



# Shot in the arm for affordable housing

**PETALING JAYA:** Providing affordable housing to the people is one of the major problems faced by policymakers around the world and Malaysia is no exception.

Affordable housing has become one of the main issues for the majority of Malaysians today.

As the country continues to become more urbanised, the problem of housing gets more pronounced in major towns and cities, especially in the Klang Valley.

For every 1,000 units launched in the Klang Valley, it is said that between 10,000 and 60,000 applicants apply to purchase them.

According to Khazanah Research Institute (KRI), current trends indicate that both the B40 and a segment of the M40 income earners require some form of social housing or assistance in buying their first home.

This necessitates a relook at interventions in the housing market, which have been limited to making housing financing cheaper or providing subsidies for home-buyers.

KRI, in one of its researches, has called for improving the elasticity of housing supply, meaning making the supply of housing more responsive to the needs of all sections of the population.

Despite the fact that the government has implemented several initiatives and programmes to provide more affordable housing such as Prima, Residensi Wilayah, the mismatch between supply and demand in this segment has resulted in the B40 group having to rent their homes.

With the uncertain economic situation due to Covid-19, the B40 group faces more problems particularly with regard to their socio-economic status and loan eligibility.

The Better Malaysia Foundation (BMF) has over the last two years assembled a think tank comprising like-minded professionals who have volunteered their collective skills to formulate innovative solutions to address the affordability gap faced by the B40 families when they try to purchase their first homes.

One of the key drivers behind the foundation's mission is its strong conviction that home ownership remains the bedrock of nation building, contributing to good neighbourliness, vibrant and inclusiveness in the communities, and the socio-economic well-being of a nation.

"We have a number of suggestions that have the potential to resolve the affordable housing issue and to encourage a higher rate of home ownership for the B40s," said BMF Affordable Housing Committee deputy chairperson Datin Seri Sunita Rajakumar.

"The approach is centred on solutions that aim to lower the purchase price of the affordable homes, which will then lower the monthly mortgage repayments, so that it is close to levels of current rental payments. Under the right circumstance, home ownership leads to creating an asset base."

BMF identified that high land price in urban areas is one of the key current issues.

It suggested that land be provided on lease by the government or be subsidised, with an assurance that the lowered cost be translated to lower house prices for the B40.

It said the government can offer land at subsidised prices or leased

*Better Malaysia Foundation proposes four-pronged approach to address affordability gap faced by B40 families in buying first homes*



Affordable housing cost per unit can be reduced significantly with lowered construction costs. – BERNAMAPIX

for a 99-year period to property developers catering to the B40 sector.

Apartment sizes and selling prices should be controlled as per those in the affordable housing guidelines, it added.

"There is potential for B40 home prices to be lowered when land cost is taken up by the government. Homes cost can be lowered from the original RM300,000 for a 900 sq ft unit in Kuala Lumpur and RM250,000 in Selangor, when land cost is taken out of the equation via a 99-year government lease. This will allow for lower monthly mortgages, close to current rentals, thus improving the eligibility for the B40 group to purchase," it pointed out.

To tackle the issue of the B40 group unable to apply for housing loans due to financial difficulties, it suggested innovative finance solutions.

BMF put forward two key proposals for lenders to provide 100% financing for the 35-year or extended loans among family members and for the government to guarantee a portion of those loans.

"The affordable housing shortage for the B40 group must be addressed urgently. Those who are now able to rent their properties may not be able to keep up with their rental payments when they retire or are no longer gainfully employed for whatever reason," BMF chairman Tan Sri Vincent Tan said. For this to come to fruition, several conditions have to be in place.

BMF called for government support for the socially oriented initiative. By charging lower land premiums and nominal development charges for affordable housing projects, the government will help to give affordable housing a shot in the arm.

Tan urged the federal and state governments to sell development land at a low cost to developers to build affordable housing projects, especially in urban locations close to transport hubs.

BMF's second proposal is for

lenders to provide 100% financing to B40 house buyers.

The foundation's research has shown that several banks are already offering 100% financing to house buyers with a minimum income of between RM2,000 and RM3,000 per month, including RHB Bank, Malayan Banking Bhd, CIMB Bank, OCBC Bank, MBSB, Bank Rakyat, AmBank and Affin Bank.

However, it states that 60% of loan applications by prospective buyers of affordable homes are rejected due to age or poor credit scores.

Tan said rejecting a housing loan is akin to a life sentence for the B40 applicant.

Many first-time house buyers are unable to come up with the down payment required for buying a house.

This will be resolved if lenders provide 100% financing, he pointed out.

"Housing loans should also be 'two-generation' loans where feasible, with terms of between 40 and 60 years, where loan repayments can be extended over two generations to ensure that monthly repayment instalments are affordable and manageable, and there is still sufficient disposable income left to provide the household with a decent standard of living," he said.

Fixing the lending rates at say 3.1%, for all B40 loans, will also assist in affordability.

BMF suggests that the government subsidise RM30,000 for B40 households to make their first home purchase.

"We believe the government can afford to subsidise two million B40 households to enable them to own a home," Tan said.

"The total of RM60 billion from the government will benefit 10 million people if we consider that each B40 household has four to six people. The amount can be spread out over 10 years, and this means the government will need to subsidise RM6 billion a year to enable the B40 to buy their own homes."

He said the housing loan repayment could be stretched out to between 35 and 40 years.

Tan pointed out that this will help people to invest in property instead of renting one.

"Renters will still be without a home after their retirement," Tan said.

"We have to ensure every level of society has good living conditions.

"It is important for all to have a good country to live in. Poor living conditions will inevitably lead to social problems, including higher crime rate. Those who are better off will also suffer in terms of security if we ignore our less-fortunate fellow citizens."

The third problem faced is the high development fees and slow development approval process that could delay affordable housing development.

BMF called for lower development fees and shorter approval timelines.

"We understand that development fees can be imposed by federal, state and local governments," it said.

"Because of that, we urge the governments to review the development fees, particularly for B40 affordable housing projects. Based on our study, development fees constitute 7%-8% of the total project (cost)."

It acknowledged that land use approvals require that developers provide or pay for regulatory fees as a condition for receiving permission for specific use and design approvals besides utility infrastructure contributory fees.

The approval process involves different government agencies, and, on an average, it takes about a year before sales can commence. These costs add to the development and final cost of the B40 units, it pointed out.

BMF urged the government to remove regulatory fees, specifically for the B40 affordable housing units for the private sector. There should be an assurance that these lowered fees will translate to lower unit prices for the B40.

"Besides, the government needs to revise the procedure for speedier approval processes for affordable housing development. A two-year delay in building construction essentially means that current solutions are only viable in the years ahead while the housing problem exists," it said.

The rising cost of construction is a major problem faced by developers with affordable housing prices capped at RM250,000 in some locations. Most developers are reluctant to build affordable housing due to lower profit margin, focusing instead on building expensive high-margin homes.

As a result, the housing market in the country now faces an overhang and oversupply of housing mostly in the high-end segment.

In the affordable housing category, the overhang is usually due to projects located far from transport hubs and workplaces.

This problem can lead to more major economic disruption if the government does not have any mitigation plan in the future, BMF said.

It urged the government to incentivise the construction cost by providing tax exemptions for procurement of selected material involved in construction for the B40 affordable housing sector.

"Incentives can also be provided for adoption of new innovative technologies that will help reduce cost, encourage sustainable development goals and those that provide energy savings. The B40 housing developers are unable to introduce technology due to the low profit margins in this sector," it said.

BMF is confident that the affordable housing cost per unit can be reduced significantly with lowered construction costs.

This can motivate developers to develop a more innovative affordable housing design and layout, it added.

*Affordable housing is one of the initiatives of the Better Malaysia Foundation (BMF) through its Affordable Housing Committee.*