

AN ASSESSMENT OF HOUSING AFFORDABILITY
FOR YOUNG PROFESSIONAL IN GREATER KUALA
LUMPUR: RESIDUAL INCOME AND HOUSING
TRANSITIONS APPROACHES

BY

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ABSTRACT

This study identified the housing affordability factors among young professionals aged between 25 and 35 working or residing in the Greater Kuala Lumpur. Young professionals in this study refer to at least bachelor degree graduates and narrowed to the built environment profession namely engineer, architect, urban planner, and quantity surveyor (QS). In assessing housing affordability, two different approaches were applied: economic and social. The residual income model (RIM) was used to measure housing affordability from the economic perspective, while the concepts of housing pathways and housing transitions were integrated to explore the aspect of affordability from the social perspective. Five research objectives were composed in this study: (1) To define the young professionals, (2) To identify the young professional group that is adversely affected by housing affordability, (3) To determine housing affordability factors through RIM, (4) To explore housing affordability amongst young professionals through housing pathways, and finally (5) To recommend the success factors of housing affordability. The questionnaires were distributed amongst 341 respondents selected through stratified random sampling and the outcomes were analysed via binary logistic regression (BLR). Additionally, 14 interviewees were involved in the semi-structure interview session and the data were analysed via narrative analysis. The findings revealed that the age range of 25-35 was more appropriate to define the young professionals for this study. Those young professionals between 25 and 28 years old were more affected by housing affordability and amongst all the professions taken into consideration; engineers appeared to be the most affordable ones for housing. The statistical findings showed that the significant predictors comprised of professionals (engineer, architect, QS),

presence of children, household income, household expenditure, transportation cost, housing cost, and housing location (Kuala Lumpur, Petaling Jaya and Putrajaya). Apart from these factors, demographics, employment, housing history, health, and aspiration were explicitly explored during the interview sessions. The most remarkable contribution of this study is the discovery of success factors that led young people to afford housing, which are: early awareness, enhanced financial literacy, committed in career, and income diversification. Finally, this study suggests that in order to develop the standard income for young professionals to evade low income offer, enhancing financial literacy and eventually encouraging young professionals to involve in investment are of utmost importance.

خلاصة البحث

حددت هذه الدراسة عوامل القدرة على تحمل تكاليف السكن بين المهنيين الشباب، الذين أعمارهم بين 25 و 35، والعاملين أو المقيمين في كوالالمبور الكبرى. المقصود بالمهنيين الشباب في هذه الدراسة هم خريجي درجة البكالوريوس على الأقل، وبالتحديد هؤلاء في مهن البيئة المبنية، وهم: المهندسون، والمهندسون المعماريون، والمخططون العمرانيون، ومهندسو الكميات. من أجل تقييم القدرة على تحمل تكاليف السكن تم تطبيق نهجين مختلفين وهما الاقتصادي والاجتماعي. تم استخدام نموذج الدخل المتبقي لقياس القدرة على تحمل تكاليف السكن من الناحية الاقتصادية، في حين تم دمج مفاهيم مسارات الإسكان والتحويلات الإسكانية لاستكشاف جانب القدرة على تحمل التكاليف من المنظور الاجتماعي. تم إعداد خمسة أسئلة بحثية في هذه الدراسة وهي: (1) من هم المهنيين الشباب، (2) أي مجموعة من المهنيين الشباب تأثرت سلباً بسبب مشكلة القدرة على تحمل تكاليف السكن، (3) كيف يتأثر المهنيون الشباب بمشاكل القدرة على تحمل التكاليف، (4) إلى أي مدى تؤثر مسارات الإسكان على القدرة على تحمل تكاليف السكن بين المهنيين الشباب، وأخيراً (5) ما الذي ينبغي فعله لتحسين القدرة على تحمل التكاليف بين الشباب وخاصة المهنيين. تم توزيع الاستبيانات بين 341 مستجيباً تم اختيارهم بطريقة أخذ العينات العشوائية الطبقيّة وتم تحليل النتائج عبر الانحدار اللوجستي الثنائي. بالإضافة إلى ذلك، شارك 14 ممن أجريت معهم المقابلات في جلسة مقابلات شبه هيكلية وتم تحليل البيانات من التحليل السردية. كشفت النتائج أن المهنيين الذين تتراوح أعمارهم بين 25-35 كانوا أكثر ملاءمة لهذه الدراسة، بدلاً من هؤلاء في المجموعة العمرية 15-25 سنة أو 15-40 سنة، وأن المهنيين الذين تتراوح أعمارهم بين 25 و 28 سنة كانوا أكثر تأثراً بالقدرة على تحمل تكاليف السكن ومن بين جميع المهن التي أُوخذت في الاعتبار كان المهندسون أكثر تأهيلاً للحصول على سكن. أظهرت النتائج الإحصائية أن المتنبئات المهمة تألفت من المحترفين (مهندسين، مهندسين معماري، مهندسي الكميات)، ووجود الأطفال، دخل الأسرة، وإنفاق الأسرة، وتكلفة المواصلات، وتكلفة السكن، وموقع السكن (كوالالمبور، بيتالينغ جايا، وبوتراجايا). بصرف النظر عن هذه العوامل فقد تم استكشاف العوامل السكانية، والتوظيف، وتاريخ السكن، والصحة، والطموح بشكل واضح خلال جلسات المقابلة. كانت أبرز مساهمات الدراسة هو اكتشاف عوامل النجاح التي دفعت الشباب إلى تحمل تكاليف الإسكان، وهي: الوعي المبكر، وتعزيز المعرفة المالية، والالتزام المهني، وتنويع الدخل. وأخيراً، تقترح هذه الدراسة أنه من أجل تطوير الدخل القياسي للمهنيين الشباب لتجنب الرواتب المنخفضة، فإن تعزيز الوعي المالي، وتشجيع المهنيين الشباب في نهاية المطاف على المشاركة في الاستثمارات، أمر في غاية الأهمية.

APPROVAL PAGE

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DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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LIST OF ABBREVIATIONS

| | |
|------------|--|
| ACCC | Association of Canadian Community Colleges |
| ASB | Amanah Saham Bumiputera |
| BLR | Binary Logistic Regression |
| BQSM | Board of Quantity Surveyors Malaysia |
| CCDM | Credit Counselling and Debt Management |
| CCL | Canadian Council on Learning |
| CCRIS | Central Credit Reference Information System |
| CHP | Colonial Housing Policy |
| CTOS | Credit Tip Off Service |
| EPF | Employees Provident Fund |
| EPU | Economic Planning Unit |
| FOMCA | Federation of Malaysia Consumers Associations |
| F&B | Food and Beverage |
| Greater KL | Greater Kuala Lumpur |
| HAS | Housing Affordability Stress |
| HUD | Housing and Urban Development |
| IEM | Institute of Engineers Malaysia |
| KRI | Khazanah Research Institute |
| MFHS | My First Home Scheme |
| MIA | Malaysian Institute of Architects |
| MIP | Malaysian Institute of Planners |
| MYC | Malaysian Youth Council |
| NAPIC | National Property Information Centre |
| NAR | National Association of Realtors |
| NEAC | National Economic Action Council |
| NEP | New Economic Policy |
| NGO | Non-Governmental Organisations |
| NHP | National Housing Policies |
| NYDP | National Youth Development Policy |
| NYS | National Youth Societies |
| PEMANDU | National Key Economic Areas of the Economic Transformation |
| PIR | Price-Income Ratio |
| PPA1M | Perumahan Penjawat Awam 1 Malaysia |
| PPR | Projek Perumahan Rakyat |
| PR1MA | 1Malaysia People's Housing |
| PTPTN | National Higher Education Fund Corporation |
| QS | Quantity surveyor |
| RIM | Residual income model |
| RIR | Rent to Income Ratio |
| RT1M | Rumah Transit 1 Malaysia |
| SOCSSO | Social Security Organisation |
| SPNB | Syarikat Perumahan Negara Berhad |
| UN | United Nation |
| UNESCO | United Nations Educational, Scientific and Cultural Organisation |
| UNFPA | United Nations Population Fund |
| UK | United Kingdom |
| US | United State |

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In the 1980's and 1990's the local housing issue emphasises on low-cost houses for the low-income group and only in year 2012, the affordable housing issue had begun receiving attention with the emergence of State Affordable Housing phase within Malaysia's housing provision (Shuid, 2016). Nevertheless, the issue appeared prominent amidst the middle-income group. Shuid (2011) claimed that the number of low-cost houses should be reduced, and instead the government should begin addressing provision of affordable housing specifically for the middle-income group. Recently, Shuid (2016) stressed that housing for the poor has been given attention by providing low-cost housing subsidies since the 1970s and a large amount of high-cost housing for the high-income group, while the middle-income group has been experiencing inadequate housing affordability.

Issues related to housing affordability have been vastly discussed based on varied income groups, instead of looking into various generations. Ironically, in the present circumstance, most of the young generation is adversely affected by this pressing issue. Adis (2016) further asserted that housing affordability among the young generation has been a contentious issue since the 13th general election in year 2013, which has acknowledged the rapid increase in house price, in which the house cost is triple the annual household income that further catalyses the issue at hand.

This poses a great challenge amongst young people, including professionals who have obtained their tertiary education and hired in certain duration of period to purchase their first house. Besides, high cost of living also contributes to this problem,

in which young professionals need to shoulder their commitments, such as transportation cost, education cost, and daily expenses.

This study involved young professionals aged 25-35 in selected built environment professions, such as engineer, architect, urban planner, and quantity surveyor (QS). The terminology of young professional for this study is explicitly described in Chapter 3 (see 3.2: Young professional definition). All of them either worked or resided in the Greater Kuala Lumpur (Greater KL), which reflects 10 locations based on local authorities in the Greater KL, including Kuala Lumpur, Klang, Kajang, Subang Jaya, Petaling Jaya, Selayang, Shah Alam, Ampang Jaya, Putrajaya, and Sepang. The respondents were composed of either homeowner or non-homeowner, wherein non-homeowners were further divided into either renting or living at parents' house (parental home).

In general, housing affordability in this study refers to the capability amidst young professionals to bear the housing cost, either mortgage or rental, without disregarding other non-housing cost. This study offers a comprehensive view on the housing affordability factors because it combines economic and sociology approaches. This introductory chapter depicts a context for the background of the study and outlines problem statement, research objectives and questions, research method, research hypotheses, significance of study, as well as operational definitions.

1.2 PROBLEM STATEMENT

Previous discussion has remarked that in the local context, housing issue is focused on different income groups. First, there is a paucity of researches pertaining to housing affordability by generation. Bujang, Jiram, Zarin, and Anuar (2015) commented that

recent studies have focused merely on various income groups, while ignoring the different generations for housing affordability.

The extensive literature revealed that studies on generation housing affordability have begun to emerge since year 2013 by various scholars. Despite that, scholars have used numerous terminologies to point out the young generation. For instance, young starters (Zairul, 2013), young couple (Nozin, Majid, & Said, 2014), young working households (Zyed, 2014), and Gen Y (Bujang et al., 2015). It is noticeable that previous scholars were faced with obscurity in obtaining sample size from the young generation.

Hence, this study emphasised on a specific young generation, termed as 'young professional' from the built environment field. Therefore, the list of the respondents or the sample size was retrieved from appropriate source. For instance, prior studies have used the purposive sampling or snowballing technique as they did not have an appropriate list of sample size for young generation (Zyed, 2014). Meanwhile, as for this present study, the sample size was accurately determined by data obtained from professional bodies, hence the generalisability of this study.

Second, the obscurity of household expenditure indicator standard has to be addressed in assessing housing affordability through the application of residual income model (RIM). This problem has received much attention from researchers across the globe, especially from Australia (Henman, & Jones, 2012). On the contrary, prior local researchers, who adopted the RIM, had neglected the household expenditure indicator standard, but instead, merely obtained aggregate household expenditure (Md Sani, 2007; 2013). Consequently, this led to the absence of uniformity in collecting household expenditure information.

Drawbacks in past studies are addressed in this current study by adopting the household expenditure standard from the Malaysian Department of Statistics. With that, 12 indicators of household expenditures were embedded, which are vital as they differ across various households.

Another compelling point is the absence of transportation cost in assessing housing affordability in previous works. This has been devastatingly critiqued by Mattingly and Morrissey (2014), who asserted that conventional approaches have addressed merely the correlation between housing cost and income in assessing housing affordability, by omitting transportation costs. Preliminary work on measuring housing affordability at the local context was undertaken by Md Sani (2007, 2013), Rameli, Salleh and Ismail (2016), Ismail, Bujang, Jiram, Zarin and Jaafar (2015a,b), and Bujang, Zarin and Jumadi (2010), Shakur, Mohamed and Hadi (2017) but they neglected the correlation between transportation cost and housing affordability.

Although a study on transportation affordability within the local context been executed by Yusof, Omar, Talib, and Salleh (2010) but they merely looked at one sectional by integrating transportation and land use. Ironically, the current study assessed the relationship between transportation cost and housing affordability without neglecting other household expenditures. For that reason, transportation cost is embedded in this study to fill the research gap.

This study is significant as it probed into the limitation faced by the young generation in regard to housing affordability. The young generation, regardless professional or non-professional, receives moderate income at the entry level of a range of careers (Holdsworth, & Solda, 2002; Zyed, 2014). Based on the Public Services Commission of Malaysia (n.d), the minimum income at the entry level for

these four professionals within the government sector is MYR 2529-MYR 2736, which is considered as appropriate for the entry level.

Nonetheless, not all have the privilege to stand a chance to become government servants and alternatively, most of them work in the private sector. Surprisingly, Jobstreet (2017), which is the most reputable company as the first and the largest employment company in the Southeast Asia, has revealed that the income for entry level among these four professionals is MYR 1200-MYR 2500, with QS earning the lowest. This proves that young professionals are also low-income earners. In a similar vein, Zairul (2013) noted that young starters were in a dilemma as they were underpaid and simultaneous experienced high housing cost, especially in the urban area.

Young professionals in Malaysia also face dilemma with education loan, especially the loan of National Higher Education Fund Corporation (PTPTN). A recent report claimed that approximately 605,685 graduates failed to repay the loan as of in March 2015 (Jaafar, 2015). The information indicates that technical programs, such as engineering, require approximately MYR 54,000 to cover the fees for a three to four-year program, while the London-based Expert Market survey ranked Malaysia as the fifth most costly country for tertiary education (Mustafa, 2017). In this case, the students appeal for education loan to pay for their studies. The previous government of Barisan National has enforced the regulation by requesting PTPTN borrowers to repay their education loan after six months from their graduation, or else they would be blacklisted in Central Credit Reference Information System (CCRIS) report and as a result, hindered from applying mortgage.

Another aspect that cannot be overlooked in discussing housing affordability amongst young professional is the desired lifestyle, such as preferences on housing

type and luxurious living. Managing finance becomes a failure, especially when desire always influences expenditure decision (Hallman, & Rosenbloom, 1993) and as a result, the expenses exceed income (Inman-Freitas, 1991).

Bank Negara Malaysia and Federation of Malaysia Consumers Associations (FOMCA) have revealed that most young graduates have propensities to own vehicle immediately after employment and prefer to own high segment or import car as a symbol of social status and as success benchmark of careers (Zakaria, 2015). They often associate the car driven by the position held and education level. Possession of high segment car leads to burdensome, high car instalment, apart from other expenses, such as petrol, car park, toll, car insurance, road tax, and maintenance. Simultaneously, they need to weigh in other essentialities. This gets worse if young professionals hold credit card(s) and get trapped with credit card debt beyond control. Ahmed, Ismail, Sohail, Sadiq, Tabsh and Alias (2010) claimed that credit cards owned by professionals or businessmen reflect prestige.

A study on credit card debt among young professionals was carried out by Ahmad and Omar (2016), which showed that the number of young professionals utilising credit cards had increased in entertainment and online shopping, apart from the preference in making minimum payments on credit card bills. Ahmad and Omar (2016) added that young professionals normally possess over three credit cards and this gets worse when it becomes a 'trend' among them, especially due to the burden of high accumulating credit card debt until the due date expires.

Data issued by the Malaysia Department of Insolvency indicated that more than two fifths of 454 Malaysians declared bankrupt in year 2010 were young people aged 30 years and below due to credit cards (Ahmad & Omar, 2016). It is easier to

trap one with bankruptcy by only presenting non-performance loan at least with MYR 30,000. Eventually, this makes them experience difficulty in applying for a mortgage.

Finally, another limitation in most contemporary housing affordability studies refers to lack of engagement with the sociological approach. Apart from assessing housing affordability by adopting the economic approach (RIM), this study adopted the sociological approach, namely housing transitions concepts. The idea to adopt the sociology approach in this study emerged from the extensive literature, such as Clapham (2005) and Sliogeris, Crabtree, Phipps, and Johnston (2008). O'Neill (2008) decried failure amongst researchers in integrating sociology approach with housing studies. The combination of these two approaches delivers an in-depth comprehension towards assessing young professional housing affordability.

In local context, the sociology approach has been adopted by Zyed, Hamzah, and Baharuddin (2016). However, their study revealed the Gen Y housing pathways in Kuala Lumpur by evaluating housing preferences based on affordability. As for this study, the sociology approach was adopted to explore the housing affordability factors through housing pathways and housing transition concepts.

Overall, this study first, highlights the specific young generation housing affordability, termed young professionals. Second, the two approaches adopted in this study were economic and sociology. The economic approach included RIM and was further enhanced by embedding standard indicators of household expenditure, which were overlooked in past local studies. The transportation cost was empirically assessed through this approach as this indicator was ignored in prior works. Housing pathways and housing transition were tested via sociology approach to explore how the life course of young professionals affected housing affordability.

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