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Locality, buildability key determinants of house prices

The Sun, Malaysia



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► Affordability should not be benchmarked on income alone

INCOME and house price are often used to determine the financial affordability level of housing. According to Bank Negara Malaysia's recent statement, houses nationwide are "seriously unaffordable" as it is 4.8 times the annual income of the median household, which is more than the house price-to-income ratio of 3.0 as set by the international standard based on the Median Multiple approach.

While the Median Multiple approach allows for the comparison of housing affordability across countries and within a country over time, it tends to ignore the factor of locality such as the spatial and socioeconomic characteristics of an area.

For example, based on the 2016 Household Income and Basic Amenities Survey Report, the multiplier 3 of Malaysia's median annual income of RM62,736 is RM188,208, indicating the nationwide ideal affordable house price (Table 1). However, at the state level, both the ideal affordable house prices in Kuala Lumpur and Selangor are higher than the one at the country level, at RM326,628 and RM260,100, respectively.

If the scale of measurement is to be based on the city level, housing affordability tends to increase further. Even though located in the same state, the monthly household income for cities can be different from each other. Likewise, the resulting affordable house prices are definitely different from the one estimated at the state and national levels (Table 2). For example, both Mont' Kiara and Melawati are residential areas located in Kuala Lumpur, but the ideal affordable house prices vary substantially, at RM725,760 and RM336,960, respectively.

Given that the property market is dynamic and segmented in nature, one should not solely interpret housing affordability from the macro-scale perspective, but to zoom into the micro-scale level. As stated by the Housing and Local Government Minister recently, affordable houses should be reasonably priced based on the area's average household income. In fact, one of the thrusts in the National Housing Policy (2018-2025) is to develop a localised housing affordability measure, so as to ensure there are no geographical mismatches in terms of the provision of affordable housing.

Unfortunately, the policy has gone beyond just to provide a more practical and accurate housing affordability measurement. It attempts to control house prices, including the free-market homes, which is expected to pose a negative impact to the housing industry. House price control as a mean of direct economic intervention to manage the housing affordability may have been enacted with the best of intentions, but its relevancy needs to be considered deeply, especially from the perspective of economics.

The long history of countries implementing price controls has shown that, at best, it is only effective measure on an extremely short-term basis. Over the long term, price controls inevitably lead to problems such as shortages, rationing and deterioration of quality.

Table 2: Housing affordability based on median multiple approach at selected cities

Location	Median Monthly Household Income (RM)	Median Annual Household Income (RM)	Median Multiple 3 House Price (RM)
Kuala Lumpur			
Mont' Kiara	20,160	241,920	725,760
Melawati	9,360	112,320	336,960
Selangor			
Subang Jaya	15,660	187,920	563,760
Ara Damansara	15,660	187,920	563,760
Shah Alam	15,620	187,440	562,320
Kajang	12,304	147,648	442,944
Putra Heights	12,190	146,280	438,840
Nital	9,430	113,160	339,480

(Source: Survey conducted by MKH Bhd)

Table 1: Housing affordability based on median multiple approach, by state

Location	Median Monthly Household Income (RM)	Median Annual Household Income (RM)	Median Multiple 3 House Price (RM)
Malaysia	5,228	62,736	188,208
Kuala Lumpur	9,073	108,876	326,628
Putrajaya	8,275	99,300	279,900
Selangor	7,225	86,700	260,100
Labuan	5,928	71,136	213,408
Johor	5,652	67,824	203,472
Malacca	5,588	67,056	201,168
Penang	5,409	64,908	194,724
Terengganu	4,694	56,328	168,984
Negeri Sembilan	4,579	54,948	164,844
Perlis	4,204	50,448	151,344
Sarawak	4,163	49,956	149,868
Sabah	4,110	49,320	147,960
Perak	4,006	48,072	144,216
Pahang	3,979	47,748	143,244
Kedah	3,811	45,732	137,196
Kelantan	3,079	36,948	110,844

(Source: DOSM)

In this sense, housing affordability should not be benchmarked on income alone, or to be addressed as a statistical matter by simply relying on the ratio between median house price and median income. By way of locality, the measurement of housing affordability should also take into account the cost that a house is built in a particular location.

The government should realise the fact that financial viability is a key to the project completion, inclusivity, and sustainability. In order for an affordable housing project to kick-start, the unit selling price has to be set appreciably above the cost of construction; otherwise, the construction of affordable housing is made viable only through cross-subsidisation by taxing on free-market houses.

Currently, prices of affordable houses under various government's affordable housing schemes are neither determined based on the standard for what constitutes marketable and economically buildable housing, nor considering the financial sustainability of the projects.

Most often, prices of these affordable houses are arbitrary political figures that tend to treat affordable housing as a merit good that an individual should have on the basis of need, rather than considering the production cost of these houses.

Due to the escalating land cost, affordable houses could become too costly in certain locations; and somewhat, the margins for building affordable houses could even be near to non-existent. The impact of land cost on the viability of affordable housing development can be indicated by comparing the capped selling prices stated in the affordable housing schemes with the median land prices (RM/ft²) in various cities in Selangor (Table 3).

As one can observe, if a 900 sq ft house with the selling

price of RM300,000 is to be constructed in first-tier cities such as Subang Jaya and Petaling Jaya, land cost can be as high as 45% and 44% of the respective house price; as compared to those in the second-tier cities Seri Kembangan (33%) and Puchong (19%); and third-tier cities Semenyih (9%) and Sepang (9%).

Meanwhile, in the case of Rumah Selangorku (RSKU) Type D and E, land cost can be ranging from 54% to 68% if the location is in Subang Jaya (first-tier city); 40% to 50% in Seri Kembangan (second-tier city); and 11% to 13% in Semenyih (third-tier city).

If the rule-of-thumb for the housing development cost is to be applied, where the physical construction cost, land cost, soft cost, and profit margin account for 50%, 20%, 15%, and 15%, respectively; one can find that there are less affordable housing options in the first-tier cities. And somehow, the margins for building affordable houses in these cities are near to non-existent.

From the developers' point of view, the building of affordable houses is only viable in those third-tier cities, if the margins are to be set at 15% (which means the maximum land cost has to be capped at 20%).

While more housing options at the affordable prices are available in areas outside

the Klang Valley region like Sepang, Ijok, Puncak Alam, Banting, Sabak Bernam, houses at such locations might not be preferable to the buyers due mainly to the unmet demand on lifestyle and living environment.

It is obvious that both the "locality" and "buildability" are important determinants of housing affordability. While "locality" provides a more practical measurement in terms of scale, "buildability" is related to the fundamental costs of production of a house; which both of them should be taken into consideration when determining the affordable house price.

Hence, the benchmark on housing affordability should not be limited to the ability/willingness of purchasers to pay for the house, but also to include how much does it cost to build a house in a specific location.

This article was contributed by MKH Bhd manager of product research & development Dr. Foo Chee Hung.

PROPERTY LISTING

in Kota Kemuning

Project: **Luxura**
 Type: **Two-storey and three-storey designer super-link villas**
 Price: **From RM1.26 million onwards**
 Developer: **Gamuda Land**

Luxura is the latest launch at twentive.7 with commodious layout and multi-façade designer homes.

The unique home designs are the first-of-its-kind in Malaysia with sizes ranging from 2,605 sq ft to 3,488 sq ft. The 161 homes are equipped with elderly and disabled-friendly features on the ground floor and installed utilities such as smart home and security alarm systems.

The 15 acres of parkland with a pet-friendly park, lakes, community gardens, playgrounds, jogging and cycling path are built for community living. These homes are expected to complete in 2023.



Table 3: Percentage of land price to selling price for different affordable housing unit by location

City	Median Land Price (RM/ft ²)	Percentage of Land Price to Selling Price of Affordable Housing Scheme		
		National Affordable Homes Policy (RM333/ft ²)	RSKU Type E (RM278/ft ²)	RSKU Type D (RM222/ft ²)
Subang Jaya	149.99	45%	54%	68%
Petaling Jaya	146.59	44%	53%	66%
Batu Caves	112.50	34%	40%	51%
Seri Kembangan	110.51	33%	40%	50%
Balakong	105.42	32%	38%	47%
Ampang	92.27	28%	33%	42%
Cheras	90.17	27%	32%	41%
Selayang	85.76	26%	31%	39%
Puchong	63.33	19%	23%	29%
Shah Alam	62.00	19%	22%	28%
Klang	60.42	18%	22%	27%
Sungai Buloh	59.86	18%	22%	27%
Kajang	59.38	18%	21%	27%
Rawang	54.17	16%	19%	24%
Bangi	52.71	16%	19%	24%
Kuala Selangor	36.00	11%	13%	16%
Semenyih	29.73	9%	11%	13%
Sepang	28.52	9%	10%	13%
Ijok	27.51	8%	10%	12%
Puncak Alam	21.54	6%	8%	10%
Banting	21.01	6%	8%	9%
Sabak Bernam	7.29	2%	3%	3%

(Source: www.brickz.my)



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SUMMARIES

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