



**HOUSING AFFORDABILITY AT DISTRICT LEVEL IN
PERAK**

BY

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ABSTRACT

The State Government of Perak is highly concerned with the issue of housing affordability. Affordable housing is important as housing is a pressing necessity, especially for B40 income households in Perak. Studies have shown that Malaysia is presently struggling with the issue of housing affordability whereby its median multiple for housing affordability in the year 2014 was 5.1. In Perak, soaring house prices have made it almost impossible for the middle-income group to afford a home. The drastic changes in housing prices have affected the affordability levels in Perak. This study compares household income against housing prices in each district in Perak. The data were collected from primary sources in the form of focus group discussions, roundtable discussion and interviews with the main stakeholders in Perak coupled with secondary data and content analysis to identify housing affordability in Perak. The study found weaknesses in the implementation of housing policies and programmes for different income groups in Perak. Due to data limitation, this study adopted the median multiple approach in determining housing affordability for the districts. Data on annual income was sourced from the Department of Statistics Malaysia's Household Income Survey for the years 2012, 2014 and 2016 from which the Housing Affordability Index was generated. Based on the Index, housing affordability for most districts in Perak is at the seriously unaffordable level. The increase in the median multiple of the districts can be attributed to the increase in house prices which was disproportionate to the increase in the income of the population. The findings of this study can be used to aid the state government in their endeavours to provide quality affordable housing policies and programmes for Perak residents.

خلاصة البحث

تشعر حكومة ولاية بيراك بقلق بالغ إزاء مسألة القدرة على تحمل تكاليف السكن. ويعد الإسكان الميسر أمراً مهماً نظراً لأن الإسكان ضرورة ملحة، خاصة بالنسبة للأسر ذات الدخل من الفئة B40 في بيراك. لقد أظهرت الدراسات أن ماليزيا تكافح حالياً مع مسألة القدرة على تحمل التكاليف السكنية حيث بلغ متوسط حسابي 5.1 للقدرة على تحمل تكلفة الإسكان في عام 2014 في بيراك، وجعل ارتفاع أسعار المنازل من المستحيل تقريباً على المجموعة ذات الدخل المتوسط شراء المنزل. لقد أثرت التغيرات الجذرية في أسعار المساكن على مستويات القدرة على تحمل التكاليف في بيراك. كانت هذه الدراسة تقارن بين دخل الأسرة مع أسعار المساكن في كل منطقة في بيراك. وتم جمع البيانات من المصادر الأولية في شكل مناقشات مجموعات التركيز ومناقشات المائدة المستديرة والمقابلات مع أصحاب المصلحة الرئيسيين في بيراك بالإضافة إلى تحليل البيانات والمحتوى الثانوي لتحديد القدرة على تحمل تكلفة الإسكان في بيراك. ووجدت الدراسة نقاط ضعف في تنفيذ سياسات وبرامج الإسكان لفئات الدخل المختلفة في بيراك. بسبب قيود البيانات، واعتمدت هذه الدراسة على المنهج المتعدد في تحديد القدرة على تحمل التكاليف السكنية للمقاطعات. لقد تم الحصول على بيانات الدخل السنوي من مسح الدخل الأسري في وزارة الإحصاءات الماليزية للأعوام 2012 و 2014 و 2016 والذي تم إنشاء مؤشر القدرة على تحمل تكاليف الإسكان. بناءً على المؤشر، فإن القدرة على تحمل تكاليف السكن لمعظم المناطق في بيراك على مستوى لا يمكن تحمله. ويمكن أن تعزى الزيادة في المتوسط المضاعف للمقاطعات إلى الزيادة في أسعار المنازل التي كانت غير متناسبة مع الزيادة في دخل السكان. ويمكن استخدام نتائج هذه الدراسة لمساعدة حكومة الولاية في مساعيها لتوفير سياسات وبرامج سكنية ميسورة الجودة لسكان بيراك.

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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This thesis is dedicated to my family for their endless support, encouragement and always loved me unconditionally, Muhamad Yusop Umar, Noraini Aw. Chek, Siti Fatimah, Syed Hashim, Sharifah Aaira Aneesa, Siti Zalilah, Mohd Nazrullah and Lokmannurhakim. I am truly thankful for having all of you in my life.

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ABBREVIATION

NAPIC	National Property Information Centre
BNM	Bank Negara Malaysia
CIDB	Construction Industry Development Board of Malaysia
CUEPACS	Congress of Unions of Employees in the Public and Civil Services
DOS	Department of Statistics, Malaysia
IDR	Institut Darul Ridzuan
JPN	Jabatan Perumahan Negara
KPKT	Ministry of Housing and Local Government
KRI	Khazanah Research Institute
LHDN	Lembaga Hasil Dalam Negeri
LA	Local Authority
LPHP	Lembaga Perumahan dan Hartanah Negeri Perak
LPHS	Selangor Housing and Real Property Board
MOF	Ministry of Finance
PBT	Pihak Berkuasa Tempatan
PDT	Pejabat Daerah dan Tanah
PLANMalaysia@Perak	Department of Town and Country Planning Perak State
PPA1M	Perumahan Penjawat Awam 1 Malaysia
PR1MA	Skim Projek Perumahan Rakyat 1 Malaysia
PTG	Pejabat Tanah dan Galian
SGLC	State Government Land Corporation
SPNB	Syarikat Perumahan Negara Berhad
UNCHR	United Nations High Commissioner for Refugees
UN-HABITAT	United Nations Centre for Human Settlement
ADUN	Ahli Dewan Undangan Negeri
B40	Bottom 40% of Household Income Range
BTS	Build-then-Sell
CAGR	Compound Annual Growth Rate
CPI	Consumer Price Indices
DPN	Dasar Perumahan Negara
EPF	Employees Provident Fund
GDC	Gross Development Cost
GDV	Gross Development Value
HIS	Household Income Survey Report
HPI	House Price Index
M40	Middle 40% of Household Income Range
NEP	New Economic Policy
OSC	Pusat Kelulusan Setempat

PAKR	Perumahan Awam Kos Rendah
PLI	Poverty Line Income
PPR	Program Perumahan Rakyat
PTPTN	Perbadanan Tabung Pendidikan Tinggi Nasional
RKR	Rumah Kos Rendah
RKS	Rumah Kos Sederhana
RMM	Rumah Mampu Milik
RMMJ	Rumah Mampu Milik Johor
RSKU	Rumah Selangorku
RTO	Rent-to-Own
SPP	Skim Pinjaman Perumahan
T20	Top 20% of Household Income Range

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Buying a house serves the dual purpose of providing shelter and a form of investment that contributes to asset accumulation. Homeownership or the ability to own residential property is a goal of every individual. Property ownership can create stability, wealth and improve individual quality of life. The Universal Declaration of Human Rights, Article 17 (1) stated that “Everyone has the right to own property alone as well as in association with others.” A house is not only shelter but also a symbol of wealth. It constitutes an economic asset and a collective good in terms of economic value. Owning a house as a shelter provides people with better control over their living space. Under the right circumstances, homeownership appears to have a positive impact.

As Malaysia approaches a developed-nation status and becomes a high-income nation by 2020, the housing industry needs to be adaptive and responsive to the demand for all people especially to special, medium-income and low-income groups. Governments need to provide sustainable housing policy for all. Although various housing policies and strategies regulate and monitor the housing supply in Malaysia (Ministry of Urban Well-being Housing and Local Government, 2011; Shuid, 2010), many developers and the private sector tend not to build houses within the affordable range of Malaysians’ income but tended to build high-cost houses sold above RM400,000 (NAPIC, 2016).

The requirements for new housing can originate from two distinct types of households which are those who can pay for it and those who cannot. Households that cannot pay for their housing requirements may experience some form of core housing

need and those that can demonstrate an effective demand for housing. Housing stock that is provided via both the private market with public assistance must be able to respond to the dynamic of both types of unmet requirements respectively. By definition, the effective demand for housing refers simply to the quantity and type of housing wanted by households either to rent or to buy and is generated by households with the ability to pay for it.

The Khazanah Research Institute (2015) and Chang (2013) found that homeowner ability to purchase a home has been reduced based on the widening affordability gap. The Khazanah Research Institute (2015) and Department of Statistic Malaysia (2015) identified that the shortage of affordable housing is critical, and based on a household income survey conducted by the Department of Statistic in 2015 and 2017, 50% of Malaysian household in 2014 had incomes of RM4,585 and below and the median income had improved to be RM5,228 in 2016. Current research identified that securing access to affordable housing for the urban poor and locals is critical for poverty reduction, institution building, good governance at the local and national levels and conflict.

There is an urgent need to address the current state of housing affordability in Malaysia which shows that housing affordability has not improved significantly. The median multiple for Malaysia has hovered between 4.0 to 5.1 from 2002 to 2016, exceeding the 3.0 threshold for housing affordability. The country's overall housing affordability worsened significantly between 2012 and 2014, increasing from 4.0 in 2012 to 5.1 in 2014. The median house price for Malaysia increased at a Compound Annual Growth Rate (CAGR) of 26.5% over the stated period from RM175,000 to RM280,000. At the same time, median household incomes grew significantly slower at a CAGR of 11.7%, less than half the rate of increase in house prices.

This research assesses the significance of housing affordability index and its implications for housing affordability in Perak state. Chapter one presents the overall structure of the study which begins with the study background, followed by the problem statement, research objective, research questions, research significance and the scope of the study. The study will provide an overview and analysis of housing affordability in Perak in addition to a summary of the methodology adopted to achieve the research objectives.

1.2 PROBLEM STATEMENT

Affordability is not part of the main characteristic of housing but depends on the income of the buyer and the stated prices (Stone, 1994). Glaser & Gyourko (2003) state that the ability to buy properties should be related to housing prices, and wages or salary should not be part of affordability calculation. However, there are limits to how far the concept of housing affordability can be taken.

Despite housing supply and demand, housing affordability suffers from this financing problem as those with limited income will face difficulties in purchasing a house. While the headline statistics paint a scenario of ample financing channels for Malaysian households, yet information on the distribution of debts and access to credit by borrowers with different income levels are equally important, especially for policy intervention purposes. To a certain extent, the relevant information is available in a Bank Negara Malaysia (2017) report that analyses the household's debt situation beyond the headline statistics (Note: The report covers overall household debt statistics and not just housing debts. However, given that housing debt comprised a significant portion of a household's debt, it is still a good proxy to look at household financial affordability and fragility for housing).

In short, the housing sector would contribute a significant impact on the competitiveness of any locality's economy. No previous study has investigated housing affordability based on a district level. This indicates a need to understand the various perceptions of housing affordability at the district level.

1.2.1 Drastic Increase of House Prices

House prices in several states in Malaysia have been high since 1995 (Zainal Abidin Hashim, 2010) and data from the Construction Industry Development Board of Malaysia (CIDB) and National Property Information Centre (NAPIC) indicated that house prices in Malaysia have almost doubled since 2008 while construction costs—labour, material and machinery & equipment—have increased a lot less at the same period. The disproportionate increase in these variables suggests either the developers are increasing their profit margins or the land prices or regulatory costs have increased drastically.

House prices and the growth rate of house prices are the two measures of the intensity of housing demand particularly in urban areas (Shuid, 2004, 2010). Developers would require newly proposed developments to meet a certain profit margin as part of their financial strategy. Some industry players augment the profit margin in their Gross Development Cost (GDC) and Gross Development Value (GDV) estimations to factor in various risks and uncertainties surrounding their development projects to ensure profits. There has been an increasing trend in the number of offences committed by developers under the Housing Development (Control and Licensing) Act (Act 118), a statute that regulates the formal housing industry in Malaysia. The number of offences has increased from 343 in 2014 to 440 in 2015 and rose to 667 in 2016. According to Jabatan Perumahan Negara (JPN), the Ministry of Housing and Local Government

(2017), the most common offences were cases where developers failed to submit an audited financial account and housing projects' progress report to JPN. The projects' progress report is essential in order to make sure that the cost of housing prices are not being manipulated as the project is overdue or other related factors. This results in the increase in housing prices in Malaysia including the State of Perak.

1.2.2 Small Increase in Household Income

Buying a house requires a large amount of cash which very few can afford. For most households, access to credit is important to acquire a house. House financing plays a critical role in helping households to secure a roof over their heads while at the same time contribute to home equity accumulation. According to Bank Negara Malaysia (2017), the group of households who would face the biggest problem in obtaining bank financing for housing are those with an income of less than RM5,000 per month in urban centres or less than RM3,000 per month in other areas. It is also typical that people who are highly leveraged and have poor repayment history are filtered out in accessing more credits. Those who are vulnerable to financial strains (i.e. susceptible to income shocks and increase in lending rate without sufficient buffer for essential living expenditure) would be more likely to face difficulty in repaying their loans.

According to the Department of Statistics (2007), household income reported in Malaysia's Household Income Survey report comprises income from four main sources—paid employment, self-employment, property and investment, and current transfers received. However, difficulties arise as the increase in household income is not commensurate with the drastic increase in housing price.

According to Milligan et al. (2007) and The Centre for Affordable Housing of Australia (2015), affordable housing is housing that is appropriate for the needs of a

range of low to moderate income households and priced so that low and moderate incomes can meet their other essential living costs. The median income is inflated at an inflation rate of 3.5% per annum (Department of Statistic Malaysia, 2012). By comparing this income data with the National Property Information Centre (NAPIC) data on 2014 housing prices, there are disparities for each income group. However, demands for a house in the same gross income may differ significantly. Nevertheless, a low increase in household income in determining housing affordability escaped criticism from government, agencies and academics.

1.2.3 Weakness in Housing Policies and Implementation

The housing policies and strategies (Ministry of Urban Well-being Housing and Local Government, 2011; Shuid, 2010) are effective regulatory and monitoring tools for sustaining the housing supply. The State governments are presided over by ceremonial state rulers. The ruler acts on the advice of the State Executive Council that is chaired by the Chief Minister. All the states have unicameral legislatures and elections are held every five years. In states where there is no hereditary ruler, a governor is appointed by the king to be the ceremonial head of state.

Government interventions in making homeownership affordable for lower-income groups includes direct provision of low and medium-cost homes—either through public agencies or through a partnership with private developers, subsidising the cost of houses and providing financial schemes. However, the provided housing schemes are limited in application and supply which can adversely affect housing affordability.

Although housing policies have been formulated at national and state level, the main challenge in the current housing market is the provision of affordable housing that

can match local household income. The idea of affordable housing identifies the needs of households with insufficient income to allow them to access appropriate housing in the market without assistance (Milligan et al., 2004). If house prices are high in certain localities, the types of buyer would also be affected, where expensive houses would ensure the area is occupied by rich or affluent owners (Hasyim, 2010) and vice versa.

Nevertheless, these housing policies and strategies by the federal and state government does involve potential measurement error in terms of regulation and implementation. The enforcement and implementation process of housing policy faces difficulties due to issues related to housing affordability. Past housing policies failed to provide a better framework for examining the current and anticipated changes to housing policies and programmes. In particular, the housing policy does not focus on affordable housing for the low-income and middle-income class.

1.3 RESEARCH QUESTIONS

Referring to the problem statement above, four research questions are raised as follows:

1. What are the current housing policies and institutional structure in Perak?
2. Why is the level of housing affordability of Perak different based on the district?
3. How does the level of housing affordability affect housing policies and institutional structure formulation in Perak?
4. What are the effective recommendations and strategies that can be adopted by local authorities for the housing sector?

1.4 RESEARCH AIM AND OBJECTIVES

1.4.1 Research Aim

This research seeks to identify the levels of housing affordability level for people living in Perak based on median multiple approach in buying or owning residential units. Four objectives are designated to achieve the research aim as listed below:

1.4.2 Research Objectives

The objectives of this research are: -

1. To examine the current changes before and after the establishment of the Lembaga Perumahan dan Hartanah Perak in the housing policies and institutional structure in Perak.
2. To analyse housing affordability levels of Perak based on district.
3. To analyse the housing provision policies based on the districts in Perak.
4. To recommend strategies and an action plan for the housing sector in Perak.

1.5 RESEARCH SCOPE

This research will be conducted in Perak. The frame of the research is detailed below.

Housing Policy and Institutional Framework

The current housing policies and institutional structure of housing in Perak will be analysed and compared with the current housing scenario in Perak to ensure whether the policies are implemented effectively. Not only does the implementation and monitoring of a wide range of plans accrue high costs, the effectiveness of communication of the overall national vision and action plans to all stakeholders, including the state and local authorities, developers, and the general public, would