



02 NOV, 2019

Cross-subsidisation costing the rakyat

The Star, Malaysia



REHDA

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HIGH COMPLIANCE COSTS

- CONSTRUCTION OF ROADS, INFRASTRUCTURE AND UTILITY SERVICES
- AFFORDABLE HOUSING QUOTA
- SURRENDER OF LAND FOR UTILITIES & OTHER PUBLIC FACILITIES (SCHOOLS, PLAYGROUNDS, ETC)

HOUSING PRICE INCREASE

Cross-subsidisation costing the rakyat

Food for thought
ALAN TONG

HOW much does it cost a fresh graduate to own a car in Australia and in Malaysia?

On an average income of A\$55,000 per year (RM155,375), a fresh graduate in Australia can easily buy a Honda Civic worth A\$25,000 (RM70,625) with half a year of his salary.

When I first started to work as an assistant architect in the Kuala Lumpur Municipal Architect Department in the 1960s, earning RM628 per month, I was able to buy my first car, a Peugeot 404 which cost RM7,724 with one year of my salary. It was a big car, way too big for a fresh graduate! So it became my reliable companion for 14 years.

Those were the good old days in Malaysia when a car could be bought with just one year's salary of a fresh graduate.

Today, our fresh graduates earn an average of RM30,000 per year (RM2,500 per month). It would cost them four years' salary to purchase a Honda Civic of around RM120,000. Myvi, our local car, would still cost them around two years' salary.

For our graduates, the cost of purchasing a car today is without a doubt much higher than their counterparts in Australia. Imagine if the selling prices of our medium and higher-range cars were to be increased in order to subsidise the lower-range cars, how would this impact the overall costs of cars in our country?

You may find this idea ridiculous. Yet this is exactly what is happening in our housing industry.

All private housing developers are required to pay compliance cost including statutory contributions (contribution to build roads, drainage, electricity, water, and sewerage system, etc), processing fee, land matters and others.

On top of that, other hidden compliance costs such as the low-cost housing quota and surrender of land for utilities are absorbed by housing developers.

Since 1982, private developers have been required to allocate a 30% quota for low-cost housing when they develop new projects. The controlled selling prices of these houses ranged from RM25,000 to RM42,000.

Based on a study "The Impact of Capital Contributions and Compliance Costs on Housing Affordability" by Dr Foo Chee Hung of MKH Bhd, compliance costs made up the bulk of the development cost. They ranged from 2.8% to 19.9% of the gross development value (GDV) of a condominium development; and 9.5% to 35.1% for a terrace house development.

With such compliance costs, the responsibility of funding infrastructure by utilities companies, and low-cost housing by the government have been shifted to developers slowly but surely over the years. These creeping commitments have had to be passed on to house buyers through higher housing prices over the years.

As a result, developers had to price "high-end houses" at RM500,000 onwards to cross-subsidise the development of low-cost housing. This, of course, burdens the middle-income group as they end up paying much higher prices for their house.

Imagine if car manufacturers were to sell 30% of their cars at a loss while increasing the price of their remaining cars to cross-subsidise the former.

Or imagine if banks were to offer 30% of their loans free of interest while imposing higher interest rates on other segments. From a broad perspective, all these would be considered extremely unfair and unsustainable in the long run.

Therefore, from Foo's research, imposing additional compliance costs such as low-cost housing quota has caused extreme market distortions and an overhang of higher priced units that we are currently facing, due to such cross-subsidisation requirements.

All these costs have also limited the participation of small and medium-sized developers who could have offered more affordable homes, but who are not big enough to carry the heavy burden of cross-subsidies. When I was a Selangor exco member from 1978 to 1982, such low cost quotas did not exist.

Back then, the government and state economic development corporations, such as PKNS for Selangor, were responsible for building low-cost housing, allowing private developers to focus on building more affordable medium and high-cost houses based on market demand.

It was indeed a better approach. The government not only had the land resources, they could expedite the approval process and enjoy the efficiency of scale to build low-cost houses.

In view of the above, the government should review the requirement of a low-cost housing quota and abolish unnecessary charges in the best interest of delivering more affordable houses to the rakyat.

It is important to allow private developers to focus on delivering more affordable houses to cater to the rakyat. After all, developers already subsidise low cost housing through tax contributions.

This will expedite the vision of housing the nation in a more effective way, without burdening the rakyat further.

I am reminded by what a friend said to me of the previous government.

"Why is the government not interested in affordable housing? Because there is literally 'no money' to be made in it!"

With the promise of a clean and transparent new government, my wish for the rakyat is that the new government will finally take the bull by its horns and build affordable housing for the rakyat.

Datuk Alan Tong has over 50 years of experience in property development. He is also the group chairman of Bukit Kiara Properties. For feedback, please email bkp@bukitkiara.com. The views expressed are that of the writer's.

Note: Dear readers, It has been a gratifying nine years of sharing my thoughts with you monthly. Today marks my 100th article here and with that, I will be taking a break from writing. Thank you again for the valuable feedback that I have received over the years. Being my last article for now, I wanted to share something close to my heart over the challenges faced by the industry to deliver affordable housing to the rakyat.



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SUMMARIES

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