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- **House** prices still rising at a faster rate than incomes
- **Mismatch** of supply and demand has gradually impeded people's ability to buy a home



by Sulaiman Saheh

The issue of affordable housing is not new. We often see the masses voicing their grouse of being in a situation where completed housing units are "a sight to see, but not a sight to buy".

The opportunity to own a house seems to be getting further away from most Malaysians, as house prices are growing at a faster rate than income levels.

What is the actual definition of affordable housing? What are the indicators to measure the affordability of owning a home in Malaysia?

According to United Nations Human Settlements Programme 2011, affordable homes are defined as a physical home that completes a human being's basic necessity on the basis of quality, location and affordability, while providing room for other daily expenditures.

McKinsey Global Institute interprets affordable housing as not only including the financial component, which generally takes up no more than 30 to 40% of household income, but also affording a basic, socially accepted standard of living. This is based on the income group being targeted and a clearly defined category of households, which need direct government intervention to owning a home.

Measuring affordability

This is to ensure qualified recipients of the financial aid actually get it and that the aid or subsidies given are appropriate to their income level and living standards.

United Nations Centre for Human Settlement (UNCHS) and the World Bank have proposed a methodology to measure the affordability level of an individual in owning a house, called the Median Multiple (MM).

Also known as the "House-Price-To-Income Ratio", it is the ratio of the price of homes in the market to the gross annual household income. According to this methodology, a housing unit is considered affordable if the price is less than thrice the annual household income.

According to Bank Negara Malaysia (BNM), the ratio of median house price to median household income has consistently been above 4.0, or four times the annual household income. It was also stated that the maximum price of an affordable housing unit is estimated to be at RM282,000 only, but the actual median house price in the market



In a city like KL that is continuing to grow rapidly, affordable housing is increasing in demand

Budget 2019: A question of affordability

has reached RM313,000.

The Real Estate & Housing Developers' Association (Rehda) made a similar point in its most recent publication release entitled "Affordable Housing: The Game Plan Transformation". According to Rehda, in 2016, the house-price-to-income ratio was 4.8, indicating the market prices to be almost five times the median household income. This is evidence that the market prices can be categorised as "severely unaffordable" and is beyond the financial capacity of most home buyers.

BNM's Fourth Quarter Report of 2017 identified several factors contributing to this growing unaffordable home dilemma. They are the mismatch of supply and demand, the rise of newly launched housing units priced above the affordable level, and the growth of house prices surpassing the growth of household income.

The mismatch of supply and demand has gradually impeded people's ability to buy a house. By this year, it was estimated that between 1.8 million and 2.2 million homes were needed to accommodate the demand of 7.8 million households across the country. This estimation is derived from the statistics of the Valuation & Property Services Department (JPPH).

Just two years ago, the house ownership rate as revealed by the Department of Statistics Malaysia (DOSM) was at 76.3%. However, Kuala Lumpur and Selangor had

lower-than-average ownership rates of 62.2% and 70.2%, respectively.

The spectre of high-priced new property developments aggravated the unsold situation. While developers favour projects of high value, buyers seek homes that are within their means.

The First Half 2018 Report by JPPH revealed that the number of unsold residential units, including serviced apartments and SOHO, stood at 41,998 units and of this, 76.7% (32,213 units) are priced above RM250,000. Going by type, 58% of the unsold residential properties are high-rise, comprising condominiums, apartments, serviced apartments and SOHO.

With this number, the residential property market is indeed beyond the reach of many, par-

ticularly the Bottom 40% (B40) income group.

The third factor of unequal growth in median house price and median household income can be seen from the JPPH statistics, where between 2009 and 2016, the CAGR for All House Price Index was at 9.25%, whereas according to DOSM, the average household income growth rate was at a slower 8.13%.

This gap between the growth of house price and household income further added to the people's inability to afford a significant portion of houses up for sale.

With the tabulation of Budget 2019 on Nov 2, a mixture of sentiments were felt on what was funded and what was taxed. In line with the promise to solve the affordability conundrum, billions of ringgit were allocated to assist first-time home buyers via 1) financial aid for homes priced below RM150,000, 2) Real Property Gain Tax (RPGT) exemptions for low-cost and affordable homes priced below RM200,000 and 3) stamp duty exemption which is aimed at reducing the high number of unsold residential units.

The third is interpreted as helping to reduce the overhang due to the six-month period from Jan 1, of stamp duty exemption

for first-time buyers of homes priced from RM300,001 to RM1 mil.

This is further supported by the fact that 76.7% of unsold units are priced above RM250,000. An alternative solution to house ownership was also proposed in Budget 2019 known as property crowdfunding. Its first execution is done via the newly launched FundMyHome scheme.

Looking at all this, there is positive expectation for the home ownership rate to improve. Unfortunately, it seems to be at the cost of existing property owners with the increase in RPGT for all categories. Now, even Malaysian property owners are taxed after the fifth year at 5% whereas previously, it was at 0%. Though the intention was to curb speculation, the move seems to be placing a burden on all property owners indiscriminately.

Goal looks more reachable

In summary, home units are, as a whole, deemed to be "severely unaffordable". If no effective action is taken, things will only get much worse. Actions and plans proposed in Budget 2019 were seen to clearly favour first-time home buyers but a heavier burden was placed on current property owners.

While we welcome counter-measures to improve the slow-moving market, it should not be at the cost of long-term sustainability.

In the past, there were more than 20 federal and state-level agencies working on the provision of affordable homes. But with the recent action taken by the Ministry of Housing and Local Government, by unifying all these bodies under one roof, the goal of providing one million more affordable homes by year-end appears to be more reachable than before. Research

Sulaiman Saheh is director of research at Rahim & Co International, a real estate consultancy firm



Since 2004, the median house price has consistently been above four times the annual household income, according to BNM