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## Demystifying affordable housing issue in Malaysia

by **CHEAH SU LING & STEFANIE JOAN ALMEIDA**

SINCE 2012, the increase in house prices in Malaysia has outstripped the rise in income levels. Consequently, prevailing median house prices are beyond the reach of most Malaysians. This is primarily attributable to a gross mismatch between housing supply and demand amid diverging expectations between households and developers. The issue has been compounded by the fact that the distribution of new housing supply has been concentrated in the higher-priced categories. The undersupply of housing is particularly acute in the affordable housing segment.

Affordable housing is broadly defined as housing which is adequate in quality and location, and is not so costly that it prevents its occupants from meeting other basic living needs.

The issue of affordable housing reflects mainly the supply-demand imbalances in Malaysia, which worsened during the 2012-2014 period.

During these years, new housing supply fell short of the increase in demand (average supply of 85,000 new units versus the formation of 118,000 new households). This is in contrast to the period 2007-2009, when the new supply exceeded the demand for housing.

Secondly, the effect of the supply shortfall on housing affordability was exacerbated by the slower increase in household incomes (12.4%) relative to house prices (17.6%). Both of these trends were more acute in key states.

A third factor which worsened the housing affordability issue was the trend of higher property launches in the price categories above RM250,000. While there were more launches during 2012-2014, the number of new

affordable housing units for households earning the median income (below RM250,000) was less by 16,200 units per year since the period 2008-2009.

For homebuyers, bank financing for the purchase of residential properties for qualified borrowers continued to be available. Growth in loans outstanding for home purchase averaged at 13.2% during 2012-2014 (2008-2009: 9.8%). While this moderated to 9.2% in 2016, this moderation was due to the softer housing market.

The demand for affordable housing had supported the expansion in end-financing by banks for residential property purchases. As at end-2016, about 56% of loans outstanding were for houses priced below RM250,000, while loans for houses priced between RM250,000 and RM500,000 accounted for another 25%. Rejection rates for housing loan applications also fell further to 23.6% in 2016 (2012-2015: 26.1%). These trends are evidence that financing remains ample for eligible homebuyers.

Similarly, house builders continued to have access to bank financing. Loans for real estate activities and residential property construction increased at a healthy rate of 11.7% in 2016 (2012-2014: 18.5%), reflecting the fewer property launches and incoming supply.

### Conclusion

The housing market in Malaysia has not been able to provide an adequate supply of affordable housing for the masses. This undersupply of affordable homes is likely to worsen going forward, given current trends in income and demographic factors.

Going forward, a carefully designed

strategy of policy interventions is required for the housing market to ensure that it is able to accommodate households of all income groups. Meeting the demand of affordable housing units going forward will require the commitment of both the government and the private sector. The establishment of a central agency to consolidate the provision of affordable housing, as well as a central repository, is key. Additionally, reducing costs associated with the development of affordable housing through the implementation of cost-saving and productivity-enhancing technologies would increase the speed and scale of delivery of affordable housing projects going forward.

On the demand side, the development of the rental market to bridge the affordability gap could relieve some of the pressure on the government to build all of the affordable housing needed. This should be complemented by more innovative schemes to fund the delivery of affordable houses.

As for end-financing, as in other countries, the central bank has introduced macroprudential measures to deter speculative activity in the housing market and to avoid over-borrowing beyond one's means. It is important to note that these measures do not in any way hamper access to financing for eligible borrowers including those who are first-time buyers.

To conclude, while the challenge of bridging the affordability gap is significant, the experiences of other countries show that using a creative mix of innovative and targeted policies, it is not unsurmountable.

*Extracted from a box story in the Bank Negara Malaysia Annual Report 2016.*