

CHAPTER FOUR

4. RESULTS OF THE STUDY

4.1 Types of Houses

Hundreds of thousands of houses have been built by the formal sector, both private and public in the past twenty years. Yet the demand for housing seems to be increasing year after year. So, formal housing could only satisfy a small part of the total housing needs.

Of the total 800,000 units of houses required in RM7, 29.4% is to meet the demand for low-cost houses, 43.8% for low -medium cost houses, 16.3% for medium-cost houses and 10.6% for high-cost houses (RM7). This statistic indicates that the majority of the consumers require cheap housing. If the building sector had concentrated their energies and resources in constructing low cost low priced houses, it might have made a significant contribution in solving the problem of housing the masses.

The crux of the housing problem is that the country's building resources were channelled not towards where people's housing needs are, but towards where the market which could pay was. The

question builders' asked was how to build the kind of units for those who have the money to pay the highest prices. Thus, people who already had comfortable houses bought second, third, and fourth for investment.

Records in the Fourth Malaysia Plan have shown that the houses built by private developers which totaled 264,352 units in 1971-80 were mostly in the medium and high price categories (Fourth Malaysia Plan). This indicates that private developers were hardly building any low-cost houses in 1970s. Indeed it is hardly 1.1% of the 64,900 units built by private developers can be considered low cost in 1971-75 (Third Malaysia Plan).

In 1981 - 1985, out of 104,800 units completed by private housing developers, 19,170 units were low-cost housing and 85,630 units were medium and high priced housing (Fourth Malaysia Plan). It shows that four-fifths of the houses they built catered for middle and upper classes.

The situation seems to continue in Sixth Malaysia Plan. The performance of the private sector upon the completion of low cost house was around 36.7% of the target, 78.9% of the target for medium-cost and 109.6% of the target for the high-cost house.

This statistic portrays that the concentration of the building resources was for those in high level of affordability.

4.2 House Prices

In 1970s and 1980s there was an incredible increase in house prices which reached a level that most people (even the middle class) were priced out of the market. They ended up scrambling for low - cost houses whilst the poor found it impossible to buy houses built by the formal sectors. Over the 1970-80 decade, urban house prices soared by 200 to 400 percent which was two to four times above the 96% rise in the Consumer Price Index.

House prices continued to spiral until 1984 when prices began to stabilise and then turned down due to recession and reduced liquidity. By then private developers had made extraordinary profits in a dream seller's market.

Take an example of the price of a single-storey terrace house in Petaling Jaya. In October 1975, this category was advertised for RM30,000- 36,000 (The Star 15 Oct.1975). By 1978 the price range had risen to RM 35,000 - 48,000 (Ministry of Finance, Property Report 1978). By April 1980, the price of a single - storey terrace house in Petaling Jaya had climbed to RM90,000 (Sunday

Mail 6 April 1980). At the peak in 1983 it was RM106,000 (Property Report 1983). The price had gone up three and a half times in eight years and had even double in less than two years. Prices of houses in Petaling Jaya in 1994 and 1995 as reported in Leader (19 January 1996) are shown in Table 1 below:

Table 1
Prices of Houses In 1994 and 1995

Type of Houses	1994	1995	Change (%)
1 storey terrace	100,000 - 200,000	150,000 - 450,000	50 - 125
2 storey terrace	130,000 - 400,000	150,000 - 550,000	15 - 38
1storey semi-D	250,000 - 425,000	350,000 - 650,000	58 - 64
2storey semi-D	350,000 - 750,000	450,000 - 900,000	29 - 49
Condominium	160,000 - 2,800,000	178,000 - 3,000,000	11 - 17

Source: Leader, 19 January 1996

The increase in the house prices does not match with the mean income of households. According to the report of the seventh plan, the mean income of the bottom 40% of households increased from RM420 per month in 1990 to RM672 in 1995, registering a growth rate of 8.1% per annum. For the top 20% and middle 40% of households, the rate grew at 10% and 9.2% respectively.

4.3 Household Income

In 1984, the Urban Development Authority estimated that at least 80% of the lower income group in Malaysia could not afford the cheapest government-built low-cost house priced at RM 25,000 (Business Times, 18 June 1984). Survey have indicated that low income households can normally afford to spend 15% of their monthly income on housing (City Hall Paper, 1976). Based on this estimate, even with the provision of subsidised low-cost housing, some 70% of the households earning less than RM400 per month are still unable to buy a house. If the interest rate of housing loans for houses below RM100,000 is 8.75%, a person taking a RM25,000 loan at this rate would have to pay around RM220 in monthly installments over 20 years. Bank will lend this amount only if the person earns three times that amount. Thus only those earning RM660 or above would be eligible for such loan.

According to Fifth Malaysia Plan, the median income of Peninsular Malaysia households was RM723 in 1984, meaning that 50% of households earned below that amount. It can safely be assumed then that at least 40% of households cannot be eligible to obtain a bank loan of RM 25,000 and thus could not afford a low cost house. The Fifth Plan also states that 18% of Malaysian households lived below the poverty line in 1984. However, during

the Sixth Malaysia Plan, the incidence of poverty among Malaysian was reduced from 16.5% in 1990 to 8.9% in 1995 (poverty estimation for 1995 is based on the poverty line incomes of RM425 per month for a household size of 4.6). In general, it can be said that all households living below the poverty line would not be able to afford buying a low-cost house.

A study of price distribution against income levels in Kuala Lumpur based on the fact that families allow about 25% - 30% of their monthly for house purchases (Rahim & Co Research) give the figures below (Table 2):

Table 2

Price Distribution Against Income (Kuala Lumpur) 1992

Price (RM)	Installment (RM) 20 years @ 9% p.a.	Income Per Month (RM) based on 30% factor
25,000	228	760
60,000	548	1,850
90,000	822	2,750
100,000	913	3,100
	20 years @12% p.a.	
150,000	1,673	5,600
200,000	2,280	7,500
300,000	3,347	11,200
350,000	3,905	13,100
400,000	4,463	14,900
450,000	5,021	16,750
500,000	5,580	18,600

Source: Rahim & Company (1993)

Based on the above findings, it was estimated that the affordability level of Malaysian population is as follows:

Table 3
Affordability Factors (1992)

Year	Price Range (RM)	Population (%)	Malaysian / Foreigner
1992	15,000-50,000	64	Malaysian
	60,000-80,000	20	Malaysian
	90,000-300,000	16	Malaysian
	above 300,000	-	Foreigner
2000	15,000-50,000	65	Malaysian
	60,000-80,000	18	Malaysian
	90,000-350,000	17	Malaysian
	above 350,000	-	Foreigner

Source : Rahim & Company (1993)

Matching the supply side with the effective demand side for conventional houses produces the following results up to 1995 which show a shortfall throughout the period.

Table 4

Supply - Demand Analysis of Housing Units (Kuala Lumpur)

Year	Supply (units)	Demand (units)	Excess/shortfall (units)
1991	108,925	163,072	(54,147)
1992	119,925	198,996	(79,071)
1993	130,925	204,142	(73,217)
1994	134,394	209,448	(75,054)
1995	134,394	214,896	(80,502)

Source: Rahim & Company (1993)

At this rate of supply, including current stock and those under construction, only 43% of the housing requirements would be satisfied by the year 2000. However, the need for housing can only become effective demand if those desiring housing can afford to buy them.

4.4 Interest Rates

The high cost of houses in Malaysia is also caused by the policies of the financial institutions. Banks and finance companies are charging excessive interest rates to house buyers. In some years, the financial institution have brought down their cost of funds by drastically decreasing rate paid for deposits but they have brought down lending rates at a far lower rate. As a result the interest margin (the difference between deposit and the lending rates) has

widened from 4 percentage point in 1981 to over 6 percentage point at the end of 1987. In 1988 the lending rates was between 9 - 10% whilst depositors received only at 3 - 4% interest (Bank Negara).

In December 1984, the three - month mode fixed deposit rate for banks was 10.5%, the average lending rate was 13.14%, interest rates for house loans were 14-15% (for houses above RM 100,000) and 10% (for houses below RM 60,000). In December 1987, the three - month mode fixed deposit rate was only 2.25 -2.5%, a drop of 8 percentage points. Yet the average lending rate was 9.73% (falling only 3.4 percentage points); housing loan rates were around 10% (for houses above RM100,000) and 8.75% (houses below RM 100,000). However, at the end 1994, the average interest rate on housing loan charged by the commercial banks and finance companies, declined by 0.69 and 0.73 percent to 8.3% and 9.15% per annum respectively. In accordance with the guidelines of the Bank Negara, the interest ceiling for existing as well as new loans for owner-occupied houses valued at RM 100,000 or less remained at 9% per annum or 1.75 percentage point above the declared based lending rate (BLR) whichever is lower (Bank Negara Annual Report 1994).

A few years ago, low cost and medium cost house buyers were being subsidised because they were charged interest below the deposit rates. The deposit rates have fallen by 8 percentage points yet the low and medium cost housing rate declined by a mere 1.25 percentage point, so that at present there is a mark-up of over five percentage points from the deposit rate to the low-cost housing rate. Banks have tightened their lending policy in order to safeguard their interest, thus making it difficult for the low income groups to borrow to buy low cost houses.

Since the mid 80s, loans for low cost houses were charged interest even below fixed deposit rates, the interest for such loans should be reduced from 8.75% to around 5% (1% higher than government loan) whilst loans for houses above RM 100,000 should be charged around 7% (the rate charged in Singapore) instead of 10%. This will make houses more 'affordable'. Take again the example of a potential house buyer who wants to borrow \$25,000 from a bank over 20 years. At the 8.75% interest rate he has to pay \$220 a month, which means only those households earning \$660 and above are eligible. But if the interest rate were to drop to 5%, then he would have to pay only \$165 a month. Thus those earning \$500 and above would now be eligible for a loan. This would open up the opportunity for a lot more low-

income families to buy low-cost houses. Bank Negara should therefore consider 'beating down' the low-cost housing interest rate from 8.75% to 5%, which would give a tremendous boost to low-cost housing demand and provide greater access to the low-income groups.

In 1992 the Government had provided interest subsidy of 1% per annum as an interim measure to encourage commercial banks and finance company to provide loans to individuals for the purchase of houses costing RM100,000 or less at the prescribed ceiling rate of 9% or 1.75 percentage points above the respective banking institution's base lending rate, whichever is lower. However this type of subsidy was discontinued in 1994 due to the excess liquidity situation prevailing in the market.

4.5 Characteristics of Respondents

A total of 200 responses were obtained from the survey. Of these, only 85 questionnaires were used for analysis. The rest were not usable due to incomplete information especially on financial aspects in section B. Table 5 summarises the demographic characteristics of the respondents and Table 6 summarises the information pertaining to financial commitment of the respondents.

The proportion of males in the sample was greater at 56.1% while females represented 43.9% of the total number of respondents. With respect to the racial breakdown, 65.9% of the sample are Malays, 19.5% Chinese, 13.4% Indian and 1.2% Others.

In terms of age, the largest proportion of the respondents, 36.6% were aged between 36 - 40 years and 23.2% aged between 31 - 35 years. Slightly more than three-quarter the sample, i.e. 79.3% of the respondents were married with children. The married without children category comprises 11.0% and the single category comprises 9.0%.

About 38.5% of the respondents earned between RM 3001 - 5000 per month and 32.1% in the income bracket of RM 1501 - 3000 a month. 5.1% had a monthly household income of between RM751-1000 and RM5001 - 7000. Only 9% and 10.3% earned income between RM1001 - 1500 and above RM7001 per month respectively.

Table 5
Characteristics of the Respondents

Characteristics		%
Sex:	Male	56.1
	Female	43.9
Race:	Malay	65.9
	Chinese	19.5
	Indian	13.4
	Others	1.2
Age:	Below 25 years	1.2
	26 - 30 years	11.0
	31 - 35 years	23.2
	36 - 40 years	36.6
	41 - 45 years	19.5
	46 - 50 years	7.3
	51 - 55 years	1.2
Marital Status: Single/divorce		9.7
Married without children		11.0
Married with children		79.3
Occupation:	Government Employee	51.9
	Private sector	40.7
	Own Business	1.2
	Others	6.2
Income:	RM751 - 1000	5.1
	RM1001 - 1500	9.0
	RM1501 - 3000	32.1
	RM3001 - 5000	38.5
	RM5001 - 7000	5.1
	RM7001 & above	10.3

4.6 Source of Financing

As can be seen from Table 6, about 82.9% of the respondents owned a house. A substantial proportion of respondents (87.6%) falls into a monthly payment below RM999 category. Of these, nearly half or 48.4% of the respondents were financed by the government loan and 37.5% by financial institutions. Majority of the respondents were found to have housing loans in the range below RM150,000.

In term of interest on loan, about 62% of the respondents borrowed at the rate of 4% and below, 20% borrowed at the rate between 4.1% -9.0% per annum (p.a.), 2% and 16% of the respondents borrowed at 9.1% - 10% p.a. and above 10% p.a. respectively.

It is also important to note that about 69.2% of the respondents withdraw their saving from Employees Provident Fund and 85.5% used their own saving to make way for the deposit required by housing developers.

Table 6**Summary: Important Data on Houses**

Categories		%
Status:	Self-owned	82.9
	Renting	17.1
Monthly Payment:	RM499 & below	43.8
	RM500 - 999	43.8
	RM1000 - 1499	9.4
	RM1500 & above	3.1
Source of financing:	Government	48.4
	Financial Institutions	37.5
	Others	14.1
Loan Amount:	RM 39999 & below	13.5
	RM 40000 - 79999	28.8
	RM 80000 - 99999	15.4
	RM100000 - 150000	38.5
	RM200000 - 250000	1.9
	RM200001 & above	1.9
Interest Rate:	4.0% and below	62.0
	4.1% - 9.0%	20.0
	9.1% - 10.0%	2.0
	10.1% and above	16.0
EPF Withdrawal:	Yes	69.2
	No	30.8
House Deposit:	Own saving	85.8
	Financial Institution	7.9
	Association	5.3
	Others	1.3

4.7 Household Income

The results of the survey show the main factor that determines the homeowning opportunities is the income variable. Using the cross tabulation technique, this factor has a significant relationship with the type of house they stay, monthly payment for a particular house, the amount of loan taken and the choice of the sources of finance. The Pearson significance value of the income variable to the variables mentioned above and a few other variables are as follows :

Table 7
Cross tabulation Income By Relevant Variables

Variables	Pearson's Significance value *
Income by Interest control by government	0.0005
Income by the type of house	0.01202
Income by monthly payment	0.00018
Income by loan	0.02291
Income by deposit	0.00371

* Significance at 95%

4.8 Choice of household type

The finding from this study seems to be similar with that of Henderson (1988). Respondents whose households headed by married people have 0.02551 alpha value in relation to the house status. This relationship is supported by the cross tabulation of the house status to the number of children. Alpha value 0.01998 implies the significance of the relationship. It appears that being a family man increases the likelihood of owning a house. The result is not surprising because a substantial proportion, about 79.3% of the respondents in the sample were married with children between 1 - 2. It is consistent with the age bracket group between 36 - 40 years forming about 36.6% of the respondents.

In terms of choice of houses, the majority of the respondents in the sample choose to stay in the single storey link and double storey link. (The single storey link took 23.2% whilst the double storey link in the 43.9%). This findings probably were due to the income bracket group of the respondents ranging from RM 1500 to RM 5000 which made up 70.6% of the sample size.

4.9 Down-payments

In 1994, about 34% of the total EPF withdrawals was used by contributors for housing purposes. Of these, about 22.47 was used to purchase non-low cost houses, 2.72% for village houses, 1.94% for reducing mortgages and 6.78% was for low-cost houses. (EPF Annual Report, 1994). This indicates that contributors/subscribers to the employees' fund (EPF) regards the fund as one type of source of financing house buying. From this study alone, it appears that about 69.2% of the respondents had used the EPF withdrawal scheme to buy a house. This would enable them to reduce their financial burden especially at the initial stage of the buying process.

4.10 Reliability Test

The reliability test was used to get the respondents' opinion on the series of statement related to housing, such as, 'plenty of choices'(A01), 'the price of houses are quite reasonable'(A02), 'interest charges are burdensome'(A03), 'continue the progress payment'(A04), 'satisfactory with the quality'(A05), 'houses need renovation'(A06), 'government should control house pricing' (A07), 'price is not the basis'(A08), 'government should control interest rate' (A09), 'end financing is enough'(A10), 'legal fees

can be continued' (A11) and 'legal fees should be treated as part of the total housing loan' (A12).

The alpha value was found to be at 0.5773 which is bigger than 0.5 (the significant level). For an exploratory research, this alpha scores is acceptable for its reliability (Nunnally, 1978). All variables in the test contribute to the alpha value more than 0.5 except variable "a lot of choice" that will make alpha drop to 0.4852. (Table 8). It shows that this variable is the most important compared to other variables.

Table 8
Reliability Analysis - Scale (opinion)

Item	Scale mean if item deleted	Scale variance if item deleted	Corrected item-total correlation	Squared multiple correlation	Alpha if item deleted
A01	37.2716	19.9253	.4996	.3800	.4852
A02	37.9259	22.4944	.3482	.3019	.5324
A03	37.1358	22.1938	.1992	.2615	.5718
A04	36.8642	23.7688	.1531	.2113	.5765
A05	37.4321	22.9235	.2943	.2509	.5440
A06	36.3827	24.9392	.1502	.2061	.5720
A07	35.7407	25.2444	.1217	.3195	.5763
A08	37.1235	20.6596	.4383	.2644	.5038
A09	35.8272	23.7448	.3151	.3793	.5451
A10	37.0741	23.9944	.1430	.2662	.5780
A11	37.5309	23.7772	.2226	.1639	.5593
A12	36.2716	25.9753	-.0087	.1852	.6019

Reliability Coefficients 12 items

Alpha = .5773

Standardized Item Alpha = .5697

All the above variables are further elaborated in Table 9.

Table 9
Frequency of Opinion Regarding Housing Issues

Issues	1	2	3	4	5
Lot of choices	8.5	37.8	11.0	34.1	8.5
Reasonable price	15.9	56.1	12.2	13.4	2.4
Interest is burdensome	15.9	26.8	8.5	32.9	14.6
Agree with progress payment	6.1	20.7	13.4	47.6	12.2
Satisfied with quality	6.2	39.5	24.7	27.2	2.5
Houses need renovation	-	4.9	23.2	52.4	19.5
Government should control price	-	3.7	3.7	31.7	61.0
Price is not the basis	4.9	32.9	22.0	25.6	14.6
Government should control interest	-	4.9	2.4	39.0	53.7
End financing is enough	3.7	32.9	13.4	42.7	7.3
No objection with legal fees	4.9	46.3	22.0	25.6	1.2
Legal fees part of total loan	1.2	7.3	12.2	52.4	26.8

Note: 1 - strongly disagree
2 - disagree
3 - neutral
4 - agree
5 - strongly agree

As can be noted from Table 9, respondents seem to disagree on five out of twelve statements given. About 37.8% disagree on the statement 'a lot of choice', 56.1% disagree on 'houses are priced at reasonable price, 39.5% disagree on 'the quality of houses is

satisfactory’ and 46.3% disagree on the statement ‘no objection with legal fees’.

On contrary, respondents agreed on the statement of ‘interest is burdensome’ comprises about 32.9%, and about 52.4% agreed that ‘houses need renovation’. Respondents also agreed on the statement that ‘end financing is enough (to buy a house)’ and on the statement “‘legal fees should be part of total loan’ which take up about 42.7% and 52.4% respectively.

In terms of the government roles, quite a big proportion of respondents, 61% strongly agreed that ‘government should control price of houses’ and about 53.7% strongly agreed on the ‘government should control interest rate’.

Table 9 clearly portrays that certain aspects like pricing, quality, choice, legal fees and size of house, are beyond the control of house buyers. At the same time they are financially burden by the charge of the interest rate, legal fees apart from loan taken. Thus, house buyers expect more of the government intervention especially in controlling house pricing and the interest rate charged to housing loan borrower.