

## EFFICIENCY OF HOUSING DELIVERY SYSTEM FOR AFFORDABLE HOMEOWNERSHIP IN MALAYSIA: A REVIEW OF LITERATURE

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### Abstract

Housing is an ultimate need for everyone. Government has implemented various initiatives in order to help low income and middle-income household to own a house. There are several affordable housing programs throughout Malaysia such as PR1MA, first time homebuyer scheme and others. Unfortunately, in year 2016, there are 10,859 units of house were unsold (overhang), which half of the unit is affordable housing. The price for this affordable housing is ranging from RM50,000 to RM300,000. Deficiency of housing delivery system is the key determinant contributed to this emerging concern. Affordable housing units remain unsold even though there is high demand for this type of units. Thus, this paper aims to investigate the factors influencing the efficiency of housing delivery system and problems faced by home buyers before deciding to buy a house. The literature identified, the efficiency key drivers for housing delivery system are housing price, public amenities, location, development neighbourhood, and physical aspect of the housing scheme.

Keywords: efficiency, housing delivery, affordable housing, homeownership

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### 1.0 INTRODUCTIONS

One of the basic needs that human has to achieve is security and safety which is in the second stage of Maslow's Hierarchy Pyramid Theory. Security and safety need to be achieved means that people will feel safe from weather, threats and for resting place because they already have shelter to protect them from all of that. Hence, the house is said to be a basic necessity for human beings other than food and drink. A good home must be able to meet the physical needs, social needs and requirements of the psychological part<sup>1</sup>. According to Tan (2008), owned a house is an ultimate goal for all communities in Malaysia. However, the ability of each household varies according to their income earned<sup>2</sup>.

Thus, Malaysian government has set up special program for low household income and middle household income that is Perumahan Rakyat 1Malaysia (PR1MA) as a catalyst in providing adequate, affordable and high in quality to ensure adequate shelter or protection for Malaysians who have been mentioned and announced in the 9th Malaysia Plan (RMK-9)<sup>3,4</sup>. Even though the PR1MA program is available in all states in Malaysia, but some households are still unable to afford to purchase a house<sup>5</sup>.

According to the Department of Statistics Malaysia, the population in Malaysia increasing from 22,198,300 in the year 2000 to 31,660,700 in the year 2016. Through this census, the possibility of the house being offered or provided by the government in the PR1MA program is not able to accommodate some households and individuals in homeownership. People will migrate to the area where the construction of houses is executed even if the construction is not built on an area that people want to settle down. Urbanization process will cause population growth in the city<sup>6</sup>. As a result, in the 10th Malaysia Plan (RMK-10), the government encouraged developers to work with the public sector in providing affordable housing to low and middle-income earners<sup>3</sup>. Affordable housing programs have been implemented throughout the country. However, many households do not afford homeownership due to the inefficiencies in the delivery of affordable housing.

Formerly, the requirement of buying or owning a house was 30 per cent of gross household income, but the Central Bank has amended the requirement from 30 per cent of gross household income to 30 per cent of net household income. Notwithstanding, this measure diminishing the purchasing power of low and middle income to buy a house. Reduction in purchasing power will lead to the decline of the homeownership rate. There are 2 Cores stated in National Housing Policy which are 4.1 of National Housing Policy was disclosed pricing and regulation of homeownership and sale of Low-Cost Housing (RKR) should be done to avoid speculative purposes by people who are not responsible. While NHP 4.3 stated the government will provide and improve financing for buying or owning a house for low and middle-income groups National Housing Policy<sup>7</sup>. However, in reality, the goal and objectives set by the government in the policy have not been achieved. Therefore, this paper aims to explore what are the factors that affect the efficiency of the delivery system of affordable housing?

## 2.0 METHOD

A computerised search and an additional literature search were performed to identify relevant papers on affordable housing delivery system and related subjects. Available literature on the subject was reviewed on definition, and potential determinants. A search was conducted of the Scopus, Science Direct, Web of Science, JSTOR, SpringerLink and Directory of Open Access Journals databases for articles that included terms describing affordable housing, and terms describing efficiency and housing delivery system. A total of eighty-five articles were retrieved. Inclusion criteria were: (1) papers published between 1994 and 2017; (2) studies which examined efficiency of affordable housing delivery system and; (3) studies which used recognised qualitative or quantitative approaches. Independent lists of retrieved articles that appeared to meet study inclusion criteria based on title and abstract was prepared. The full study was obtained and reviewed in detail if the article met the inclusion criteria. Data were abstracted from each article and reviewed the final selections. The investigator hand-searched the bibliographies of included articles to identify any additional potentially relevant articles. The investigator initially identified thirty-nine articles that appeared to potentially meet selection criteria based on title and abstract. Twenty-seven of these articles were included in the final review.

## 3.0 LITERATURE REVIEW

### *Housing delivery system and benchmarking*

Housing delivery system is a series of sequential events starting from the purchase of vacant land until delivered the keys to the home buyers. These processes in relation to the initial project, which began with the preparation of vacant land, planning and design, financing to cover the cost of construction, permission to build the project from local authority, infrastructure, construction, building access for residential, management and maintenance after the project is completed and receive complaints from buyers<sup>8</sup>. The housing delivery system in the market is a process which allows residents to meet their basic needs, own a house.

Housing delivery system must assist and broaden access towards various types of households – the poor, disabled person, indigenous people, single mothers, the elderly and other groups to enable such persons to receive affordable and appropriate housing, and supports through National Housing Programme<sup>9</sup>. The principles that should be implemented are;

- Provide an affordable, accessible housing with support services to help people with housing problems, to provide assistance as needed;
- Be flexible to attract and combine funds from different sources;
- Identify clear roles and responsibilities for all stakeholders involved;
- Provide capacity development and expertise needed to ensure adequate participation by all sectors;
- To facilitate the delivery of both supply and demand;
- Facilitate and provide initiatives that address gaps that exist in the housing programme and the strengthening of existing programmes.

Figure 1 shows the benchmarking for affordable housing of King County Benchmark Program to provide sufficient affordable housing for all King County residents; promote affordable homeownership opportunities and; to promote equitable distribution of affordable low-income housing<sup>10</sup>.

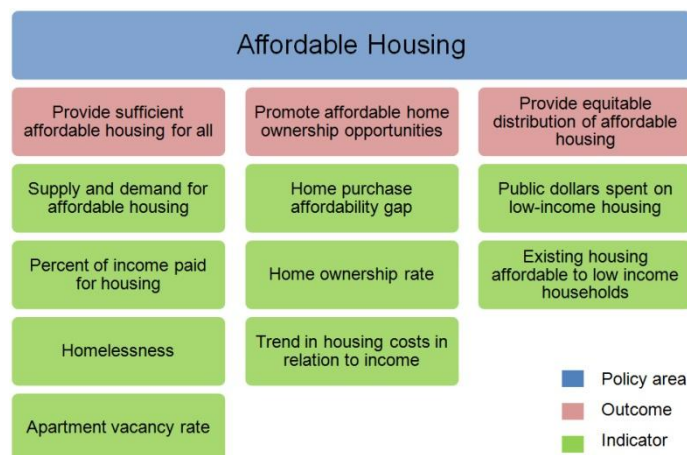


Figure 1. Benchmark for affordable housing<sup>10</sup>

Based on the statistics of unsold property from The Edge Property (2016), overall unsold house units are 10,859 units which prices range from below than RM50,000 to over RM1 million. Surprisingly, 5,176 units of unsold houses are price range from below than RM50,000 to RM300,000 which is categories as affordable housing. The prices are provided by the government especially for low and middle-income households<sup>11</sup>.

The housing sector in Malaysia seems to be imbalanced due to the discrepancy between housing affordability and affordable housing. According to REHDA, the property with Certificate of Fitness for Occupation (CFO) and Certificate of Completion and Compliance (CCC) are increasing unsold. Furthermore, according to the Property Market Report (2014), the average housing prices for unsold affordable housing are between RM 50,001 and RM 100,000<sup>12</sup>. The factors related to this problem are the mismatch between housing affordability and affordable house. National Housing Policy focuses on supply-side approaches to improve affordability resulting in a substantial inadequate supply of affordable house in the market and real shortages of better-quality houses. Government is often reluctant to explicitly define what they mean by affordable housing and housing affordability lead to the supply of housing failed to keep pace with demand.

### *Affordable housing*

The idea of affordable housing is to solve the problems faced by low income and middle-income households. Therefore, affordable housing is often associated with public housing, low-cost and middle cost to meet the needs of target groups<sup>13</sup>. Monk & Whitehead (2010) interpreted affordable housing as social housing that targeted specifically at households who can afford to pay more than the price of social rented housing but are unable to afford full-price open market housing<sup>14</sup>. According to the National Housing Policy (2011), affordable housing is for those who can afford to own a low-cost house but unaffordable to cover the medium-cost and high-cost house.<sup>7</sup>

**Table 1: Housing Affordability Rates in 9 Countries: Main Market (1,000,000 populations)<sup>15</sup>**

Countries	Affordable (3.0 & below)	Moderately Unaffordable (3.1 – 4.0)	Seriously Unaffordable (4.1 – 5.0)	Severely Unaffordable (5.1 & above)	Total	Median Market
Australia	0	0	0	5	5	6.3
Canada	0	2	2	2	6	4.5
Hong Kong	0	0	0	1	1	14.9
Ireland	0	1	0	0	1	3.7
Japan	0	1	1	0	2	4.0
New Zealand	0	0	0	1	1	8.0
Singapore	0	0	0	1	1	5.1
United Kingdom	0	1	9	6	16	4.7
United States	14	24	6	8	52	3.5
Total	14	29	18	24	85	-

Hulchanski (1995) signifies that housing is considered affordable if no more than 30 per cent of gross monthly income is spent on total housing costs<sup>16</sup>. It is equally expressed by the Department of Housing and Urban Development United States stated, if households spend no more than 30 percent of the gross income on total housing costs such as utilities, housing is considered affordable<sup>17</sup>. In other words, if the household spends more than 30 percent for housing, then the homeownership is considered beyond the ability of the household income<sup>18,19,20,21,22</sup>.

### *Factors Influencing Efficiency of Housing Delivery System*

a. Location

Good location characteristics are often associated with high demand. The location is a major factor to consider when choosing an affordable housing. Homebuyers usually look for strategic housing locations close to the city centre, workplace, neighbourhood development, and good accessibility, which offer convenience to homebuyers in terms of distance, travel time and cost. Also, to provide affordable housing, it needs to be built over the high-density zone so that targeted groups get more opportunities to own a home<sup>23,24</sup>.

b. House Price

To determine the ability of a buyer to own a home can be measured by his willingness to spend money as the value of the home being purchased. The expected value after provision for a reasonable time is given to the buyer and the seller to get complete information about the property. In addition, this property added value arises from the interaction between demand and supply on the property. The demand presented is the effective demand of quantity demanded for the land, and the supply is the amount of land available and can be used<sup>25,26</sup>.

- c. **Level of income**  
Income is a person with a cash inflow derived from an employment or activity made for their accommodation or even family. Various types of jobs that generate income are depending on expertise or education acquired. This means that the higher the household income, the higher the chance households to own a house depends on his ability<sup>23,26</sup>.
- d. **Housing loan**  
Any loan made to finance the purchase of a house will pay an interest rate set by the financial institution. The interest rates payable to the financial institutions are different. The Bank has set a maximum rate for each loan to avoid financial institutions to raise interest rates arbitrarily. Households having trouble qualifying for a loan to buy a house and learn to maintain it after he bought the house. Many low-income households, especially those who only stay in the rental unit, do not know how to qualify for a mortgage loan or how to keep the house. Initial counselling advice about credit, budgeting, and make deposits in banks can offer the market a pre-qualified to purchase affordable housing at affordable price. Besides, households can learn from many funding programs available to help them buy a house after credit issues and their budgets in order<sup>18,25,26,27</sup>.
- e. **Facilities**  
Provision of basic facilities, public amenities, neighbourhood convenience and many infrastructures such as roads, water and electricity supplies, telecommunications facilities, schools, places of worship, public transport, drainage and other amenities will affect the placement and housing demand in an area. Adequate facilities could help people to live more comfortably and meet housing demand<sup>1,26</sup>.
- f. **Physical aspect**  
Physical aspects of housing are among the factors that should be considered in homeownership. Each household has different tastes for the home depending on the type of home, the furniture used, the floor area and the type of residence. For target groups with a high number of households, affordable housing provided should be compatible with low-income and medium-income households to ensure their comfort<sup>1,18,19,26</sup>.

#### ■4.0 CONCLUSION

Rapid growth in population creates pressure on demand towards shelter and efficient supply and distribution of basic utilities and services for the city dwellers. There is a need for improved efficiency, collaboration and mechanisms to improve housing delivery. In spite of a series of government policies towards housing delivery, the gap exists between housing supply and demand. The housing supply has been inexorably shifting towards high-end housing. This literature identifies the key drivers for efficiency housing delivery system are housing price, loan conditions from financing institutions, public amenities, location and neighbourhood, and physical aspect of the housing scheme. Hence, all these determinants need to be considered to increase the homeownership among low and middle household income to strengthen the delivery of affordable housing in Malaysia. There must be a clear definition regarding affordable housing in Malaysia because it may differ for each income group. Further investigation for the affordable housing delivery dimensions is needed to provide adequate exploration so that additional reliability evidence and validity can be achieved.

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