



Housing dilemma among young starters in Malaysia

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ARTICLE INFO

Article history:

Received: 25 March 2013;

Received in revised form:

7 May 2013;

Accepted: 14 May 2013;

Keywords

Home ownership,

Young starters,

Housing industry,

House buyers.

ABSTRACT

A decent home is a basic need for every human. Owning a home has always been a great dream to everyone, it will secure one's life and give protection to an individual and also the family. However, young people are at greatest risk when it comes to increasing house prices, interest rates with the portions of their monthly income are spending on monthly payment for the housing debt. Most of this generations are just started their working career and hardly earned a good pay. Therefore, the dream to own a decent house is only able to be realized if it is affordable to them. The term affordable simply means, the housing price will not cause excessive financial burden towards their monthly commitment. Malaysia as a developing country remain consistent about providing access to home ownership and several incentives are given to the young starters, however the responses on the incentives are mixed. As the potential house buyers across Malaysia tighten their belt more and more to meet the increasing price of the housing prices, it is about time to relook on the actual cause of the problems before it becomes a madcap to the nation's economy.

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1. Introduction

Housing provision has played an important part of the government's social policy in Malaysia since independence. It is very crucial in order to ensure social economic stability and to promote national development. It also plays major concern for all people around the world as the welfare of a country is reflected and to let the people enjoy a standard of living. It is undeniable that residential and neighbourhood satisfaction is an important indicator of housing quality and condition, which affects individual's quality of life. Through the Five Year Plan (Malaysia Economic Plan), the government has focused on various housing programmes in both rural and urban areas with the aim of providing affordable housing. The government has also invited the private sector to get involved in providing housing for all income groups, and in doing so has made the private sector a key player in the housing industry. Malaysia just like other developing countries has considered housing sector as a basic need and to be key engine of growth to fuel the nation's economic prosperity. This is simply because; housing provision is not only to meet the people's needs but also boost country's economic growth (The 10th Malaysian Plan).

Currently, the Malaysian residential property market continues to drive the growth in the property market. The housing issue for Malaysia is now focusing towards ensuring enough houses for various segments of society and also to elevate the safety, comfortable, built environment and socio-economic status of the country (10th Malaysian Plan).

Malaysia have also seen increases in housing starts and planned supply, reflecting improvements in market confidence. During this period, a total of 78,000 units of new affordable housing will be constructed by several ministries and federal agencies such as the NHD (National Housing Development), the ministry of rural and regional development, the Kuala Lumpur City Hall, the Implementation Coordination Unit (ICU) and Syarikat Perumahan Negara Berhad (SPNB) across the country. The 10th Malaysian Plan (2011-2015) has also projected that

this strong growth would continue to be sustained over the plan period. The better outlook, especially over the medium term, will have a spill over effect on the property sector (10th Malaysian plan).

In addition to this, in the announced Budget 2012, various incentives and measures were announced to promote home ownership among Malaysian, which caters priority to be given towards the low and middle-income group to own or rent houses provided by the government. Provision of more than 78,000 units of new affordable public housing houses will be built for rental and sell to qualified individuals and families with household income of less than RM2,500 per month by the National Housing Department. In addition, a provision of RM200 million allocations will be allocated under the Ministry Housing and Local Government to revive abandoned low and medium-cost houses. (Ministry of Housing and Local Government, 2012).

Over the years, Malaysia's housing programs have focused on the eradication of poverty and restructuring of society through integration of the various ethnic communities.

The government has provided a settlement policy to keep pace with Malaysia's rapid economic growth- "to eradicate hard-core poverty, to bring a better quality of life to her people and to conserve her forest eco-system for future generations as such; the role of private sector developers became more significant and resulted in the formation of a consultative committee on housing and construction between public and private sectors. Over the last three decades, the scope of development prospects undertaken by developers has increased from encompassing traditional housing projects to condominiums, townships, towering commercial complexes, shopping malls, state-of-the art golf courses, hospitals, theme parks and industrial estates.

As the population increased programs in urban areas were further accelerated with emphasis given to low-cost housing in subsequent Malaysia plans (CIDB, 2007).

2. The incentives by the government

The Skim Rumah Pertamaku (SRP) or My First Home Scheme of owning home first time which was launched recently by the government was welcomed by all Malaysians. Home ownership is deeply embedded in the Malaysian culture as significant achievement in one's life. A decent home is a basic need and home ownership is a great dream of every human being. But it seems that it is even difficult and harder to realise the dream for most people nowadays. Young people especially the young starters are at stake because they have the lowest income, while at the same time being required to pay high prices for housing especially in the city area. Under the same scheme, the young starters are offered a house range from RM100,000.00 to RM400,000.00. The criteria of the first time buyer must be below 35 at the age of application and must have an household income not more than RM6,000 per month (First Home Scheme, 2012). Under the scheme, the total financing obligations for single or joint borrowers must not be more than 60% of their combined net monthly income. Assuming current total financing obligations (car instalment + personal loan + credit card) is RM 1,500. Referring to the same case, maximum monthly repayment for the housing mortgage should not be more than RM 1,632 monthly.

Here are sample calculation for the joint application:

- Gross combined income : RM3,000 (Husband) + RM3,000 (Wife)
- Net combined income : RM5,220 (income after deduction from EPF, TAX & SOCSO)
- 60% from RM5,220 = RM3,132 (maximum financial obligations)
- Mortgage loan repayment should not exceed: RM3,132 – RM1,500 = RM1,632

Based on the current interest rate given by participating bank with a maximum tenure of 40 years or 65 years of age, the eligible financing is for a property priced at a maximum of RM350,000.00. Now, let's look out the price of house currently in the market.

Table 1: Price of house in Market (Source: Property Market Report, 2010, Property Market Stock, 2010)

House type	Average mean price in Kuala Lumpur (RM)
2 – 2 ½ storey	530,887
Condominium / Apartment 1800 sqm – 2200 sqm	431,094
1 – 1 ½ storey	326,207
Low cost terrace houses- 750 sqm – 1500 sqm	181,138
Flats- 650 sqm – 750 sqm	128,297
Low cost flats	71,763

Based on the data above, it is obvious that the only category of housing that affordable for the young starters are anything except the 2 – 2 ½ storey and condominium which is unattainable by them. However, it is saddened that the housing developers in Malaysia are focusing towards the higher return investment properties rather than the low cost projects which give lower profits return to them. Prior to the housing mortgage and loan repayment, the amount left for the young starters now is only RM 2,088. If we refer to the consumer price index, the price for daily goods has been increase regularly by 4.7% yearly, while the cost of electricity, water, gas and fuel has increased 1.9% respectively. Although the rising cost of housing has a major impact on the ability of the young starters to enter the market, Pleffer (2007) suggests that they are struggling to get

into the housing market for a second reason: rising house expectations.

Over the couple decades, the growth in house prices has surpassed the increment of incomes (figure x). While salary wages was recorded at RM4,025 per month in 2009 an increase of 9.2 per cent as compared to RM3,686 in 2007, house prices increased almost two fold. Obviously, the growth incomes has failed to match house prices, which escalating from year by year.

Nonetheless, according to the Bank Negara's Annual Report 2010 recently on the financial stability and payment systems report 2010, the household debt until end of 2010 was recorded at RM 581 billion which equivalent to 76% of GDP (Gross Domestic Product). On the contrary, the consumers association of Penang argues that if the household debt are looked from the point of disposable income, the amount of money that spent to pay off debt is alarming. It is almost appropriate if we look on this matter in ratio to disposable income rather than to GDP as it is proven to be more precise. In general, the minimum percentage that acceptable for debt service ratio is at 30% taking example that one third of the household income is used to pay the loan or debt which include the principal and interest. Nevertheless, the Malaysian household loan or debt has ballooning from 9.1% in 2006 to 49.0% in 2009 and decrease slightly to 47.8% in 2010. This shows that almost half of the income of Malaysians goes to paying debts monthly.

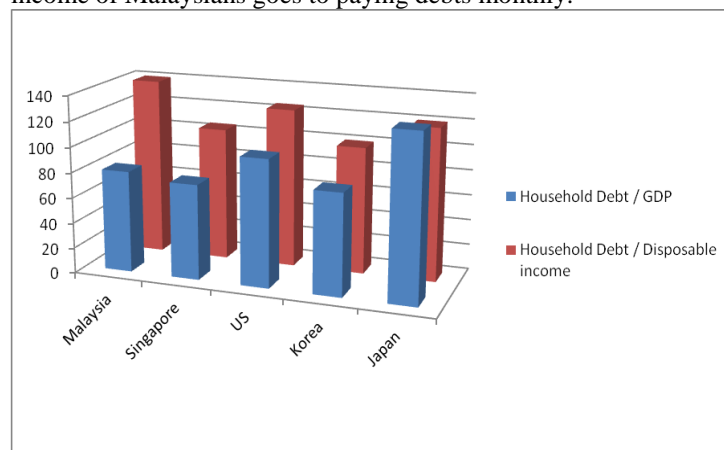


Figure 1: Comparison of Household debt/ GDP and Household debt / disposable income

Source: Yong, 2010; Endut & Toh, 2009; Bank Negara, 2010

If we look at the above statistic, Malaysia recorded as one of the highest in the world, topped USA and Korea in 2009. In overall, the loans taken by each household in Malaysia is on average 1.4 times more than its household income. Based on the above statistic, it gives more reasons why the public and policymakers should monitor housing price closely. Housing purchase in most country are considered as the highest investment in life and hence create higher risk especially financial risk and risk of going bankruptcy (Eloisa et.al, 2008). Fluctuations in the housing prices tend to produce a bigger profit effect than those of financial assets. This is mainly because the purchasing of the house is widely funded by mortgage loans financed by the financial institutions and the housing developers is widely used as a major collateral asset for bank loans, therefore creates a very strong linkages between the housing property cycle and the credit cycle.

The housing price in Malaysia, is also subject to speculation and volatility of market. According to a study made in 2008, on the house prices in Asia-Pacific economies, the housing price

are mainly affected by two factors, which is the house overvaluation and secondly, housing bubble (Eloisa et al, 2008). House price overvaluation refers to the fact that current house prices are overpriced in relation to its exact price. The factor of overvaluation is mainly caused by failures in housing market caused by short of supply and credit crunch that also causing housing prices to exhibit fluctuations on its original values. On the other part, the housing bubble normally reflected to the part of overpricing that unable to be explained by the serial correlation and mean reversion of house price dynamics, in a simple term, the price mainly driven by exaggerate optimistic expectations of future house price and thus creates evidence of bubbles (Eloisa et al, 2008).

As for the Malaysian context, in first quarter of 2011, the Malaysian house price index (IHRM) was recorded at 149.1 points and in the second quarter the index rose to 150.7 points. Over the 12 months period, the index has steadily increased by 9.0 % from 2010. According to the statistics made by the Malaysian House Price Index (2011), the price of the average house for all states in Malaysia reached to RM 206, 513 and the highest was recorded in Kuala Lumpur at RM 438,150, while the lowest was recorded in Perlis at RM 115,072. This in short, signifies that the housing price in Kuala Lumpur was approximately 40% more expensive than other areas in Malaysia. In the recent trend of terrace housing that mostly accessible by house buyers in Malaysia, it was recorded that across the country, Kuala Lumpur continued to chart the highest 'average' terraced house price in the country at RM467,809. While the statistic mentioned on the term terrace house, it does not specify what type or size that signifies the terrace house, based on the author observation, currently terrace house in Kuala Lumpur provide the most is (16' x 80') at a pinch of terrace house. Selangor as expected ranked second at RM 317,383, followed by Sabah and Penang at RM 281,740 and RM 281,589 respectively. In general, we can expect the group of people that afford to buy houses in Kuala Lumpur are mainly from the higher wages income earners. This is also among the objectives by the government in reducing the disparity and to upgrade the bottom 40% of households.

The agenda among others focusing towards the bottom 40% of households which have an income less than RM2,300 per month with a mean income of RM1,440. According to the statistics, there are approximately 9 million persons classified under low income household category (National Economic Advisory Council, 2010). In 2009, the government has announced that RM 3,000 is poverty line for the urban poor. This means if you have three children and your household income is RM3,000 or below, you are almost on the poverty line.

Below are some comparison of house in Klang Valley based on the National Economy Advisory Council in 2009 report. The comparison was made on monthly wages between 1980 and 2012. It shows a great disparity between the years but profoundly the housing prices from the late 1970s until now has been tremendously increased almost 800% from the last time (1980's). It has been anticipated that the prices of housing in the Klang Valley will be double in the next 10 years and made it unreachable to many especially the middle and low income group.

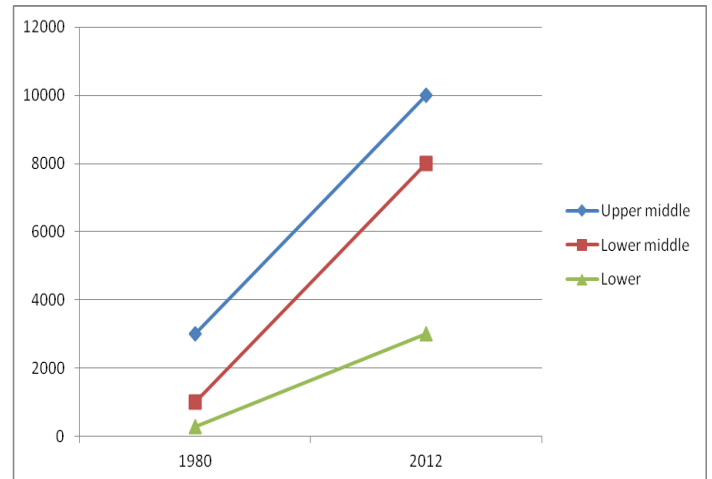


Figure 2: Household income comparison between 1980 and 2012 in Malaysia

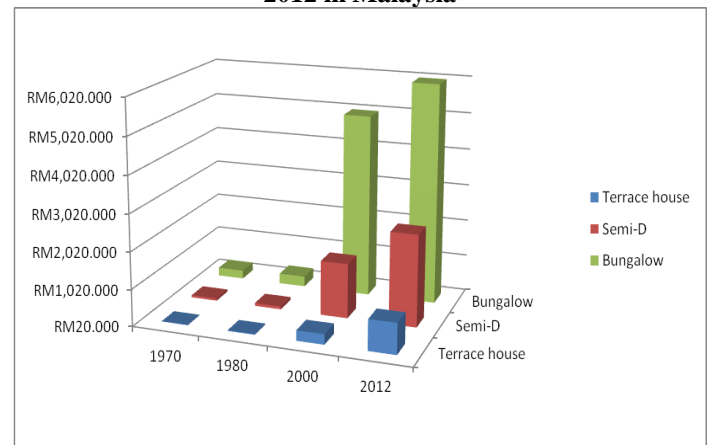


Figure 3: Housing price comparison between 1970 - 2012 in Malaysia (source from the Edge Malaysia)

The affordability level of home ownership in Malaysia is largely determined by the household income and the prices of the housing market. The property market report for the first quarter of 2011 based on the statistic made by the valuation department recorded that the minimum house prices for terrace house type has barely reached lower than RM200,00.00 especially in the Klang Valley area and Selangor. Based on the figure above, we can conclude that on the basis of 30% of household income, the basic household income to make it affordable to buy housing in Klang Valley should be at least RM6,000 or they would need more than 100% of their current household income to purchase a house at this particular time. To make it worst, for young starters who only obtained RM3,000 monthly salary could barely afford a single dwelling and the only option for them is the low cost housing which currently priced at RM100,000 to RM 150,000.

The phenomenon has happened in every state in Malaysia, although some still at the lower state compared to Klang Valley and Selangor area.

3. The housing developer's promises

Currently, in Malaysia if you drive along the east-coast highway, we can see a lot of housing ads touting their slogan as 'the place to be', 'paradise on earth', 'the home of your dream' and many others. Advertising text by the developers often avoids the word 'house' due to its complex package of socio-spatial meaning we call 'home' (Dovey, 2007). Considering the higher price of housing in the Klang valley, more developers are venturing into suburbs and outskirts which promised a new

sanctuary towards KL populations. Problems of housing affordability and sustainability are given ultimate challenge towards the new housing developers but the reality is often delusional. The advertising evokes a set of myths and portrays an ideal than a reality. The potential house buyers is not assumed to live up to the claims of the advertising, nor they can reflect on what they could afford. Most of the ads also focuses on spatial relations and 3-D images of the future 'heaven' with several promises and return of investment.



Figure 4: Sample advertisement from housing developers

However, we can say that the advertisement is often quite tempting and enticing the potential house buyers. The property developers normally will try to attract the potential customers by alluring them into an eating fest or 'saturday party'. At this particular of time, the bankers and mortgagers will be positioned in the show house to promote their loan packages. Some of the house buyers will have their documents prepared and ready for the loan submittal and others maybe reconnoitring into the show house to experience the unit themselves. In most cases, the show units will display the best and full equipped version of the house that will be easier for the customer to make a decision. Considering the increment of house pricing in Malaysia which is expected at 8% every year, many have no choices than to buy houses at the outskirts area. The only option is to buy now or never. Luckily, the options to own a house has been made easier both by the government and the financiers. From the government part, the chance to withdraw EPF (Employment provident funds) amount from the account 2 has made is easier for the potential buyers to pay for the deposit of the house. While on the financier part, the competition of lower interest rate and longer loans tenure has also become one of the options to consider before choosing the package.

4. The verdict

Now, here comes the dilemma among the house buyers especially the young starters -the housing loans take out almost 30 – 40% of their household income-this make it left only 60% to make up for transportation expenses, hidden cost of tolls, credit cards, fuel and also utilities and foods. The implications of low interest rates have led to substantial increase in housing loans and housing prices beyond sustainable levels. House prices to household incomes especially in Klang Valley and other major cities have strained the accumulated debts in each household. Whilst, low interest by the financiers might offer good term, it can derailed from its objectives and the

repercussion might cause to higher monthly commitment and financial burden towards Malaysian household. As mentioned earlier, the worrying trend now in Malaysia is that the housing prices and housing loans has risen to 6 to 8 times for both Penang and Klang Valley respectively and this has caused an overstretched of the household income and forcing the households to work for extra money in order to pay off the debts. In conclusion, the dilemma of house buyers in Malaysia is not only stop at home ownership but will reflect a social consequences of high household debt pattern at the early stage of their life. This indirectly will lead to urban ills and other social problems which related to depression and what we can called as 'housing stress'. Until the moment this article was made, no official statistic on the housing stress level among Malaysian has been done. But, the risks is mounting and most Malaysians does feel the nightmare.

Therefore, the government needs to look out for a realistic housing policy that enables young starters and potential house buyers to own or rented a house according to their financial capability. The government should also look into how to resolve the issue of bubble pricing and speculative of house pricing. In other part, the government should also look into the possibility of increasing the household income towards a high-income nations in order to curb with the price increasing in the world trend nowadays. In other part, it is time for Malaysians to ask themselves the tough questions. As a developed nation, is this the price that we have to pay? Are we wanting too much too soon, before our financial is stable to make the biggest financial investment in our lives? As potential house buyers across Malaysia tighten their belt more and more to meet the growing cost of housing price, it is time to re-evaluate the importance we place on the so called great Skim Rumah Pertama (SRP) by the government before it becomes a disaster to the nation's economy.

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