

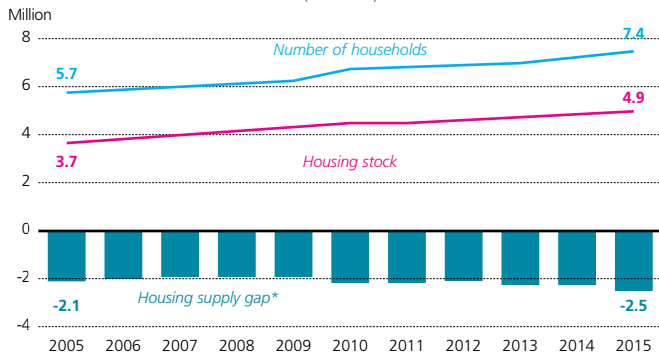
Assessing Demand-Supply Dynamics in the Malaysian Housing Market

According to the Bank Negara Malaysia (BNM) Report 2015, the construction sector grew at a moderate pace (2015: 8.2%; 2014: 11.8%), mainly due to the slower growth in the residential sub-sector as there were fewer property launches during the year. An analysis to assess the demand and supply dynamics of the housing market by the central bank to better understand the unevenness currently enveloping our housing market along with some viewpoints from other countries' housing policies and experiences have been summarised and reproduced below for the benefit of REHDA Bulletin readers:

Shortage of Supply

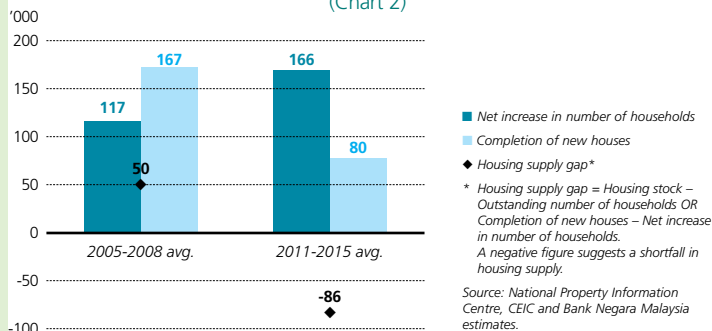
Since 2005, Malaysia's housing stock has been steadily increasing from 3.7 million in 2005 to 4.9 million in 2015, a growth of approximately 35% over 10 years. Despite this substantial expansion, the shortage of housing supply at the national level continues to remain due to the rapid formation of household. The gap between housing stock and the number of households widened to 2.5 million units in 2015 from 2.1 million units in 2005¹ (Chart 1). The evident shortfall in housing production reflected the mismatch between the reduced supply of new houses and rising demand resulting from the increase in the number of household formation², particularly in the past five years.

Widening Housing Supply Shortfall over the past Decade...
(Chart 1)



Although between 2005 and 2008, there was a surplus supply of housing units of about 49,626 units per year, over the past five years (2011-2015), the annual completion of houses has declined considerably to 80,089 units, far below the 166,000 average net increase in the number of households annually³. This suggests an average shortage of 85,911 housing units per year between 2011 and 2015 (Chart 2).

...as New Housing Supply was Unable to Match Increase in Number of Households over the past Five Years
(Chart 2)



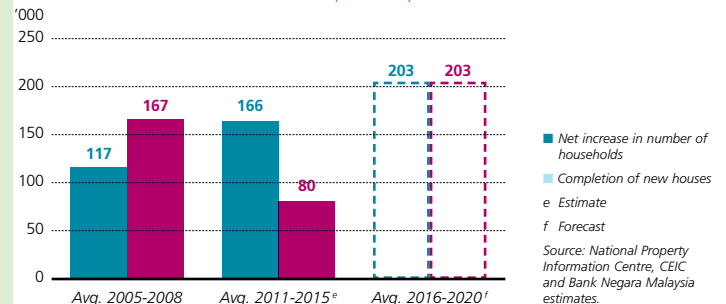
The shortage in housing supply has been particularly acute in the affordable housing category. According to the World Bank and United Nations' recommendation, a house is considered affordable if a household can finance it with less than three times its annual income. This suggests

that houses priced up to RM165,000 are considered affordable to a median Malaysian household but only 21% of new housing launches in Malaysia were priced below RM250,000 in 2014. As such, a substantial increase in the supply of affordable housing is necessary.

While affordable housing initiatives by the Federal and State Governments, Syarikat Perumahan Negara Berhad (SPNB) and Perumahan Rakyat 1Malaysia (PR1MA) have gathered some momentum, the current level of house-building in the affordable housing segment has not been sufficient to meet the demand.

An estimated 202,571 new houses⁴ will be required annually between 2016 and 2020 to match the estimated growth in household during this period, approximately 2.5 times the number of houses built annually in the previous five years (Chart 3).

The Supply of New Houses Need to Increase by about 200,000 Units Annually within these Five Years to Match the Estimated Growth in Households
(Chart 3)



Continued growth in incomes and population, as well as rapid urbanisation, are expected to remain as important drivers of the overall demand for houses, especially in major urban areas and employment centres. Consistent with the underlying demand, it is crucial to formulate a holistic planning and implementation system to provide sufficient quality housing that is affordable for the low- and middle-income households.

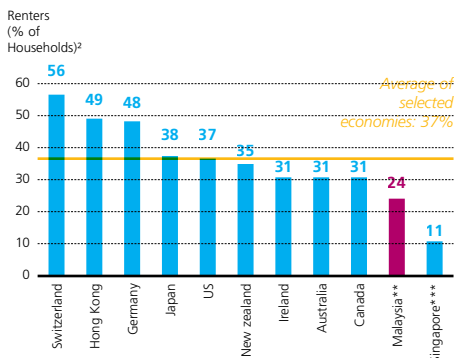
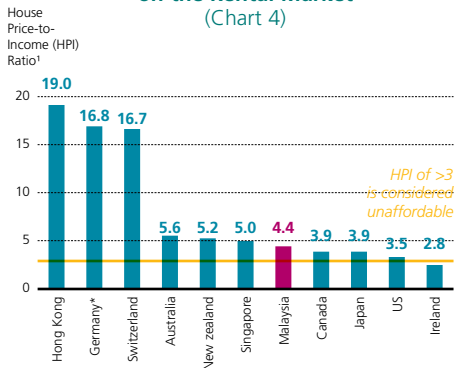
Policy experiences in other countries

In Korea and Singapore, the establishment of a single entity focused on affordable housing matters resulted in an alleviation of the mismatch between housing demand and supply. The entities in these countries, the Land and Housing Corporation in Korea, as well as the Housing and Development Board (HDB) in Singapore, are responsible for spearheading, centralising and coordinating national and state initiatives related to affordable housing. The consolidation of the various affordable housing entities under one agency had not only allowed for more effective resource planning in these countries, but had also lowered development costs through economies of scale.

Singapore had also successfully reduced its overall construction costs with an extensive adoption of the Industrialised Building Systems (IBS) in its public housing projects. The use of IBS in about 80% of all the HDB buildings had resulted in labour cost savings of more than 45% compared to conventional methods while the construction period had also been significantly reduced, with improvements in the quality of buildings given lower labour intensity and construction standardisation.

In other countries, the rental market is generally accorded equal priority in national housing policies, serving as an important alternative to homeownership. This is evident particularly in countries with unaffordable house price levels⁵ (Chart 4). In Switzerland, Hong Kong and Germany, the vibrant private rental markets have contributed towards ensuring sufficient supply of houses to meet the needs of households with diverse income levels and preferences, as well as the shifting demographics. With changing social preferences in a highly globalised world, renting offers households the flexibility and mobility to move for career and education opportunities.

Countries with Unaffordable House Prices Generally Have a Strong Focus on the Rental Market
(Chart 4)



Note:
 1. Data as at 3Q 2015, with the exception of Switzerland (2012) and Germany (2013).
 2. 2014 data, with the exception of Canada (2011), Japan, New Zealand, Singapore and Switzerland (2013).
 * Median house price in Germany refers to the median price of single-family houses in Frankfurt, with a built-up of 150 square metres.
 ** For Malaysia, the figure includes households living in quarters.
 *** The high homeownership rate in Singapore reflects the dominance of public housing. About 80% of its population lives in Housing Development Board (HDB) units, where 95% are owner occupiers (Phang, 2010).

Source: 12th Annual Demographia International Housing Affordability Survey 2016, National Property Information Centre, Department of Statistics, Malaysia, National Authorities, Global Property Guide and Trading Economics.

Conclusion

Malaysia is undoubtedly experiencing a shortage of supply of affordable houses particularly in major urban areas. This trend, if left unchecked, may lead to deeper imbalances in the property market. A comprehensive and carefully-designed national planning policy is needed for the property market to help support the Government's aim of delivering more housing.

Ensuring that the low- and middle-income households have access to quality affordable housing involves not only commitment from the Government, but also support from the private sector. The experiences of other countries illustrate that construction of more public housing forms only a part of the solution. There is a need for the consolidation of multiple providers of affordable housing across the state and national levels and an equal focus on the rental market.

1. The estimate assumes that all households are looking to own and are able to afford a house. Currently, there are about two houses for every three households, suggesting some accommodation sharing among households, which underpins the demand for house ownership.
2. This refers to the increase in the number of households at one point in time versus another point in time (i.e. new household formation minus household dissolution through one or two heads of households joining into a single household and/or through the death of a single-person head of household).
3. The lower house-building activity reflects partly lower property launches and sales by developers.
4. The estimate reflects a continuation of historical trends in terms of household formation and the capacity of households to exercise choice in owning a house. Net household growth is thus assumed to continue to expand at its long-term average (between 2005 and 2015) of 2.6% annually between 2016 and 2020.
5. House price-to-income ratio of more than 3.0.



Seminar on Critical Real Estate Issues Q1 2016



Mr Chris Tan (second from right) moderating the panel discussion on strata laws.

REHDA Institute organised a one-day seminar entitled "Critical Real Estate Issues Q1 2016" on 19 May 2016 at Wisma REHDA. The seminar, which was well attended by 130 participants and facilitated by an array of experts, addressed three current pertinent issues in real estate industry namely Goods and Services Tax (GST), Strata Management Act and its Regulations as well as banking and mortgage policies.



Mr Michael Yeoh sharing on the mortgage trends with the participants.

Speakers Mr Michael Yeoh (CEO of GM Training Academy PLT), Mr Jared Lim (MD of Loanstreet.com) and Mr Thong Mun Wai (Head of RAM Ratings' Real Estate & Construction) provided participants with insights on the current mortgage trends and tips on how to maximise the approval rate for mortgage applicants. Financial technology was also shared on how it ensures efficiency in the mortgage banking industry.

Participants were also briefed on the issues faced by the construction and property sector after the implementation of GST. Mr Richard Oon (National Tax Director of TY Teoh International), Mr Saravana Kumar (Tax Law Specialist and Partner of Lee Hishammuddin Allen & Gledhill) as well as Mr Nick Giannopoulos (ED of PricewaterhouseCoopers) provided an overview of the current and key challenges faced by the industry players while sharing their insights from the legal perspective.

The seminar concluded with a panel discussion on the strata laws and its related issues which was moderated by Mr Chris Tan (Managing Partner of Chur Associates) along with Tan Sri Datuk Eddy Chen (REHDA Institute Board of Trustee and President of Malaysia Shopping Malls Association), Mr Ngian Siew Siong (Past Chairman of REHDA Selangor) and Tn Roshan Karthi (Senior Legal Officer, Strata Management Tribunal) who deliberated on the different perspectives of strata living in Malaysia and the challenges faced.

QLASSIC Workshop

REHDA Institute, in collaboration with CIDB, held a QLASSIC workshop entitled "New QLASSIC Assessment: A Better Assessment System Compared to CONQUAS?" on 24 May 2016 at Wisma REHDA.



Sr Joshua Kang (left) and Mr Chuang Kuang Hong during the workshop.

The seminar, attended by 60 participants, was conducted by Sr Joshua Kang, Operation Director of Canaan Building Inspection & Rectification Services who has more than 10 years experience in construction quality. The main objective of the workshop was to share the latest updates on QLASSIC Assessment and enhance participants' understanding on its principles and methods. The speaker also highlighted certain criteria and strategies that could increase the QLASSIC score rating. The panel discussion, moderated by Sr Joshua Kang along with two representatives from CIDB's Safety Health and Environmental Quality Department namely En Khairun Nizam Sulaiman, Senior Manager and Mr Chuang Kuang Hong, Manager was indeed fruitful as participants were able to seek further clarification on the importance and benefits of using QLASSIC in their developments.

Participants at the workshop.

