

A STUDY ON FACTORS CAUSING THE DEMAND-SUPPLY GAP OF AFFORDABLE HOUSING

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ABSTRACTThe demand-supply gap of affordable housing has been a serious issue in Malaysia and if the issue is not resolved, will exacerbate house ownership and accommodation problems in many urban areas throughout the country. The aim of this study is to explore the factors that cause imbalance distribution of housing due to the increasing need for housing and to propose effective measures to manage the demand-supply gap. Questionnaires have been distributed and thirty one feedbacks have been received from the respondents. Quantitative methodology is utilised to examine the results acquired from the questionnaire. The outcome indicates that the respondents want the government to provide more effort on resolving the housing problem. Therefore, actions ought to be made by the respective parties to correct this issue with a specific end goal to mitigate the shortage in supply of affordable housing. The results of this research conclude that people want the government to monitor the housing industry more effectively, the locations with severe shortage of affordable housings are Kuala Lumpur, Georgetown, Klang Valley and Petaling Jaya and the severity of the affordability of housing market in Malaysia needs to be made aware to the public to prevent further deterioration of the conditions.

Keywords: Affordable housing, demand-supply gap, housing policy, socio-economic impact.

1. INTRODUCTION

The meaning of affordable housing generally encompasses on a “households should pay no more than 30% of their income for housing, including utilities” [1]. Affordability of accommodation issues in Malaysia have never been managed in subtle element and not much study has been carried out on housing affordability. The implication 'rumah mampu-milik', which has been broadly utilised by housing developers in Malaysia, is mostly their selling point without alluding any settled facts or index as base point [2]. In 1982, the Government forced a 30% low cost housing amount upon private sector developers as a social commitment to backup Government effort to provide affordable housing [3] to the low income households.

Causes of demand-supply gap of affordable housing are mismatch of developers on the needs, which can be price level or geographical location [4]; unfavourable government policies, that are related to foreign purchasers and land use zoning [5]; loan availability problem, where about 60% of loan applications have been rejected because applications do not qualify [6]; developers' strategy of profit maximisation, where cross subsidies have reduced their profit margin [7]; considerably high property taxes, high stamp duty and increasing Real Property Gain Tax [8]; high land cost, land has appreciated considerably throughout the country [9]; high construction material costs, this is due to increase in transportation charges and also material costs per se [10]; and sudden increase in demand, but supply on the other hand is inelastic in nature [11].

The aim of this research is to study the factors that cause imbalance distribution of housing vis-à-vis demand and to suggest effective measures to manage the demand-supply gap. The four objectives are stated below:

1. To identify the significant role played by the state and federal government in providing affordable housing.
2. To investigate the reasons for the shortage of housing in different specific categories.
3. To recommend strategies to generate more housing to meet the needs.
4. To identify the different socio-economic impacts caused by the shortage of affordable housing

2. RESEARCH METHODOLOGY

The study concentrate on the four primary objectives. In meeting the objectives, the information gathering was directed in supporting to the literature review. The information accumulation was directed by utilising questionnaire to the target respondents comprising property developers, consultants and government departments throughout the whole Malaysia.

In carrying out this research, sources of information are journals, websites and textbooks which are reflected in the literature review. Questionnaire has been designed and sent out to 100 respondents and the response rate is 33 %. The question comprises Section A on background of respondent, Section B on awareness of the housing shortage, Section C on factors causing demand-supply gap, Section D on strategies to minimise shortage, Section E on socio-economic impact and Section F on government policies and involvement in provision of affordable housing. The questionnaire were distributed through email and hand delivered.

3. FINDINGS AND DISCUSSION

The findings of this paper can be grouped and discussed based on the following three main categories:

3.1 Demand-Supply Gap in Different Locations

Results of the survey shows the ranking of different towns and federal territories with their level of shortages of affordable housing. According to the results above, an overall average index of 3.14 is obtained with means that the respondents are neutral to the level of shortages for the whole of Malaysia. Ranking top of the list is Kuala Lumpur with the average index of 3.90 stating high shortage that is obtained from the respondents. Followed with Georgetown, Klang Valley & Petaling Jaya and Johor Bahru with the average index of 3.74, 3.68 and 3.52 respectively rated as high shortage too. Other places like Kota Kinabalu (3.39), Putrajaya (3.26), Malacca Town (3.23), Kuching (3.06), Seremban (2.96), Alor Setar (2.90), Kuantan (2.87) , Kota Bahru (2.77) , Kangar (2.74) and Kuala Terengganu (2.74) are rated as moderate by the respondents. Lastly, Labuan is rated as low shortage with the average index of 2.35 meaning there is less demand for affordable housing in that location.

According to the Khazanah Research Institute, locations such as Kuala Lumpur and Penang Island are both severely unaffordable with the median multiple (median house prices as a multiple of median annual household income) of 5.4 times and 5.2 times respectively. However when compared to Melaka with the median multiple of 3.0 times makes Melaka is a more affordable location [4]. The average house price in Penang has increased by 50% in the past 5 years and it is mostly driven by the property on the island. A single storey terraced property is around 3 times more expensive on the island, compared to the mainland while 2/3 storey terraced property is between 2.4 and 4 times more expensive on the island than the mainland [13].

Using the median house price to median annual income ratio as recommended by the World Bank and United Nations as a guideline for the year 2012, we are seeing a median multiple of 4.5, which is classified by the 10th Annual Demographia International Housing Affordability Survey 2014 (DIHAS) as “seriously unaffordable” [14].

3.2 Socio-Economic Impact

The results have identified seven economic impacts of shortage of affordable housing which include poor housing condition in town areas (slump area), oversupply of high cost houses, crowded rented premises, range of housing price become wider, bank loan will be difficult to obtain and rental fee will increase due to high demand for accommodation. According to survey, an overall average index of 3.71 is obtained which means that the respondents agree that the overall impact on the above socioeconomic factors is high.

The rental fee will increase due to high demand for accommodation is the highest ranked socioeconomic impact with the average index of 3.84. When there is a lack of supply of affordable housing, people who are unable to own houses need to rent. The second ranked impact is difficulty in getting bank loan for potential buyers, with the average index of 3.81. The third ranking impact is range of housing price become wider with average index of 3.71 as the prices of houses will be higher and further apart when compared with the prices of affordable housing.

The impacts that rank between 4 to 6 are crowded rented premises, oversupply of high cost houses and poor housing condition in town areas (slump area) with the average indexes of 3.68, 3.65 and 3.64 respectively.

3.3 Factors Causing the Demand-Supply Gap of Affordable Housing

From the respondents' feedback, high material cost ranks the top among others with an average index of 3.87. The price of raw materials has increased significantly, the prices of all types of commonly used construction materials have increased by 15% to 30%. For example, a huge price hike in the cost of steel was evident in 2008, with the price jumping by 150% between 2006 and 2008 [13].

Based on the statement above, it proves that the rising of the price of construction material can be a great effect to the price of affordable housing. Unfavourable government policies rank the second, at the average index of 3.84. Examples of Government policies are regulation on foreigner purchaser and low cost quota in certain areas. The government focus on helping the property industry in Malaysia to remove the low cost housing quota from the private sector in high shortage areas and help develop an alternative business models to provide and finance quality affordable housing [15]. Lack of enforcement of control and monitoring by the local government on type of housing built is ranked at number 3, with the average index of 3.81.

Local government must take a leading role to monitor property prices and take appropriate and timely measures to avoid unhealthy and unsustainable run up in property prices [15]. Availability of loan ranked at number 4, with the average index of 3.68. According to the PropertyGuru survey, the lending conditions were tighter that led to a higher property loan rejection rate in 2015 [8]. In terms of rejection by banks for end-financing, 30% of those rejected are within the RM250,001 to RM500,000 price range while 24% are within the RM500,001 to RM700,000 price range [16].

4. CONCLUSION

In conclusion the areas with highest demand-supply gap in Malaysia are Kuala Lumpur, Georgetown, Klang Valley & Petaling Jaya and Johor Bahru where prices of properties have shot up many folds. The main cause of the demand-supply gap are high material cost, unfavourable government policies and lack of control and monitoring by the government on type of housing built. As a result, this shortage of relevant housing has caused socioeconomic impact such as sharp increase in housing prices, creating bank loan problems for potential purchasers, high rental fees in cities as more people are forced to rent and certain urban residential areas are overcrowded.

In view of these consequences, respondents suggested that the government should review current policies and implementation of new housing programmes to avoid the mismatch demand-supply on the types of housing required. In order to formulate new policies and strategies, there is a need of an integrated database on housing to ensure that the housing supply matches the needs according to the location, price and target group as there is currently a limited data available to allow each state to adequately plan for the housing needs of the population and allow house buyers to make informed purchasing decisions. In order to accomplish this, data must be updated based on demand factors such as demographic patterns and assessment of household incomes, and supply factors like assessment of land suitability with current land use and providing land for housing purpose, existing and incoming housing stock.

Another suggestion by respondents to solve the shortage of supply is to consider more construction under the Industrialised Building System (IBS) as currently being promoted by the Construction Industry Development Board (CIDB) and the Government to expand the skills of developers and also a rise in the technology of construction. The IBS can provide better planning and scheduling on constructing not only low cost housing but also medium cost housing. IBS provides the benefits of high quality finished products and minimal wastages due to factory controlled prefabrication environment; faster completion due to the IBS components replacing in-situ construction; reduce unskilled workers and fewer site workers; neater, cleaner and safer sites due to reductions of construction debris, site workers and materials. Both CIDB and the Government should promote and give incentives to developers that are willing to implement on these technologies and method of construction.

It is pertinent for government and private sector developers to take initiative to provide housing with innovative design with reasonably good quality finishes at affordable prices for the basic shelter of an average working class.

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