

# AFFORDABLE HOUSING FOR FIRST-TIME HOMEBUYERS: ISSUES AND IMPLICATIONS FROM THE MALAYSIAN EXPERIENCE

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## ABSTRACT

*There is little evidence to inform discussion of the challenges of meeting housing needs of first-time homebuyers in conditions of rapid urbanisation in Malaysia. The purpose of this paper is to discuss the challenges of promoting home ownership for first-time Malaysian homebuyers. This paper also offers suggestions regarding sustainable housing provision for them to own their home. In order to achieve sustainability in the housing delivery system, affordable housing schemes must be economically viable, socially acceptable and technically feasible. Government should be transparent about logistics, location, pricing and implementation to ensure that there is action behind the words.*

**Keywords:** urbanisation, homeownership, affordable housing, Greater Kuala Lumpur, Malaysia

## INTRODUCTION

A roof over one's head is one of the few requirements in life. Owning a house is one of the major goals for Malaysians (Tan 2008). There is much evidence that homeownership creates numerous benefits for individuals. Haurin et al (2002) showed that homeownership improves a child's cognitive ability and reduces behaviour problems. Green and White (1997) also found that children of homeowners stay in longer than children of renters. There are reasons to explain why child education outcomes improve as several researchers argue that homeownership increases parental self-esteem and life satisfaction, which in turn, could result in a greater emotional support for the homeowners' children (Balfour and Smith 1996, Rossi and Weber 1996).

Homeownership is beneficial not only to individuals but also to communities. Tan (2009) and Glaeser and Sacerdote (2000) both explained that a higher rate of homeownership creates motivation for homeowners to enhance the quality of their communities and develops homeowners' connection to their neighbours. This is because homeowners generally have a large financial stake in their communities. As a result, they are more likely to influence conditions in the surrounding neighbourhood and protect their properties through participation in local improvement groups (Tan 2012, Harkness and Newman 2003). Furthermore, homeowners have more social capital to draw on as they interact with their neighbours. Social ties with neighbours living nearby may mitigate neighbourhood insecurity and encourage neighbourhood unity (Kan 2007).

Not only is homeownership part of the American dream, but has traditionally been regarded by Japanese households as a key element of an individual's social security for the future and in retirement. Similarly, owner-occupation is the predominant form of housing in Malaysia, where the homeownership rate has remained more than 80% since the 1980s (Kim 2012). In recent times, however, it has been a stretch for the average Malaysian to purchase a house. Prices of property in the popular areas of Greater Kuala Lumpur (Greater KL), the conurbation comprising Kuala Lumpur, Putrajaya, Klang, Kajang, Subang Jaya, Selayang, Shah Alam, Ampang Jaya and Sepang, rose by about 35% in 2010 (Ministry of Finance's Valuation and Property Service Department 2011) and exorbitant price hikes in property appear to be a concern in the country. This is especially hard for first-time homebuyers, whose income increases have in no way increased at the same pace as house prices over the past 10 years.

As a result, the contribution that housing makes to quality of life in urban areas is deteriorating. The objective of this paper is to examine the issues related to homeownership schemes available for first-time homebuyers in Malaysia. In terms of structure, the paper first will discuss the housing issues in Greater KL, followed by an overview of homeownership schemes, such as My First Home Scheme (MFH) and 1 Malaysia People's Housing Scheme (PR1MA), and their requirements. Next, using both quantitative and qualitative analysis, current issues of homeownership schemes will be highlighted and the correct housing attributes required by first-time homebuyers in Greater KL seeking to own a home will be examined. The last section of the paper presents possible recommendations and conclusions with regard to the concept of sustainability in affordable housing development in the country.

### HOUSING ISSUES IN GREATER KUALA LUMPUR

Many developing countries have been undergoing rapid urbanisation and the proportion of urban population to total population has increased at a rather fast pace. The rapid rate of rural dwellers migrating to urban centres has created a growing demand for housing, particularly affordable low-income houses in many towns. Furthermore, the supply of housing in urban areas becomes a primary challenge to house builders from both public and private sectors as the land in urban areas is a depleting resource. This gives rise to inadequate supply of housing especially for the low income groups.

In common with many other developing countries, Malaysia has suffered an acute housing shortage due to the ever-increasing need created by an urban migration and a growing population (Bunnell et al 2002). The rate of urbanisation in Malaysia increased from 34.2% in 1980 to 62% in 2000 and 71% in 2010 (see Table 1). Also, it is estimated that 75% of the nation's population will be living in urban areas by 2020 (Department of Statistics of Malaysia 2011). Therefore, this implies that an increase in urban growth is higher than the supply of affordable housing and this has resulted in a severe shortage of affordable housing as the house builders are unable to produce houses at prices which are low enough for the poor urban migrants.

State	1980	1991	2000	2010
Johor	35.2	47.8	63.9	71.9
Kedah	14.4	32.5	38.7	64.6
Kelantan	28.1	33.5	33.5	42.4
Melaka	23.4	38.7	67.3	86.5
Negeri Sembilan	32.6	42	55	66.5
Pahang	26.1	30.4	42.1	50.5
Perak	32.2	53.6	59.5	69.7
Perlis	8.9	26.6	33.8	51.4
Pulau Pinang	47.5	75	79.5	90.8
Sabah	19.9	33.2	48.3	54
Sarawak	18	37.5	47.9	53.8
Selangor	34.2	75.2	88.3	91.4
Terengganu	42.9	44.5	49.4	59.1
Kuala Lumpur	100	100	100	100
MALAYSIA	34.2	50.7	62	71

**Levels of urbanization (%) by States in Malaysia, 1980 – 2010**

**Source: Department of Statistics of Malaysia, 2000, 2011**

**Table 1**

Additionally, the high population growth in urban areas becomes a fundamental obstacle in securing a better quality of living in the long term. The government faces the great challenge of raising the Malaysian quality of life index because affordable housing provisions are the most stressed in Greater KL. In the recent Economist Intelligence Unit (EIU) Liveability Index Survey, Kuala Lumpur was ranked 79<sup>th</sup> among 130 cities surveyed (Thean 2011). Similarly, a study by IBM ranked Kuala Lumpur below international best practices. It can be concluded that the liveability of Kuala Lumpur lags many other Asian cities, even though Malaysia has been going through the industrial development process for the past 30 years. Most Malaysian cities have not started out with clearly defined master plans. Instead, they have sprung up according to the people's needs and economic activities (Moser 2010). But the growing population and rural-to-urban migration are some of the contributory factors that are straining Malaysian cities.

In Malaysia, the public sector has an important social responsibility for fulfilling the needs of housing for those in the lower income group. This responsibility is channelled to the target groups through the federal and state governments. According to the federal law, land and housing matters are placed under the authority of the state government and local councils. Based on experiences from other developing countries, the provision of housing for all cannot be left to market forces alone as the majority of not well-to-do families in the developing countries go without adequate housing and related facilities. Therefore, the government found it necessary to intervene in the production of housing for the disadvantaged groups.

Under the Five-Year Malaysian Plans, the government is committed to the provision of housing but the planned targets have not been met, particularly in providing adequate housing to the lower income groups. As reported in Table 2, it is noticeable that the public sector has been giving low priority to the public low-cost housing program in the country. Total housing needs for low-cost units during the 1986 – 2005 were estimated at 550,700 units, but only 57% of this target was completed by the public sector.

Units	5 <sup>th</sup> Malaysia Plan	6 <sup>th</sup> Malaysia Plan	7 <sup>th</sup> Malaysia Plan	8 <sup>th</sup> Malaysia Plan
Targeted	120,900	126,800	95,000	208,000
Completed	74,332	46,497	78,228	113,235

**Housing achievements (low-cost housing) by the public sector**

**Source: Malaysia (1986); Malaysia (1991); Malaysia (1996);  
Malaysia (2001); Malaysia (2006)**

**Table 2**

The provision of houses for other Malaysians has been left to the private sector, but with prices of homes and land increasing, the private sector has in recent years only built high-end homes. It is because the land supply area has decreased in the rapid urbanisation process. Even though there is a requirement for private housing developers to include affordable houses in their residential development projects, this is hardly adhered to these days as the decreasing land supply has a significant negative effect on housing development costs. Furthermore, the absence of large-scale townships makes it inefficient to comply with this requirement because most housing developers could not acquire a sizable land bank for residential development in urban areas.

The Malaysian government has launched many kinds of public housing schemes over the past 20 years, but most of these schemes have failed to provide an improved quality of life to their inhabitants. In fact, many of the housing developments based on these schemes have turned into slums that do not provide a wholesome environment for families. In order to prevent similar occurrences, it is important to ensure housing projects under the homeownership schemes for first-

time buyers are properly designed and planned. Therefore, it is critical for builders to meet first-time buyers' housing needs and preferences that will encourage them to own a house.

House prices particularly in urban areas are generally expensive because of the increased compliance and regulatory costs involved in the whole value chain of housing production. In the case of Malaysia, housing developers are required to obtain licenses and sales and advertising permits from the housing controller. Licences and permits could only be issued after the developers have obtained planning approvals from the Town and Country Planning Department and the local authorities and utility agencies. Additionally, the increase in labour costs, materials and land costs add to production costs and all these will inevitably be reflected in the house prices (Tan 2011b).

In an effort to improve liveability by supplying affordable housing in urban areas, the Prime Minister of Malaysia recently launched affordable housing schemes, namely My First Home Scheme (MFH) and the 1 Malaysia People's Housing Scheme (PR1MA). The first scheme is targeted at young urban households aged between 18 and 34 years with a total household monthly income of less than RM 10,000 (1USD = RM 3) to acquire affordable homes costing less than RM 400,000, while the second focuses on house units priced between RM 100,000 and RM 400,000 for homebuyers earning less than RM 6,000 a month. A summary of the basic characteristics of both homeownership schemes is given in Table 3.

	<b>MFH</b>	<b>PR1MA</b>
Price	Maximum of RM 400,000	RM 100,000 – RM 400,000
Income Limit	Individual (up to RM 5,000) Joint income (up to RM 10,000)	Household income (of less than RM 6,000)
Age Limit	18 – 35	No age bracket
Eligibility	Homebuyers from the private sector	Homebuyers from both the public and private sector
Loan Financing	A loan of up to 110% subject to the bank's policies	A 100% stamp duty exemption on loan instruments Instalment would only commence after the house is completed

### **Comparison of My First Home (MFH) and PR1MA housing schemes**

**Source: Author**

**Table 3**

#### **METHODOLOGY**

The first research question of this paper is to gauge how successful the newly launched homeownership schemes have been in satisfying the housing need of first-time homebuyers. If not, what are key issues to achieve sustainable affordable housing provision in the country? In order to answer this question, semi-structured and unstructured interviews were conducted on a one-to-one basis through face-to-face planned appointment meetings from January to July 2012. The respondents for the interviews consisted of 20 first-time homebuyers. They were chosen using a purposive sampling method. Respondents were selected in accordance with a set of pre-determined criteria:

- the respondent is a young Malaysian who resides in Greater KL;
- the respondent is a first-time homebuyer and currently searching for a dwelling; and
- the respondent earns less than RM 6,000 a month.

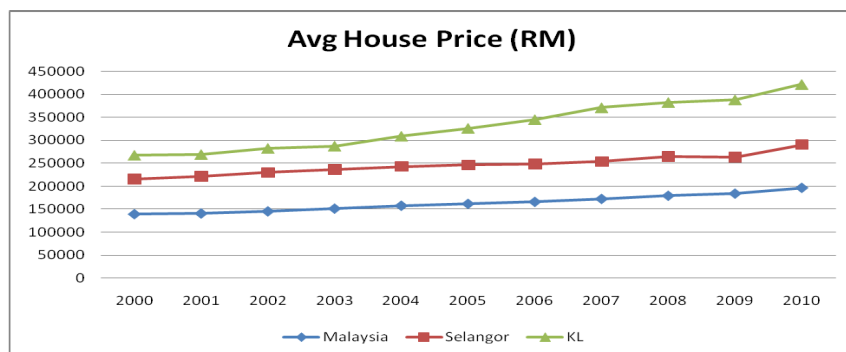
Some of respondents have been engaged in the application of PR1MA housing allotment. The main objective of the discussion is to gather a more detailed understanding of issues raised through the analysis of responses to the interviews. From these interviews, issues of securing a home under these homeownership schemes were discussed. The interview data was analysed manually using content analysis. The transcribed data was classified in relation to several themes to identify patterns and ideas across various parties' interviews.

The second research question is to examine the ideal housing attributes required by first-time homebuyers in Greater KL to own their home. In order to determine first-time buyers' homeownership priorities, a self-administered survey was conducted to ask respondents which housing attributes, as defined by locational, neighborhood, structural and socio-cultural attributes, were considered to be most important when assessing the first home that they were interested in purchasing. All 17 housing attributes were derived from several studies of Wang and Li (2006), Tan (2011a), Tan (2012), Lo and Jim (2010) and Opoku and Abdul-Muhmin (2010) using a 5-point Likert scale where 1=strongly disagreed; 5 = strongly agreed. Of 300 survey forms collected, only 265 forms were used in this study.

## RESULTS AND DISCUSSIONS

### First Home Dilemma

There have been debates over the initial price cap under both homeownership schemes. This viewpoint was supported by content analysis from the in-depth discussion with few first-time homebuyers when describing the price cap. The initial price cap of RM 220,000 excludes desirable locations that housing developers can build on. At this price range, most of the housing projects will be either outside or on the fringes of Greater KL. As reported by the Ministry of Finance's Valuation and Property Service Department (2011), the estimated average prices for all houses in Kuala Lumpur and Selangor states were RM 422,112 and RM 290,440, respectively, as of the year of 2010 (see Figure 1).



**Average house price (Ringgit) in Selangor and Kuala Lumpur (2000 – 2010)**  
**Source: Ministry of Finance's Valuation and Property Service Department (2011)**  
**Figure 1**

In view of high prices, the government has proposed to raise the house price cap under the My First Home Scheme from a maximum of RM 220,000 to RM 440,000 starting from January 2012. Although the improved scheme with raised price ceiling could make it possible for young

homebuyers to own a home in Greater KL, there was still a high level of dissatisfaction among the first-time homebuyers. As stated earlier, the original objective of the scheme is to help young urban households to own their home. However, house prices at RM400,000 are away from the means of first-time homebuyers who earn less than RM 6,000 as they may not qualify for loans to buy such property. One respondent in the interview explained: "I am not qualified for a loan of RM 400,000 because of my current income level". These sentiments were echoed by another respondent who said: "It is a good scheme but its practicality needs some work". He added further: "Together with rising in cost of living such as food and petrol prices, I am not sure if first-time homebuyers would be able to stretch their money enough."

The recently introduced homeownership schemes have received tremendous criticism for their inability to mirror the earning ability of first-time young homebuyers. Based on a housing loan of RM 400,000 and the current lending rate with an average of 5%, first-time homebuyers with household income of less than RM 6,000 a month would not be able to afford the monthly repayment of a RM 400,000 housing loan based on a 30-year repayment period (see Table 5). This figure does not include other additional costs such as stamp duties, insurance, legal fees and other expenditures. However, raising the eligibility income level to match the higher priced houses may defeat the original objective of the scheme, which is to provide first-time buyers with the opportunity to own a house at the best possible arrangement.

<b>Loan Period</b>	<b>Monthly Repayment (RM)</b>	<b>Min Monthly Salary Requirement (RM)*</b>
20-year	2,639	7,917
25-year	2,338	7,014
30-year	2,147	6,441

\* As a rule of thumb, the loan given by a bank must be supported by a third of the applicant's salary

**Monthly housing loan repayment of RM 400,000 with interest rate of 5%**

**Source: Author**

**Table 5**

**Delivery of first home**

Generally, both affordable housing schemes have increased the scope of people who can afford these units by selling below the market price. However, it does not actually address the problem of supply. House developers have not been giving priority to the affordable housing programme owing to a low level of profitability; therefore, affordable housing within the financial reach of young urban households still remains in short supply and far from satisfying their housing needs. Because of oversubscription of these affordable houses, the allocation process is usually conducted by using a balloting system.

This housing allocation system, however, may lead to public complaints about unfairness in the allocation process as the process has resulted in only a limited number of homebuyers getting the units. As one respondent revealed: "I am interested to find out more after hearing about the schemes, but I do have concerns like if there will be quota system." For the homeownership scheme to be meaningful and successful, the allocation of the housing units should be fair and open through the balloting system. Several respondents mentioned their concerns with the balloting system and described: "This is a good program but our reservation is on the administration and enforcement of this program." A few respondents who failed to buy a unit in the recent ballot exercise in describing the balloting said: "It is unfair because it all depends on your luck."

### First-time homebuyers' housing needs and preferences

It is important that affordable housing under the schemes does not one day become the disappointment of Greater KL. As mentioned earlier, many public low-cost housing projects have a tendency to sink into dilapidation and poor living conditions due to poor maintenance. In fact, much of public low-cost housing has turned into slums that do not provide a decent environment for families to live in. There are lessons to be learnt from public low-cost housing schemes in the past. In order to add value to the living environment and quality of life of inhabitants, affordable housing schemes should be well planned with clearly defined master planning (Tan 2011a).

The following analysis identifies potential first-time homebuyers' rating of preference for housing attributes in making homeownership decisions in Greater KL. The following table (Table 6) ranks the importance that first-time homebuyers in Greater KL place on first home attributes.

Rank	Housing Attributes	Mean	Std Deviation
1	The level of crime problem in the neighborhood	4.42	0.719
2	The gated and guarded community	4.40	0.787
3	The cleanliness in the neighborhood	4.11	0.804
4	The close proximity to the public transport station	4.05	0.911
5	The close proximity to the place of work	4.02	0.816
6	The close proximity to school	4.02	0.800
7	The close proximity to recreational parks	3.96	0.804
8	Home incorporating green features	3.92	0.806
9	The level of pollution in the neighborhood	3.91	0.825
10	The number of bedroom in the unit	3.86	1.035
11	The close proximity to shopping centers	3.70	0.899
12	The size of living area in the unit	3.60	0.912
13	The size of kitchen area in the unit	3.57	0.975
14	The built-up area of the unit	3.50	1.244
15	The number of bathroom in the unit	3.45	0.948
16	House number	3.22	1.266
17	The house direction	3.15	1.229

### Homebuyers' rating of preference for first-home attributes

Source: Author

Table 6

It seems that snatch thefts and rampant break-ins in Greater KL's urban area make first-time homebuyers a little more concerned about their personal security. In this survey, respondents generally focused more on neighbourhood crime (mean 4.42) and gated and guarded neighbourhood (mean 4.40). Potential first-time homebuyers consider crime and gated and guarded community to be important in choosing a first time home. Additionally, the cleanliness in the neighbourhood (mean 4.11) was one of top 3 factors to influence the likelihood of home owning among first-time homebuyers. The results from the analysis also revealed that distance to the public transport station (mean 4.05), workplace (mean 4.02), school (mean 4.02) and recreational parks (mean 3.96) were important to contribute to homeownership preferences among first-time homebuyers. Of structural housing attributes, only the number of bedrooms (mean 3.86) and the house with sustainable living features (mean 3.92) were in the top ten positions. In Asia, homebuyers prefer houses that have good Feng Shui (Xu 1998). Based on this survey, it appeared that social cultural attributes of housing exerted less influence on home owning consideration among first-time homebuyers in Greater KL.

The main implications of these results are that there is a need for the government to build houses in the targeted areas that will include infrastructure and employment opportunities. First homes should be built and equipped with proper amenities as homebuyers find it more cost-effective to live in a well-connected neighbourhood, with easy access to daily facilities such as retailing centres, hospital and institutions. The rationale behind this would be to build a close and sustainable community where house buyers can find a place within the area to work, shop and school.

It is also vital to ensure that these houses are accessible to good public transportation facilities. It is because improvement in public transport is one of the most effective ways to help the low-income earner, the poor and people with disabilities to improve their ability to move around the city. There are various modes of public transportation in Greater KL, such as the light rail transit system, buses and taxis. However, they do not complement each other. There was an intention to improve the city's transportation and traffic woes but the improvements were ad-hoc. Traffic management has been a challenging problem. It cannot be addressed by constructing more roads, bridges and underpasses. The main problem with the public transport system is that Malaysia lacks a long-term plan to project public transport needs far into the future so that the infrastructure can expand when needed. Because of the shortcoming of the public transport system in urban areas, residents are more likely to depend on private vehicles. For many years, the number of newly registered private vehicles has been increasing significantly in Malaysia and this would in turn cause traffic congestion (Malaysian Assurance Alliance 2011).

Greater KL should first have an integrated, comprehensive, affordable and efficient public transport system to facilitate travel within urban areas. There is much to be done to meet the public transportation needs of urban dwellers. Recently, the government took a major step to make Greater KL a more liveable place by undertaking the MRT (My Rapid Transit) project. The multi-billion ringgit MRT system is an effort to ensure that the city is able to meet the increasing demands of its economic activities and growing population. The MRT system for Greater KL spans 141 kilometres with three major lines serving residents within a radius of 20 kilometres of the city centre (Performance Management and Delivery Unit 2011). However, the project has understandably faced opposition from land owners who would be affected by tunnelling works for the underground section of the MRT line, with only 70% of the 51.3 km of the first line alignment running on government land while the rest is on private land. Unlike the experiences in Hong Kong and Singapore, the Malaysian government does not have specific laws that facilitate the development of the MRT project. Because of delays stemming from the land issue, the initial completion date has been postponed from 2016 to a year later.

Based on the results, respondents generally agree that sustainable affordable housing must be planned to be more eco-friendly and sustainable in design and construction. Nowadays, homebuyers are not only looking for houses with quality finishes, but also they are willing to pay for eco-friendly homes (Tan 2013). Eco-friendly homes are designed to save energy and resources by incorporating green features, such as a rainwater harvesting system, tropical landscaping, taller buildings, photovoltaic panels and environment-friendly or recycled materials, which could reduce heat transmission and promote cross ventilation.

## **CONCLUSIONS AND RECOMMENDATIONS**

The decline in quality of life is one of the major issues that arise out of poor management of a nation's growth and development. For a country to be liveable and sustainable, it is necessary to raise the quality of life index for the people. In order to create a place for quality living in urban areas, the Malaysian government needs to maintain a high quality of living by ensuring adequate housing opportunities.



Housing provision for all is an important objective in Malaysia's social and economic development programmes. However, this objective is especially tough for young Malaysian households, whose income growths have in no way kept pace with house price inflation. The scale of house price appreciation has become a source of widespread popular discontent among first-time homebuyers. Despite efforts by the Malaysian government, there are various issues relating to housing provisions that have undermined the success of housing achievement for young urban households.

Rising house prices are evident in the housing market around the world. In less than a decade, house prices have increased to levels that are out of the reach of the lower income group. During such time, more affirmative policies should be undertaken by the government to help first-time buyers tide over the challenging time. The Malaysian government should look into sustainable ways to provide affordable housing to cater to the needs of first-time buyers. To ensure this noble measure gets off on the right footing, it should be planned based on a long-term and holistic approach.

Furthermore, affordable housing schemes could turn out to be among the best efforts in improving the quality of life and encouraging homeownership among young households if these schemes are well planned and executed. As such, My First Home and PR1MA Schemes hopefully could produce the desired results to allow for more housing opportunity for the needy. In this regard, more appropriate policy guidelines of affordable housing schemes should be drawn up to smooth the implementation of the sale of affordable housing to first-time homebuyers.

The government has set a vision to increase the supply of affordable houses to the deserving people within the next five years. For example, PR1MA has targeted to build 80,000 affordable homes in the first year with slightly over 100,000 units in the subsequent years. The responsibility to build these houses should not only belong to the governments; it should be a joint initiative between governments and private housing developers. In fact, the government has stepped up its effort by working together with private housing developers to address the housing needs of low and middle income households.

The vision to build affordable houses is highly welcomed. However, questions of how it is to be achieved remain doubtful. Since its inception in 2012, PR1MA has only constructed 560 units and 201 units in Putrajaya and Nusajaya, respectively (Chong 2013). It is advisable that the government should encourage more private housing developers to be part of the delivery process by providing aid to them. Since a lot of land resources are owned by the government, it can offer subsidies or incentives to private housing developers to use the land for affordable housing development. Furthermore, both governments and private housing developers should plan the logistics, locations, pricing and implementation to ensure that there is action behind the words.

Housing areas in the city suburbs connected to the city centre by an accessible public transportation system will allow more people to achieve the full extent of quality living at an affordable price. It is important to have well-planned infrastructure, especially a well-integrated and complementary public transport system which could add value to the living environment and quality of life in Malaysian cities. As a result, the government should consider exploring the synergy of planning the housing and public transport projects together when it outlines the detailed MRT project, so that affordable housing projects can be built around MRT stations.

Another challenge of affordable housing provision is that there is insufficient planning on urban sustainability, where the urban planners only focus on development activities in a few core areas. The main problems affecting urban development in the few core areas could be traced to poor accessibility and lack of facilities in the large underdeveloped peripherals. There is a need for sustainable initiatives to be implemented to promote decentralisation and expansion of area in these

underdeveloped locations. The gravitational centre of Greater KL needs to be shifted from the presently mostly developed and congested areas to well-spaced out areas. As such, there should not be any land shortage if more land is opened up for development. It is important to plan and undertake proper and well-connected affordable housing development projects in these peripherals to keep up with rising housing demands of the urban inhabitants. It would be ideal to develop quality affordable housing projects that are slightly away from the city as houses prices in city centres are way above the affordability of the average Malaysian.

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