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Property sector should be demand-driven

○ Demand-driven approach emphasises the importance of transparency and necessitates efficient information collection in order to meet the people's housing needs.

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KUALA LUMPUR: The Asian Strategy & Leadership Institute's (ASLI) Centre for Public Policy Studies (CPPS) is urging the government to adopt a demand-driven approach, instead of a supply-driven approach, to encourage market demand to lead the property industry.

CPPS senior policy analyst Jarren Tam said historically, Malaysia has leaned towards a supply-driven housing policy, which means that the government focuses on factors such as cost reduction, provision of cheap foreign labour, subsidies to suppliers for technology adoption and credit market leniency for loans.

He said supply-side subsidies are aimed at financing construction and these subsidies can be a useful mechanism particularly where local construction industries are underdeveloped and subsidies are integrated to grow the local construction industry over time.

However, international experience has highlighted the challenges of incentivising developers to use these subsidies effectively to provide suitable housing in well-located areas.

Although it encourages the private sector to plan development and build houses in anticipation of future demand, Tam said this method is also essentially commodifying houses as a commercial product and leads to financing difficulties over the long-term when the housing supply becomes over-abundant and prices are inflated beyond sustainable rates.

"Currently the developers are leading the industry. They take the money first, go and build the house and as you slowly pay, they finally complete the project after four years. But

this programme only works if you're a big developer and you know that they are not going to run away with your money and will build the house. For small developers, you don't know whether they will be there in four years time. You pay first and hope that they will fulfill (their obligation)," Tam told SunBiz at the ASLI-CPPS Thought Leadership Series on Housing Policy roundtable discussion recently.

On the other hand, he said a demand-driven approach emphasises the importance of transparency and necessitates efficient information collection by government agencies to fill the obvious information gap and build houses that better reflect the people's needs.

Moreover, government assistance can be distributed through targeted housing subsidies, further strengthening the purchasing power of house buyers and promoting healthy price competition.

Tam said developing countries have increasingly been using demand-side programmes to increase access to housing services among the poor.

The premise for providing housing assistance is that adequate shelter is a basic need that governments have a responsibility to help to fulfill. Housing assistance can aid in achieving other important policy goals such as promoting home ownership and developing the market-based housing sector.

"The problem for the poor is not the unavailability of housing, but a lack of sufficient funds to pay for housing. Exploring the feasibility of grants give the lower-income population the funds that make this private housing affordable. The demand for quality housing created by such subsidies would

stimulate construction of private housing where necessary.

"The strategy has been increasingly popular in more developed economies with better functioning housing markets and higher-incomes; which we believe Malaysia has reached, and whereby subsidies can be targeted towards particular low-income households where purchasing power is their main barrier to affordable housing."

Nevertheless, Tam said demand-side subsidies tend to be ineffective in localities where housing supply is constrained by stringent planning restrictions and limited land availability. When these restrictions prevent increases in the quantity of housing provided, demand-side subsidies simply translate into a rise in house prices. This signals a cautionary approach when considering a subsidy policy.

"Ultimately, housing policy must balance the often-competing goals of expanding the ability of low-income households to pay for decent housing while at the same time working to limit the adverse effects of price inflation. Many variables need to be considered, such as both demand and supply-side strategies, which can be a useful policy tool to address targeted specific issues in the housing market."

For instance, although subsidies can be a useful tool if used to target specific segments, it cannot comprehensively tackle the fundamental reason behind the affordability gap namely, high construction costs.

High production costs are often caused by artificial distortions in land and construction markets and reforming them can have a much deeper and more sustainable impact than subsidies.