CHAPTER ONE

INTRODUCTION

1.1 Perception of the problem

Housing concerns everyone, no matter of their background, ideology, economic status or financial situation. The basic reason for deep concern is that housing is an important component of the socio-political environment within which human energies are released, enriched and integrated. In addition to that, housing is also an important determinant of people's welfare, life-style status and expenditure patterns. It is very significant that housing takes a larger fraction of people's income more than any other commodity group, other than for food in most countries.

Housing provides varieties of services to human beings. To the occupants, it gives shelter, privacy and independence and also serves a locational function. To the owner, it provides financial security during inflation and the falling value of money. Housing can represent one form of investment because property values normally appreciate. If it is a new property, the appreciation rate will be greater during economic boom compared to used properties.

Usually the rate of appreciation for properties are greater in urban areas compared to those in the rural areas. Based on this judgement, we can notice that this is very significant in the Klang Valley. The areas which experienced a high rate of appreciation are, Ampang, Bangsar, Damansara Heights, Cheras, Petaling Jaya and Subang Jaya followed by Bangi and Klang. Therefore, undoubtfully more and more money is pumped into these areas either by domestic investors (public and private sectors) or foreign investors especially those from Singapore, Japan, South Korea, Taiwan, United States of America and others.

As a result of rapid economic growth during the 1970's and 1980's, the Klang Valley has become more congested due to migration from other parts of the country notably from the South (Johore, Malacca and Negeri Sembilan); the North (Perlis, Kedah, Penang and Perak); and the East Coast (Kelantan, Terengganu and Pahang). Despite migration, natural population growth and increasing numbers of expatriates make the Klang Valley a very highly populated area in this country.

The spectacular economic growth obviously improved the living standards and increased the per capita income. In addition, the price of houses has

skyrocketed two to three folds in the late 1980's compared to the early 1970's. As a result, the lower income groups find it difficult to own a house in the Klang Valley. For the lower income groups, whose housing problems are the most acute, the immediate problem is their lack of purchasing power which makes it impossible for them even to afford government - subsidised housing. At present, even the middle-income earners find it hard to own a house due to the escalating house prices and rents. While for others, it may be a shortage of housing in the right location, that is, near schools, shopping centres, hospitals or working places.

The government is expected to play an important role in overcoming these problems. It is the government's wish that everyone could own a house. But rising costs of living and construction costs are almost parallel to the increase in per capita income. On the other hand, prices of houses increase more than the increase in income. Therefore, housing becomes a major issue in a country's development plan. Experience shows that, housing policies always fail to fulfill the people's needs. The demand always outweigh the supply, and this is more serious among lower income groups. This clearly shows the lack of effectiveness of government housing policies. This is

mainly attributed to the lack of understanding of housing market processes among policy makers in this country.

Apart from the above mentioned problems, there are other problems faced by the Klang Valley residents. Since the supply of land is fixed, while the demand is always increasing, therefore it creates excess demand for land for various reasons. The allocation of land for development projects increasingly becomes more difficult to be decided. Furthermore there is always opportunity cost involved when it comes to allocation of land in urban areas such as the Klang Valley. Land is particularly needed for housing, commercial, industrial, infrastructure, recreation, sports, hospital and education. Due to excess demand for land, the price of land is always subjected to appreciation. This leads to higher construction cost of houses or reduction of supply to some extent.

Since most of the development projects are undertaken by private developers, obviously the profit target is always more important than social obligation or satisfaction. As a result, more high and medium cost houses are built compared to low cost houses. By doing so, the private developers can maximise their profit and make this industry more lucrative. The urban poor or lower income groups form

more than 70 per cent of the population in Klang Valley. Therefore the demand is always there for low cost houses. To the extent , from the early 1970's till now (1990's) the demand for low-cost houses always exceed the supply. Since the profit margin is lower for low-cost houses compared to high and medium cost houses, the developers always hesitate or are not interested to develop such houses.

1.2 Objective of the Study

Based on the above problems, first this study will examine and explain the underlying problems of the housing industry in the Klang Valley particularly in terms of demand and supply. In the demand side, the focus will be on the purchasers ability and this will be divided into two groups; firstly, local purchasers that is, the Klang Valley residents and secondly, the foreigners. For the local residents, studies show that demand is always greater for low and medium cost houses. On the other hand for foreigners,the demand for high cost or luxury houses is always greater. This can be attributed to their differences in income and purchasing power.

On the supply side special attention will be given to the private and public sectors' participation

in the housing industry. The private sector usually consists of three main groups namely, public listed developers, group developers and individual developers, while the public sector consists of the state government, city council, co-operative builders and others. The combination of demand and supply analysis will give a clear picture of the way the housing markets operate and this will lead to the formulation of housing policies in urban areas and for a better planning in future.

The second objective of the study is to examine the overall housing situation in the Klang Valley. This includes the past, present and future trends in the housing industry especially in terms of demand and supply. An attempt will also be made to study some of the housing problems faced and to make some policy recommendations on how to alleviate these problems.

In attempting to carry out the first objective, some microeconomic tools of analysis will be used especially to explain the demand and supply side of the market. While for the second objective, to examine the housing industry in the Klang Valley, an attempt will be made to examine the housing needs in the Klang Valley. For the future, there will be an estimation of housing needs in the Klang Valley.

1.3 Scope of Study

This study is meant to cover only the Klang Valley area. Therefore the study area consists of Federal Territory, the districts of Petaling, Klang Gombak and Hulu Langat. Apart from that, this study only focuses on the housing industry which covers high, medium and low-cost houses such as flats, apartments, condominiums, bungalows, terrace houses, detached houses, semi-detached houses, low-cost houses and double storey terrace houses. Therefore the study does not include hotels, commercial properties, shoplots or industrial properties.

The foreigners' roles discussed are limited only in terms of buying, selling and renting new or used residential properties and not in terms of

undertaking the construction of new properties. This is due mainly, to the difficulties in obtaining the relevant information from the relevant authorities.

Since not many studies have been done on the housing market particularly on the Klang Valley and generally on Malaysia, an attempt will be made to compare and introduce some results of research which have been undertaken in other countries, such as the United States of America, Britain, Australia, Japan, Singapore and Taiwan.

The projection for housing needs is done under various data constraints. The relevant authorities were not able to provide the information required and this made the housing needs projection more difficult. Furthermore, various evaluation reports on previous projections are not allowed for public use. This makes the study more difficult in terms of obtaining the information regarding the weaknesses of previous housing policies in the Klang Valley.

1.4 Limitations and Research Problems

The major obstacle which reduced the efficiency of this study is the information or data problem. Since the study is based on secondary data, any data constraint certainly will have a greater negative impact on the study. For example, in order to produce a time series analysis it is important to have the data on the number of houses sold each year.

The study covers from 1970 to 1990, but unfortunately the author only managed to obtain data on the number of houses sold for the last few years. Obviously with that information, it is not possible to run a complete multiple regression model to find out which factor has a greater influence on demand compared to other factors. Some of the information is considered confidential and therefore it is not possible to obtain such data.

In order to project housing needs in the Klang Valley, it is necessary to have the stock of existing dwellings and the number of houses completed by the developers. Again the author was very dissapointed with the relevant authorities because they failed to produce such information. As a result, the housing projection was undertaken under data

constraint problems and therefore it may be slightly misleading. When the author approached the officers under the Ministry of Housing and Local Government, they agreed that it was difficult to find out whether the developers had completed the housing constructions or not, because the Certificate of Fitness (CF) is issued by different authorities, and the latter is usually not obliged to report to the former. Therefore the number of houses completed is always difficult to obtain.

Apart from that, where the theoretical aspect is concerned, not much research has been carried out on housing issues in the Klang Valley. As such, the writer had to depend more on foreign books especially from Britain and United States of America (USA). Since these countries' political, economic and social background are different, it is to some extent difficult to explain the relevancy of the theories presented in these books to the local housing situation.

1.5 Outline of the Study

First of all, this study will be divided into eight chapters. In each chapter the author will

analyse, explore and critically explain the main features of the housing market in the Klang Valley. Chapter 1 deals with the perception of the problems, introduction, objectives of the study, scope of the study, limitations and research problems, and finally the outline of the study.

In Chapter II, the author will give an overview of the housing market in the Klang Valley. This includes the background of the study area, the land and the structure, the people and the population trend and proportion, in the Klang Valley. Later, this chapter deals with the economy of the study area. The economic analysis will be divided into two categories. First, it will analyse the Malaysian economy and later the Klang Valley economy itself. This is necessary, because the Klang Valley economy is closely integrated with the Malaysian economy.

Chapter 3 will analyse the importance of housing to economic activity. Here, the study will cover the theoretical framework of the whole housing industry to the economy. Later, the housing sector will be analysed in terms of micro and macroeconomic analysis. This section will explain the system in which the housing market operates in micro and macro levels. Later, under this chapter, the analysis will

be extended to literature review which deals with four aspects. Firstly, it will give a clear view of the impact of housing investment on the economic growth. Here, the study will basically cover the multiplier and incremental capital-output ratio (ICOR) and its impact on the overall housing investment generally. Secondly, the impact of the housing investment on backward linkages will be analysed. Thirdly, the effect on domestic price level due to housing investment will be studied. Finally, the impact of housing investment on skill development in the construction industry will be analysed. Later, an overview of the housing market in the Klang Valley will be analysed. Housing market trends in the Klang Valley will be basically studied under residentials property transactions, price movements, location and types of houses criteria.

The next chapter, chapter four, will deal with the demand for housing in the Klang Valley. Here, the link between demand and its determinants will be explained. In addition, the determinants of demand such as per capita income, price, population growth, demographic structure (age, household size, number of households), housing preferences and tastes, and taxation and investment policies will also be explained. The analysis method will be explained in this chapter.

If chapter four deals with demand, then chapter five will explain the supply side of housing economics. The housebuilding process and its determinants will be the main focus here. The supply determinants such as, interest rate, labour cost, raw materials cost, demand trends, market cycle and government policies will be analysed under this section.

Then, chapter six will show the interelationship between demand and supply of the housing market in the Klang Valley. Apart from showing the market analysis, this chapter will also discuss the research results from computer output for the Klang Valley. Later, it will be compared with the previous research done in various countries. Finally, it will be ended with the housing projection for the whole of Klang Valley.

The following chapter, chapter 7, will be on the condominium housing market. Since condominium type of housing is very popular among cityfolks and expatriates in the Klang Valley, the author feels that it is necessary to analyse this situation. The condominium market will be examined in terms of price criteria, location aspects, tastes or types and transaction trends. The determinants of the

condominium type of residential units will be examined too. Finally under this chapter, the future growth trend and prospects will be examined.

Finally under the last chapter, chapter 8, the analysis will examine previous housing market development and policy evaluation. To what extent, previous housing policies have been succesful will also be examined. In addition to this, some policy recommendations will be made to improve the housing supply system for the Klang Valley residents in respect to the various income groups.