                                     |
| 5  | MyDeposit                                   | • Launched in 2016  
• To help the low- and middle-income groups to buy their first home by covering their down payment  
• The Scheme is targeted primarily for the youth and low-income earners who are unable to afford the 10% mortgage down payment.  
|                                          |                                                                                                                                                           | • Continued by PH                                                                                                                                                                                                     | • Continued by PN                                                                                                                                                                                                     |
| 6  | Home Ownership Campaign (HOC)               | • Launched in 2019 (from 1 January 2019 to 31 December 2019)  
• To encourage Malaysia citizens to buy houses by providing financial incentives such as stamp duty exemption  
|                                          |                                                                                                                                                           | • Extended by PN (from 1 June 2020 to 31 May 2021) under PENJANA                                                                                                                                                          |
### Rental or Rent-to-Own Schemes (Targeted Mainly for the Youth)

<table>
<thead>
<tr>
<th>No</th>
<th>Scheme</th>
<th>Barisan Nasional (BN)</th>
<th>Pakatan Harapan (PH)</th>
<th>Perikatan Nasional (PN)</th>
</tr>
</thead>
</table>
| 1  | PPR Disewa | • Launched in 2002  
    • Offering subsidized rental in low cost housing units to people in all low-income groups and squatters at an affordable rate (as low as RM124) | • Continued by PH | • Continued by PN |
| 2  | Rent-to-own PPR | • Launched in 2017  
    • To help low-income groups who fail to obtain financing to own PPR unit by first renting it from the government, without having to pay down payments or high instalments | • Continued by PH | • Continued by PN |
| 3  | Program Rumah Transit | • Launched in 2014  
    • To offer public housing for rental to low-income newly married couple living in big cities | • Continued by PH | • Continued by PN |
| 4  | Skim Smart-Sewa Selangor | • Launched in 2016  
    • To help the people in middle-income group to rent houses for 2 to 5 years  
    • Within 5 years, if the tenant has the ability to buy house, as much as 30% of total rental fee paid will be returned to the tenant as deposit to buy new house. | • Continued by PH | • Continued by PN |
| 5  | Rent-to-own PR1MA | • Launched in 2015  
    • To allow successful balloted applicants of PR1MA homes whose loan applications were rejected to buy the property after renting the property for 10 years | • Continued by PH | • Continued by PN |

### Unsolved Issues with Malaysia's Housing Schemes

**Financial Unsustainability and Weaknesses of PR1MA**

The government’s affordable housing scheme which was designed to create a cluster of affordable homes had ultimately failed to create the supply of affordable housing needed in the market. While created with noble intentions, there were many failures in the planning and procurement process that contributed to its unsuitability in providing the affordable housing needed for the B40 and M40.

The failure of PR1MA homes were due to a confluence of factors, firstly, lands purchased for development at the cost of the Government were unsuitable, disconnected and far away from commercial areas within cities. In addition, the land acquisition costs were largely exorbitant relative to the intrinsic value of the land.
Compounding this, it was often the case that due to the shortage of developable land within the cities and to absorb the cost of land acquisition and construction, homes were built on cheap low-demand property sites while still being mandated to sell such homes in the affordable range between RM100,000 to RM400,000 – a range which tended toward the high-end. Such a business model would undoubtedly come at the cost of the PR1MA, resulting in unassailable losses and unviable for any profitability in the long-term.

In addition, the construction quality of many PR1MA homes were suspect, water leakages during rainy seasons were a common occurrence and the technology used in its construction were inefficient. The government’s policy was also unclear, with many homes being built without proper market and feasibility studies, built in isolated sites where there were very few interested buyers when completed. The failure of PR1MA was inherently flawed since its founding, as the scheme was primarily designed to satisfy political purposes, rather than being market-oriented.

PR1MA’s latest available 2018 Annual Report showed that the company was in a RM74.3mil net liability position. Financial Statement Disclosures on its debts had revealed a roughly RM5bil in debt, broken down into RM2.5bil in long-term and another RM2.54bil in current debt. It is not known how they will be able to pay the debt, as their end-2018 cash reserves only stood at RM682mil. A closer analysis into their cashflow statement revealed that Operating Cashflow recorded a massive deficit of RM1.53bil in 2018, an improvement from 2017 which showed a larger Operating loss of RM2.24bil. While cashflow from investing and financing activities were RM6.7mil and RM1.79bil respectively, primarily from new bank loans issued to the company.

Ultimately, the commercial failure of PR1MA had failed to efficiently deliver its stated promise of 1 million homes by 2020. The company has only completed 16,682 home units or 1.6% of the targeted figure, many of which remain overhung in the market with no sustained interest from buyers, costing the government billions in public funds. PR1MA has been an unmitigated disaster despite more than RM8bil injected into the state-owned housing scheme.

The Deteriorating Quality of PPR Flats

Despite the PPR program being helpful in allowing low-income households to own houses, it suffers from a deficiency of quality, overcrowding and squalid conditions becoming a haven for crime and vice. According to a customer satisfaction survey, it was found that most residents in PPR flats were dissatisfied with the quality of housing and facilities provided.33 Further examination from a University Malaya research paper34 reveals the extent of the lack of quality standards in designing and maintaining PPR flats, illustrated below.

33 https://www.malaysiakini.com/news/534390
34 Public Low-Cost Housing In Malaysia: Case Studies On PPR Flats In Kuala Lumpur, Goh, University Malaya
As seen in the graph above, the respondents were queried on 14 factors indicating the quality of PPR flats. Among these factors, residents overwhelmingly indicated that the safety of PPR flats were severely lacking, showing the greatest gap between its degree of importance and satisfaction. This indicates that the government has made insufficient effort in tackling crime and community policing for the safety of PPR residents. In addition, a lack of adequate amenities come in second after safety, with elevators and construction materials frequently cited as being of poor quality. Incidents of injury due to elevator failures are commonplace, the most recent of which occurred in PPR Kerinchi where 8 residents were badly injured after an elevator collapsed from the 5th floor on 2 August 2020.35

Another chief complaint on the quality of PPR flats is the sanitation and sewerage system. Residents likewise reported dissatisfaction with the overall sanitation of their PPR flats, where open sewers and waste runoffs are rampant. Such problems were reported in PPR Taman Siliau Jaya. In this PPR, the sewer drainage system had been neglected for three years, from 2017 to 2020. Sewer drains were heavily clogged, where foul odours and diseased flies emanated from the filth, affecting the health of local PPR residents.36

The Lack of Building Quality in PPAM Houses

Despite studies asserting that the participants in the PPAM Program were satisfied with the provisions of the program and view it as an award for their contribution to Malaysia, more recent evidence suggest that this may not be the case. This is in part due to several studies indicating that PPAM participants frequently complain about the quality and efficiency of the program.

According to an article published in Astro Awani, a survey was conducted involving 535 residents living in PPAM Pudina, Larai dan Palma to understand participant’s satisfaction with PPAM.37 It was found that the majority of respondents were dissatisfied with the quality of housing in the program. In addition, 75.33% of respondents were dissatisfied with the allotment of parking space and the ineffectiveness of the drainage system. The ineffective drainage system caused parking lots to easily flood, forcing residents to park further away during rainy seasons.39

Notably, 17.62% of respondents were dissatisfied with the elevators provided. Within just two months, December 2018 and January 2019, there were 77 complaints received on elevator malfunctioning in the PPAM. According to researchers, most elevators did not follow the specifications on the building design.40 In addition, they were also poorly maintained, creating infrastructure safety concerns for residents.

The Affordability Policy Gap in Residensi Wilayah

According to the World Bank Group, the Residensi Wilayah program is a notable scheme in helping low and middle-income households purchase new homes. It was however noted that married couples with a combined income below RM15,000 were just as eligible to purchase housing units meant for low and middle-income families under the scheme.

As a result, it allows high-income households to take advantage by purchasing low cost housing units priced at RM300,000, instead of higher-priced homes that can be easily afforded by such households. This is due to the fact

37 Development of Housing for Civil Servants: A Review of the Implementation of PPAM Program, Ahmad Nashriq bin Abdul Mutalib and Wan Nor Azriyati Wan Abd Aziz, 2019
that such affordable housing has considerable value-for-money and favourable attributes with regard to their location and the lower-than-market price per square footage.

Hence, as higher-income groups are allowed to participate in affordable housing under this scheme, they crowd out low and medium-income groups whom such affordable housing schemes were meant to help. In practice, under this scheme, developers will often tend to sell such houses to higher-income households due to their greater creditworthiness, capacity-to-pay and easier access to home financing from financial institutions.

This has created an unwanted situation where many higher-income households are able to enjoy the value-for-money benefits under this scheme while less low-income households are less able to access this scheme. This is particularly hurtful for low-income earners in the B40 where much of their expenditure is focused on food and necessity items. Hence, it is essential for government authorities to provide a comprehensive review and consider making adjustments to the eligibility criteria for such schemes to better address the housing needs of low and middle-income households.

The Unforeseen Consequences of Rumah Selangorku

The objective of the Rumah Selangorku (RSKU) housing scheme is to promote the construction of affordable housing units priced below RM250,000 in urban Selangor by requiring developers to incorporate 20% to 50% of affordable housing units in new residential developments, while the remaining units can be priced at market levels. This housing scheme according to research from the World Bank Group\(^1\), has however inadvertently encouraged developers to increase the supply of high-end housing units worth over RM1mil compared to more affordably-priced units in the market.

From the graph illustrated, it can be observed that from 2014 (the start of the RSKU scheme) to 2017, a smaller amount of affordably-priced housing units below RM500,000 were built compared to highly-priced units above RM500,000.

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\(^{1}\) Making Ends Meet, World Bank, December 2019
Research indicates that this follows an economically logical profit motive from developers, as under this scheme, developers offset the building of low value affordable housing by prioritizing the construction of higher-priced housing units due to their higher expected margin in the asset turnover ratio. After which, they will utilize such proceeds from the sale of high-end units to then build affordable housing units that yield lower margins and returns. As a result, instead of promoting more affordable housing, the policy has inadvertently contributed to an increase in unaffordable high-end housing units in the Selangor housing market.

Another key weakness of RSKU is that the scheme has been exploited by rent-seeking applicants to turn a profit. Despite a long-standing scheme agreement in that they are explicitly forbidden from renting out such units for 5 years, many of them have done so regardless. According to a research paper, it was found that at least 10% to 20% of successful applicants have rented out their housing units to third parties. This is especially worrying in places like Kajang and Klang where it was found that as many as 30% of affordable housing owners were renting out their units without proper approval. Hence, this affordable housing scheme has instead effectively become an investment scheme for middle-income households. Therefore, to better achieve its desired objectives, additional measures need to be applied.

The Way Forward and Recommendations

In improving the situation of real estate supply towards the effective demands of the market, a rationalization exercise and reorientation of Malaysia’s existing programs need to be performed. In this regard, INSAP recommends five key aims that the government needs to consider. Namely, 1) Enhancing housing affordability and access through the private market, 2) Ensuring the quality of affordable housing, 3) Ensuring the quality of affordable housing neighbourhoods and 4) Improving transportation and infrastructure coordination for affordable units, with an addendum on key aim 5) Enhancing the affordability of home ownership among the nation’s youth.

Key Aim 1: Enhancing Housing Affordability and Access through the Private Market

Recommendation 1: Relax Restrictive Anti-Market Policies on Low Cost Housing for RSKU Developers

Since RSKU is a scheme designed to support low and middle-income earners, several restrictions surrounding its commercial usage exist. One such restriction is the explicit prohibition of sale or rental within the first 5 years of purchase, despite this, it was found that many such owners engage in commercial activities anyway.

Further, in the event that the homeowner sells their RSKU unit before the end of the moratorium period, consent from the Housing Ministry is needed and can only be sold to qualified first-home buyers (B40 or M40). In addition, if the unit is a leasehold property, approval is needed even if the moratorium period is finished. Such measures only aim to restrict the value of RSKU houses in the secondary market and restricts its commercial value as a free-market product.

Notably, if the RSKU unit is under the category of low-cost housing, specific approval is needed before it can be sold to a third party, because in Selangor, there is a policy that once a unit is considered low-cost, it shall always remain so. This policy aims to keep low-cost housing from falling into the hands of wealthier income groups, however, in practice, it severely restricts its attraction for investors as the value appreciation is limited. As a result, low-income enclaves form, contributing to low-income ghettoization within the urban sprawl, lowering property values and hampering commercial attraction (shops and private amenities) within its surrounding vicinity.

In addition, the main challenge faced by developers in RSKU projects is the difficulty in finding eligible buyers. The current RSKU approval process is long and tedious, with eligibility waiting times taking up to three months or longer from the date of application; and once approval is given, applicants must then wait for another three months for...
the bank to approve their loan request, of which many applications were rejected (32%). This results in a severe shrinkage of eligible buyers. At the end of the process, an estimated 20% of the original buyers are left, meanwhile, developers are unable to find adequate “qualified buyers” during its development phase, resulting in cashflow shortages during the initial development stage.43

Our recommendation is that the RSKU should relax its anti-market policies with regard to the commercial usage of such low-cost units. The 5-year rental moratorium should be immediately relaxed to attract more private market interest, however rental preference should be given to low and medium-income locals from Selangor. In addition, the 5-year moratorium on selling low cost units should be lifted with the housing authority maintaining its final say on approving the selling price between two willing market participants in line with low-cost price standards.

In addition, the Housing Authority of Selangor (LPHS), the state body in charge of issuing eligibility approvals must be held more accountable especially when eligibility applications can take up to three months or more to process. In this regard, the LPHS should streamline its eligibility requirements and design a working framework with Malaysian banks to streamline both the loan and eligibility approval process concurrently, ensuring that developers have the flexibility to continue finding eligible buyers.

Recommendation 2: Increase Private Sector Incentives in Low-cost Housing Participation

Private market property developers lament the lack of market incentives in entering the affordable housing market. In particular, since the cost of construction materials and wage inflation (particularly from higher minimum wage laws) have increased dramatically over the past few years, profit margins have thus remained slim for developers in the affordable housing market, forcing housing suppliers toward high-end real estate assets targeted toward foreign investors.

The result is that it becomes increasingly difficult for private market players to remain financially sustainable after factoring in all their capital investments and market risks involved. Therefore, due to such free-market inefficiencies in real estate, there is a need for the government to intervene and reorient market incentives.

Firstly, the government should conduct a comprehensive review on the regulatory fees imposed on specialized suppliers of affordable housing. Currently, there are many different types of regulatory fees imposed on real estate developers at the local, state and federal level, contributing to higher building costs and consequently lower margins.

According to Leong Hoy Kum, Mah Sing Group’s founder and managing director, (a company that has shifted from high-end real estate to the affordable range as a result of shifting domestic market demand), noted several problems with developing affordable real estate. The profit before tax margin of affordable housing is estimated at 18% while high-end real estate is within the range of 20-25%. In addition, the rate of mortgage approval for affordable housing is markedly lower, as banks are less willing to provide mortgages to low-income families, apart from the lower Overnight Policy Rate (OPR) set by BNM, there are relatively few mortgage easing measures from financial institutions.44

As such, the government needs to provide an accommodating and diplomatic solution to incentivize developers to build more affordable homes which focus on continuous improvement of market inefficiency and sustainability.

In this regard, the government can consider an approved grant scheme for the private real estate market to partially subsidize the cost of building materials in constructing affordable housing in strategically identified locations within cities, built around key transportation infrastructure nodes, such as train stations and main bus terminals. Such a scheme provides two benefits, it firstly improves the profit margin of affordable housing

44 More developer incentives needed so building affordable homes is fairly profitable, FMT, July 2020
developers and secondly may reduce the final selling price of affordable housing as building costs reduce within a competitive market.

Another suggestion would be to extend the approved loan tenure from 35 years to 40 years, limited only for first-time homebuyers and the youths below 30. Such a scheme would improve the attractiveness of first-time home ownership for young working adults as monthly mortgage repayments are substantially reduced.

Recommendation 3: Improving Gaps in the Existing House Financing Schemes to Provide an Inclusive and Sustainable Long-Term Affordable Housing to Low and Middle-Income Earners.

There has been a substantial number of housing schemes rolled out by the government over the years. These schemes have been rolled out under different ministries and can come under either the state or federal level jurisdiction. A cursory look into these programs reveal that there is no centralized platform for these schemes, leaving many people unaware of the various government schemes already in place.

Indeed, according to the secretary general of the National House Buyers Association (HBA) Chang Kim Loong, there is no need to introduce a new scheme to aid homebuyers as there are too many underutilized existing schemes by the government. He posited that the main reason why new schemes are constantly being introduced is because previous schemes were not well thought out before being rolled out45.

In this regard, we recommend the promotion of a one-stop website that comprehensively integrates all housing schemes for each state at every level of government, spelling out clearly all the criteria for such schemes, rules and requirements and the contact and application details for such schemes.

Recommendation 4: Severely Reduce/ Exempt Low-Income Housing from Stamp Duties

In designing policies to allow low and middle-income earners access to affordable housing, it would have made more economic sense for policy makers to either exempt or severely reduce stamp duties and fees on the transfer of ownership for houses in the price range from RM100-RM250,000. However, the charges on the sale and purchase of affordable housing such as participants in the RSKU are treated no differently than other free-market properties despite being subject to additional restrictions, such treatment constitutes a massive policy oversight.

It is noteworthy that the current regime imposes a 1% stamp duty on the first RM100,000 and 2% on RM100,001 to RM500,000, therefore for a RM250,000 low-income house, the buyer pays an additional RM4,000 in stamp duty on top of the initial purchase price – a hidden charge on the original purchase price.

In addition, due to the selling price of many low-income houses being below RM300,000, purchasers are unable to enjoy special property deals and exemptions offered under the Home Ownership Program 2019 (HOC), including stamp duty exemptions for homes costing RM300,000 to RM1mil. This makes a free-market property much more attractive to buyers than buying an affordable housing unit. Importantly, lifestyle concepts and the higher quality of living offered by free-market properties are generally better than those offered under government public housing programs.

Moreover, free-market houses often develop near strategic locations, with good connectivity to the city and are well-integrated to existing public transportation networks. These factors not only increase the capital appreciation of properties but also enhances cost-savings in the long-run after taking into account future transportation costs.

Therefore, our recommendation is for policymakers to either reduce or exempt completely stamp duties on low-income residential properties below RM250,000. This is due to the fact that low-income residential

45 Too many schemes confuse house buyers, says HBA, Property 360 Online, 2016
properties need demonstrate a competitive price point in the absence of non-monetary and intangible benefits provided by private free-market housing agents as opposed to public affordable housing programs.

**Key Aim 2: Ensuring Quality Affordable Housing**

**Recommendation: Defining Housing Quality in the Provision of Government Housing Programs by Developing a “Good Quality Housing Standards Board” to Elevate the Overall Quality of Housing**

While there are references to the provision of “good” quality housing for the population, there is currently no standard technical definition for the term and what it means for residential communities. Existing regulations on the minimum standards for housing only regulate the construction of newly launched housing developments and does not attempt to regulate the quality of existing residential housing stock.

To combat these gaps in definition and elevate the overall quality of housing in the country, the government must define what “good”, “adequate” and “suitable” levels of quality mean in the context of Malaysian society, taking into account the societal and cultural norms of the people. This entails developing a “Good Quality Housing Standards Board”, which is a body that sets out a clear definition of quality housing and can be used as a benchmark for the minimum levels of housing quality for the entire country, for both private and public housing projects.

Forming such a standards board is important as different communities require different quality standards and approaches, for example, the quality needs of inner city PPR flats are different compared to landed and gated housing communities as well as apartments in affluent areas. The board should then develop an appropriate guideline and regulatory framework to define, support and advance the targets and objectives of its implementation. **Guidelines for the rejuvenation of old buildings and its maintenance** must also be accordingly subscribed to the standards board and its guidelines.

**Key Aim 3: Ensuring Quality and Cohesive Neighbourhoods**

**Recommendation 1: Providing and Maintaining Decent Amenities and Services in Residential Neighbourhoods**

Achieving a good quality housing area must be assessed within the context of its wider neighbourhood. In this regard, effort should be made to define quality housing standards such as the inclusion of small parks and recreational common spaces, community centres and small libraries. These amenities have a profound impact on raising the quality of life and improving the general liveability of the neighbourhood.

Additionally, the maintenance of these amenities must be defined and performed regularly, however in regard to the costs, instead of the government footing the entire bill, **these costs can be partially allocated to the residents of such neighbourhoods in the form of a monthly neighbourhood maintenance fee.**

As local communities are the direct beneficiaries of surrounding amenities, the government needs to empower a sense of belonging and comradery among them. This scheme thus provides a sense of economic ownership among the local residents over the role of neighbourhood upkeep and incentivizes its maintenance as everyone in the community is financially involved with its upkeep.

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**Recommendation 2: Encourage the Usage of Neighbourhood-Oriented Valuation Methods Among Professional Valuers**

The government should attempt to alter market incentives through tweaking the government-recommended housing valuation methodology, towards a neighbourhood-centric approach. This will incentivize developers to consider projects more holistically within the context of its neighbourhood instead of purely basing the value of the house through its physical features and hypothetical market value that has the potential to be inflated.

Currently, among professional housing valuers, the standard practice is to base the valuation price of a house through the sales comparison method, which looks at the most recent transaction price with similar housing features within an area. This method is largely based on historical pricing and does not consider the overall quality of the neighbourhood and its lifestyle features. In an effort to normalize the neighbourhood quality approach, housing valuation methods can be improved to favour quality neighbourhoods instead of the physical traits of the property alone.

Instead, the government should encourage the practice of a neighbourhood-based valuation methodology, which incorporates the quality of available amenities and services, as well the physical condition of surrounding buildings within its methodology, giving quality scores of the surrounding neighbourhood and public transport accessibility in valuation reports. This gives us an **objective value** of the housing unit and its surroundings.

**Key Aim 4: Improving Transportation and Infrastructure Coordination for Better Quality Living Conditions**

**Recommendation 1: Streamlining the Housing and Zoning Processes into Regional and Local Infrastructure Plans to Enhance the Quality of Living Conditions**

According to an academic research paper, most low-cost housing units under the government’s affordable housing schemes are developed in unwelcome and unsuitable locations in rural or poorly connected suburban areas. For example, according to an article in The Star, most PR1MA housing units are built in poorly connected areas far away from cities due to the high cost of land acquisition in cities. As such, these areas are not well-equipped with adequate social infrastructure and basic facilities such as public transport.

The lack of public transportation forces individuals living in such areas to rely on private vehicle transport, leading to a higher share of monthly expenses on transportation. According to the same news article, a typical working adult in Kuala Lumpur may choose to buy an affordable house in the outskirts of the city centre such as Serapang, Batang and Berjuntai, but the high cost of transportation due to poor infrastructure connectivity will reduce his overall monthly disposable income and savings significantly. Therefore, housing affordability should not only be evaluated within the context of the house but also the transportation cost to and from their workplace.

In addition, the percentage of transportation costs in household expenditure profiles in many cities across Malaysia are significantly higher than cities in more urbanized and developed cities such as Tokyo and Hong Kong by at least 59.0% (shown below). This is mostly attributed to the high level of private vehicle ownership and vehicle use. The World Bank stated that the dependence on private vehicles in Malaysia stem chiefly from the poor connectivity of housing locations due to high land and housing costs in key urban centres.

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47 The Low-Middle Income Housing Challenges in Malaysia, Ernawati Mustafa Kamal, Kong Seng Lai and Nor’Aini Yusof, 2020
In this regard, both affordable housing and well-developed infrastructure must be interrelated to enhance the overall quality of living for residents. The government should aim to streamline both the housing and zoning processes into regional and local infrastructure plans through a joint effort by the Ministry of Transportation and the Ministry of Housing and Local Government.

We suggest that the government should ensure that transportation infrastructure and public facilities particularly in rural and suburban areas are adequately developed before any affordable housing schemes are approved in these areas. It is also important to note that there should be inter-state coordination in infrastructure and housing development to allow people living further away from economic centres to access economic and social opportunities only open within cities.

**Recommendation 2: Strengthen the Capacity for Local Councils and State Authorities to Grant Build Approvals to Property Developers That Meet Infrastructure Connectivity Criteria**

Due to the poor coordination between different levels of government in Malaysia, state and local governments do not have the necessary resources to translate national plans developed by the federal government at the state and local levels. Hence, even as the federal government attempts to integrate local-level housing plans with overall infrastructure planning, especially in transportation, such plans are difficult to be effectively implemented.

To enhance the development approval processes at all local levels in Malaysia, the federal government initiated the One Stop Centre (OSC) framework in April 2007. As a result, all local governments are required to create an OSC department to manage development proposals.

Under this framework, local governments are responsible for making decisions in the approval processes. This minimizes issues of work duplication, the overlapping of technical reviews, quickening the approval process. However, Malaysia is still far behind countries such as New Zealand and Singapore in terms of planning and system delivery. These weaknesses include delays in the application processes caused by a deficiency in manpower and expertise at the OSC department.

According to an OSC survey, it was found that only 44.7% of respondents believed that the number of workers in OSC department of Subang Jaya Municipal Council were sufficient and 57.5% of respondents thought that additional workers will be required in the near future. Aside from this, over half of the participants believed that

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49 One Stop Centre (OSC): Lessons on Best Practices in Planning System Delivery, Marlyana Azyyati Marzukhi, Dasimah Omar, Ahmad Fuzi Arshad, Oliver Ling Hoon Leh, Mohammad Yusup and Azfarnizam Jaafar, 2019

50 Enhancing One Stop Centre in the Malaysian Planning System, Marlyana Azyyati Marzukhi, Dasimah Omar, Oliver Ling Hoon Leh, Na’asah Nasrudin and Azfarnizam Jaafar, 2019
workers in the OSC department are skilled (63.83%) and knowledgeable (65.96%) in performing their jobs, suggesting that the lack of manpower is considered more serious than the lack of expertise.

This shows the need for the federal government to allocate more resources to assist local governments in developing an adequate degree of human capital in the OSC so that the implementation and integration of national plans at the state and local levels can be effectively implemented. In this regard, more training should be provided to existing officers in the department while more skilful and knowledgeable officers should be identified and be given more responsibility.

Finally, it is markedly important for local authorities to give priority to applicants and property developers in the affordable housing market who have historically met infrastructure connectivity criteria over other applicants in the approval processes. This reduces the incidence of poor infrastructure planning associated with affordable housing units as described in the previous section. Consequently, housing plans will be better integrated with infrastructure planning, enhancing the quality of life for Malaysian citizens.

Enhancing the Affordability of Homeownership Among the Nation’s Youth

Recommendation 1: Promotion of More Rent-to-Own Schemes Across Malaysia

Due to various reasons, not least of which include low median salaries and high indebtedness, many young workers are unable to save enough for a 10% down payment on a home mortgage. The situation is dire especially for new entrants to the labour market as median salaries become increasingly pinched, a symptom of the oversupply of fresh graduates relative to labour market demands. This is evidenced by higher-than-average rates of youth unemployment nationally.\(^{51}\) According to DOSM, the unemployment rate among youths aged 15 to 24 was 13.7% in August 2020 while the unemployment rate among youths aged 15 to 30 was 8.9%.\(^ {52}\) These rates are significantly higher than the overall unemployment rate which stood at 4.7% in August 2020.

Despite the problems faced by youths in saving up for a down payment, research has shown that the government has not provided sufficient support for the youth. According to research, the government has not offered adequate down payment assistance to the first-time home buyers despite existing rent-to-own schemes, making it difficult for many youths to obtain financing.\(^ {53}\) As a result, many young people (47.4%) resorted to renting their homes.\(^ {54}\) The lack of homeownership can lead to homelessness when such individuals retire and pensions dry up.

A possible solution is to increase the awareness and effectiveness of rent-to-own schemes across Malaysia. According to EMIR Research Analyst Sofea Azahar, rent-to-own schemes are not only capable of addressing the financial incapability of youths to provide a down payment, but can also reduce the property overhang in Malaysia.\(^ {55}\) Under the scheme, first-time youth home buyers may choose to rent first, they will then be given a choice to buy the house when their rental period ends or when they are able to obtain mortgage loans. This reduces the home ownership entry costs as youths do not incur the 10% down payment burden, instead they would simply require three months of rental to be eligible, a significantly cheaper alternative.

Currently, there are several rent-to-own schemes such as Rent-to-own PPR and Rent-to-own PR1MA as listed above. In addition, in Budget 2021, the government has also announced to work with financial institutions to offer

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52 Labour Force, Malaysia, Department of Statistics Malaysia, August 2020
53 Housing Affordability Among Generation Y, Faraziera Mohd. Raslim, Chong Lu Ping, Mastura Jaafar, Nurul Sakina Mokhtar Azizi, 2018
54 Where Do Young People Live? A Survey among Young People in Greater Kuala Lumpur, Mahazril ‘Aini Yaacob, Siti Hajar Abu Bakar, Wan Nor Azriyati Wan Abd Aziz, 2018
more rent-to-own schemes involving 5,000 PR1MA housing units for first-time home buyers. Such initiatives provide the right direction in addressing housing affordability issues among the youth.

Despite these initiatives, there is room for improvement still. Since rent-to-own schemes are a relatively new concept, there are still teething problems in its country-wide implementation, where less economically significant states experience a lack of adequate access. It was suggested by EMIR Research that such a scheme could be more widely promoted across all Malaysian states to enable access for more young workers regardless of economic strata.

According to economist Lee Heng Guie, in order to enhance the success of rent-to-own schemes, cooperation between state governments and local housing developers is crucial. This is due to housing developers being unwilling to offer a rent-to-own scheme if it requires a long period for them to turn a profit from their initial investment.

In addition, a real estate developer in Melaka had stated that rent-to-own schemes were not financially feasible as developers were unable to generate sufficient profit turnover from rent-to-own participants to service the financial facilities taken for development projects. Hence, the government should consider either providing tax incentives or repayment assistance programs to small and medium housing developers with lower financial capacity, in return for offering more rent-to-own schemes for young workers.

**Recommendation 2: Enhancing the Financial Literacy of the Youth**

As previously mentioned, one of the main factors contributing to the housing affordability issue among the youth is the lack of financial literacy. The inability of many youths to manage their regular finances have resulted in defaults on their PTPTN loans, affecting their creditworthiness and ability to apply for a mortgage. As a result, banks are heavily reluctant to offer mortgage loans to such groups.

The lack of financial knowledge among the youth was also widely recognized by the World Bank. According to the 2019 Malaysia Economic Monitor, from a survey conducted in 2015, 14% of Malaysia’s Generation Y (born between 1980 and 1990) believed they possess poor or very poor financial literacy while 58% believed that they have moderate financial literacy. In addition, it was also reported by the Global Finance Literacy Excellence Centre that only 36% of Malaysians between 15 and 34 years old can be considered financially literate, trounced by other regional neighbours such as Singapore (66%) and Myanmar (51%).

Further, it was found that approximately 20% of Generation Ys routinely fail to save due to high indebtedness, costs of living and expenditures on lifestyle choices. The insufficient savings among younger generations can be observed from the graph on the left.

It can be seen that nearly half of Malaysian workers have inadequate savings to deal with unexpected financial circumstances including emergencies, medical expenses and unemployment, events made more frequent during the current pandemic crisis.

Regardless of age, Malaysians generally have a higher ability to pay for an emergency costing RM1,000 compared to medical expenses and the

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56 [https://www.edgeprop.my/content/765265/are-rent-own-schemes-answer-easier-home-ownership](https://www.edgeprop.my/content/765265/are-rent-own-schemes-answer-easier-home-ownership)

ability to cover 3-month expenses if retrenched. However, younger workers are generally less well-suited for unexpected financial events compared to older workers.

Therefore, the government should make a concerted effort to enhance financial literacy among the youth. An example of such effort is the introduction of the National Strategy for Financial Literacy (NSFL) 2019-2023 to improve overall financial literacy across different age groups.

In INSAP’s view, it is important for the government to work with opinion leaders such as social media influencers to communicate financial literacy programs, especially on platforms such as Twitter, Instagram and Tik Tok that specifically target the youth, producing better results in the long run, especially when youth workers mature in their careers.

The Federation of Malaysian Consumer Association (FMCA) chief executive officer (CEO) Datuk Dr Paul Selvaraj similarly opined that even though the NSFL had been introduced, more effort still needs to be done. He suggested that financial education should ideally reach younger workers in the low and middle-income categories so that they are better able to manage their finances responsibly.

In order to achieve this, more programs and activities targeted at younger workers should be implemented. A suggestion would be to offer financial literacy as a required course for university students not in the Commerce/Finance fields of study. In addition to this, the Ministry of Higher Education should sponsor games and activities in all universities aimed at focusing on the importance of wealth accumulation, financial and debt management, offering prizes to the best performers.

Concluding Remarks

In short, there is substantial work required in enhancing the overall housing situation in Malaysia. The perennial issue of housing affordability can be solved through a series of measures aimed at developing market incentives towards the affordable range, reducing regulatory costs that are ultimately passed down to the consumer, improving the level of housing quality and adequate integration with publicly available amenities and facilities.

Relaxing anti-market policies in favour of a managed market system for many public housing programs such as the RSKU is a welcome step towards greater free market participation and better private sector incentives. Instead of hampering or blocking the efficiency of the real estate market, policymakers ought to work with develop incentives for further participation in a managed system as illustrated above.

In addition, effort must be made to review the exorbitant regulatory costs imposed on property developers, along with reducing the variable costs involved in property development by the provision of strategic development grants in identified locations. As well as improving the compilation and dissemination of information on government housing programs across federal, state and local agencies.

Ensuring the neighbourhood quality of housing projects are likewise important for the development of a proper social ecosystem, providing its residents with a sense of belonging. In achieving this, a good quality housing standards board will help tremendously in ensuring a good regulatory and amenities framework for both new developments and the rejuvenation of old communities, together with the maintenance of older buildings.

Greater coordination and streamlining of housing and zoning processes into regional and local infrastructure plans through a cross-ministerial effort is necessary to more effectively plan out develop well-connected residential sprawls throughout the nation’s infrastructure network, prioritizing approvals for developers in the affordable range with a good history of fulfilling its infrastructure criteria.

Lastly, in an effort to increase housing affordability among the youth, it is necessary to firstly promote financial literacy and awareness among the nation’s youth, starting from the university level with cash-prized games and

activities for participants. In addition, engaging with social media stars and celebrities will be especially helpful in the social promotion of such events. Among other suggestions, it would be helpful to promote rent-to-own schemes and providing financial incentives for more developers to take part in the scheme, as well as the possibility of increasing the maximum loan tenure of a low-income youth worker from 35 to 40 years, reducing their monthly mortgage repayment.

The recommendations elucidated within this report aim to create a more holistic and sustainable approach to housing, aiming to decrease construction costs and increasing market incentives for more low-cost, low priced housing to ensure that more young Malaysians have the chance to realize the satisfaction of property ownership within their lifetimes.