

Headline	Compliance costs should be stripped out for affordable housing projects		
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Compliance costs should be stripped out for affordable housing projects

- **Government** should be the one championing social and public housing via the National Housing Council as master planner
- **Cross-subsidisation** no longer a sustainable model



by V Sanjugtha

If the government is serious about rolling out affordable housing for the rakyat, it is time to consider stripping out compliance costs and making it more feasible for developers.

Doing away with compliance costs imposed by the authorities will reduce the total cost of construction, allowing for a more sustainable model for the construction of affordable homes.

REDHA Institute chairman Datuk Jeffrey Ng points out that given the constraints developers have to work with today, such as escalating land prices and the soft property market, it is about time compliance costs are stripped out of construction costs associated with building affordable housing undertaken by developers as part of the cross-subsidisation program imposed by the government.

Speaking at the 12th Malaysian Property Summit, organised by the Association of Valuers, Property Managers, Estate Agents and Property Consultants in the Private Sector, Malaysia (PEPS), Ng opines that the rising cost of land, stemming from its scarcity, makes it difficult for developers to sustain building affordable houses within the stipulated cost framework.

He believes that to create a more conducive and feasible public-private partnership, the government should provide the land for affordable housing.

"Land is a scarce resource and to be able to do affordable housing on scarce resource is difficult," he says.

However, he adds that if affordable housing were to continue being a product developers have to offer, then all compliance costs associated with it ought to be removed.

Compliance costs refer to all expenses a developer incurs in order to adhere to industry regulations. Typically, these costs increase as regulations that concern the industry increase.

In the local housing industry,



An artist's impression of SkyArwani 3 Residence in Setapak, being developed by SkyWorld Development Sdn Bhd, which demonstrates that affordable homes need not look like the old government blocks

compliance costs comprise development charges, Improvement Service Fund contribution, strata title application and land conversion premium.

Suraya Ismail, director of research in Khazanah Research Institute (KRI), has found that compliance costs are likely to comprise about 2%-5% of total development cost.

These include cost of building utility facilities at the property project.

Under the National Housing Policy (NHP) 2.0, which was approved last November, utility companies providing electricity, water and telecommunication services will now have to pay for the building of the respective facilities at affordable housing schemes, and bear the associated costs.

Suraya notes that an analysis of the gross development value (GDV) and gross development cost (GDC) of some of the developments in every state was carried out to determine the actual compliance cost. This was prior to the implementation of the NHP.

"We asked for the GDV and GDC from the housing developers in every state to gather evidence of how much these compliance costs are and what they comprise," she says.

These costs, she adds, depend on whether the project is

a township or a smaller subset of the township as the contribution costs to the local authorities varies.

Suraya reveals that the contribution to private utility companies and local authorities range between 2% and 5% of total development cost, with certain quarters claiming a higher quantum related to the scale of the development.

"It remains an empirical question whether this is the real cost of profit or if that [compliance cost] can reduce house prices.

"There are many things that create house prices and land cost is one of them," she opines.

Triple play

Khong & Jaafar managing director Elvin Fernandez tells *FocusM*



If developers have to continue to offer affordable housing, then all the associated compliance costs ought to be removed, says Ng



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Buyers are aware that property developers are cross-subsidising their projects especially where the developments comprise a higher-end condominium next to an affordable apartment project. Picture is for illustration only



Fernandez: Three factors in bringing down house prices using market mechanism

that for the housing industry in general, not specifically to the affordable housing segment, to bring down house prices using market mechanism, there are three items at play: compliance costs, infrastructure and building costs and developers' profits. "Bringing these three down will help in bringing house prices down in the long run through the market mechanism," he explains. However, he adds that of the three, the contribution of compliance costs accounts for the smallest portion.

Therefore, bringing it down, or stripping it out for the affordable housing segment, is likely to bring house prices down only marginally.

If not compliance costs, then what?

"Developers' profit is a bigger contributing portion, but I do not imply forcing developers to bring down their profit expectation through some administrative fiat. What needs to be looked into is reducing risk in the industry and then this will come down," he contends.

Fernandez points to building costs as a means for a more drastic reduction in house prices in the long term.

Acknowledging that it will not be easy, he suggests that a

reduction of building costs by as much as 50% through the market mechanism could effectively see house prices dropping.

"For this to happen, there must be a substantial initiative from high levels for putting in place an effective industry-wide scheme for industrialised building systems," he stresses.

Suraya points out that land costs is also a factor in house prices, describing land as a derived demand - value largely derived from the perceived demand or potential placed upon it.

"If you think you can sell a house for RM1 mil based on the last transacted price in that area, the land adjacent to it will be priced accordingly," she explains.

Therefore, developers who purchased their landbank during the days of a steep house price index, from 2009 onwards, are straddled with a very high capital cost of land, thus leading to the need to factor in a higher selling price, citing high land costs.

This is contrary to the common notion that land price determines the house price.

Reiterating that house prices are an interplay of many factors in an industry that is not a controlled or regulated marketplace,

she points out that the land price is just another cost of development.

"We can go to each pillar that makes up these costs and slash it down, but will house prices actually go down," she asks.

Masterplanner for affordable housing ecosystem

Looking at the need to develop a sustainable model for affordable housing, Ng believes the National Housing Council should take on the role of a masterplanner, as is being done by the Urban Redevelopment Authority in

Singapore to create an ecosystem for affordable housing zones, then parcel it out to the private sector through tenders for the land.

"This way, at least the developer will know that within the masterplan, all the transportation systems, the schools, recreation facilities, industrial parks and offices which create jobs and the shopping malls where the work and play come in, are all in place," he notes.

Ng adds that when the ecosystem is in place and a conducive environment has been created, there is no reason why

there should be unsold units of affordable housing, as is happening currently.

Ng, who is also the CEO of Sunway REIT Management, opines that another leg up for the housing sector would come from the government tendering out the infrastructure works based on support from the private sector.

He cited the example of Sunway Bhd's RM20 bil-odd contribution for the Bus Rapid Transit project, accounting for about 50%-80% of its cost.

This enabled the government to fulfil the social agenda of meeting the rakyat's transportation needs at a lower cost.

From Sunway's perspective, it improved connectivity and ostensibly raised the value of its property in the vicinity.

"It's a win-win opportunity for all parties," he points out.

In the city where scarcity of land has driven up the price of land, can affordable homes still be built?

