

Chapter 3.

Analysis of The Housing Problems in Malaysia

The Problem of Oversupply

In the 1995 Statistics Department report on the housing census of 1991, there were 4,060,900 housing units in the country catering to about 18.379 million people or 3.538 million households. This figure did not take into account collective living quarters, such as hostels, temporary labour camps and hospitals, and makeshift structures such as schools, garages, and mosques which were not intended for habitation but used as such during the census day. The housing industry, at least in terms of the number of houses constructed, has been very active. Between the two housing censuses carried out in 1980 and 1991, there was an increase of 1,501,300 housing units or an increase of 59 per cent in 11 years – an average of 136,482 units per year. The average rate of increase in the construction of housing units from 1991 to 1995 was about 129,492 units per year. The Seventh Malaysia Plan reported 647,460 housing units were built from 1991 to 1995. This meant, since 1995, there were 4.7 million housing units for a population of 4.1 million households. Table 2 shows the distribution of housing units by State, 1991.

Table 2: Distribution of Housing Units by State, 1991

State	No. of Units (thousands)	% of total	Average rate of increase from 1980-1991(%)
Johore	501.1	12.3	6.3
Kedah	320.6	7.9	3.7
Kelantan	263.6	6.5	3.9
Malacca	120.8	3.0	3.8
Negeri Sembilan	179.4	4.4	4.8
Pahang	237.5	5.8	4.4
Perak	470.1	11.6	3.6
Perlis	44.4	1.1	3.1
Penang	228.4	5.6	4.4
Sabah	364.8	9.6	10.0
Sarawak	354.2	8.7	5.2
Selangor	538.1	13.3	8.5
Terengganu	164.1	4.0	3.8
Kuala Lumpur	262.7	6.5	5.3
Labuan	11.2	0.3	11.4
Total	4,060.9	100.0	5.3

Source: Department of Statistics Malaysia, 1995. p. 11.

As can be seen from the 1991 housing census that there were enough housing units for every households in Malaysia. In other words, there is possibility that supplies in certain localities might be more than demands. This should have warned developers. Precautionary actions should have been taken by developers, for instance, conduct proper research on potential projects and not just jumped onto the housing development bandwagon as other competitors. Prudent and cautious managers (developers) always utilize Strategic Management Process and Models to guide and help them make decisions. These Management Process and Models will be explained later.

The Property Overhang Report by the Valuation and Property Services Department as at the end of June 2000 indicates that the overhang properties in the residential sector, industrial sector and shop units was estimated to be worth RM8.82 billion, while the vacant space in the shopping complexes and purpose-built office space was estimated to be worth RM20.01 billion. Table 3 shows the total value of Property Overhang By Sector as at June 2000.

Table 3: Total Value of Property Overhang By Sector As At June 2000

Sector	RM Billion & % share		June 2000/Dec 1999 (movement & % Change)
	Dec 1999	June 2000	
Residential	6.48 (22.33)	6.31 (21.86)	0.17 (-2.62)
Industrial	0.36 (1.24)	0.60 (2.08)	0.24 (66.67)
Retail shop	2.12 (7.31)	1.91 (6.62)	-0.21 (-9.91)
Shopping complex	12.63 (43.52)	12.70 (44.01)	0.07 (0.55)
Purpose-built office	7.43 (25.60)	7.34 (25.43)	-0.09 (-1.21)
Total	29.02 (100.00)	28.86 (100.00)	-0.16 (-0.55)

Figures in parenthesis are in percentage

Source: Valuation and Property Services Department, *Property Overhang Report* (Issue 2/2000).

The number and value of unsold residential units decreased from 53,066 units (RM6.48 billion) at the end of December 1999 to 45,549 units (RM6.31 billion) at the end of June 2000. This represents a reduction of 14.17 per cent and 2.62 per cent in the number and value of unsold residential properties respectively.

The majority of the unsold residential properties were terrace houses (43.3 per cent) and condominiums/apartments (21.2 per cent). It was observed, there were 5,577 units of low-cost houses units that remained unsold in the country, which accounted for 12.24 per cent of the total unsold residential properties. The units were in Johor (2,313 units), Negeri Sembilan (1,204 units), and Selangor (1,142 units). Most States recorded decreases in the total number of unsold residential units except Sabah, Malacca, Negeri Sembilan and Kuala Lumpur. Kelantan, Kedah, and Selangor recorded the highest reduction in the number of unsold residential properties, each by 81.50 per cent, 77.73 per cent, and 56.15 per cent at the end of June 2000 to 141 units, 973 units and 5,188 units compared to the number of unsold units at the end of December 1999. (Property Overhang Report, Issue 2/2000). Table 4 shows the total number of Property Overhang By Sector As At June 2000.

Table 4: Total Number of Property Overhang By Sector As At June 2000

Sector	Units & S.M ('000)		June 2000/Dec 1999 (movement & % Change)
	Dec 1999	June 2000	
Residential (units)	53,066	45,549	-7,517 (-14.17)
Industrial (units)	1,441	2,398	957 (66.41)
Retail shop (units)	5,000	5,999	999 (20.00)
Shopping complexes (s.m)	1,422.4	1,429.6	7.2 (0.51)
Purpose-built office (s.m)	2,251.0	2,223.2	-27.8 (-1.24)

Figures in parenthesis are in percentage.
Source: Valuation and Property Services Department, *Property Overhang Report*, (Issue 2/2000).

According to former director-general of the Ministry of Finance's Valuation and Property Services Department, Mr. Ravindra Dass, it will take another 5 years to mop up the existing oversupply of properties in the country. Referring to the 1985 to 1988 recession, he said that developers seemed not to have learned their lesson then, and in the 90s, reverted to their old habit of building more commercial, office space and residential units than were needed. (*New Straits Times*, 23 September 2000; p.26).

This problem of oversupply of properties in the country is avoidable only if the developers were more prudent and cautious. Only if they read property market reports and analyze the market situation intelligently, they would have avoided failure and disastrous in their projects.

The Problem of Mismatch

As stated earlier, 12.24 per cent of the total unsold residential properties were low-cost houses. They were in Johor (2,313 units), Negeri Sembilan (1,204 units), and Selangor (1,142 units). This phenomenon, I would say, is not oversupply. It is mismatching. As commonly aware, supplies of low-cost houses are not enough to meet the ever-increasing demands. Over time, with cost escalation, the provision of low-cost housing in the country has been subject to elements of subsidies. Private sector low-cost units are made possible through mixed development activities that allow cross subsidy from high-cost to low-cost units. The public sector low-cost housing provision is subjected to many forms of direct subsidies. These include infrastructure grants, alienation of state lands at nominal prices, lower land premiums, low interest end financing ranging from 4 to 5.5 per cent, convenient amortization periods, 100 per cent bridging financing facilities and free technical and advisory services. Furthermore, the government has controlled and fixed the selling price for low-cost houses at RM25,000 per unit or below. However, since June 1998, this controlled price was revised and

the new price is based on cost of land per square foot. Table 5 shows the new price of low-cost houses based on cost of land per square foot.

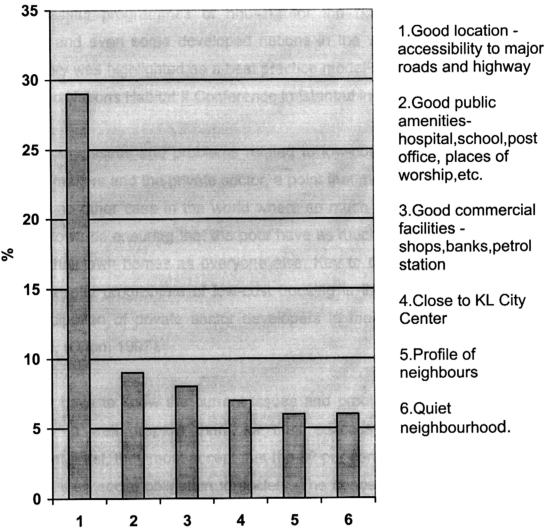
Table 5: Price of Low-Cost Houses Based on Cost of Land Per Square Foot.

Price of Land per sq.ft.	Monthly Income of Target Group	Price of Houses
RM45 and above	RM1,200 – RM1,500	RM42,000
RM15 to RM44	RM1,000 – RM 1,300	RM35,000
RM10 to RM14	RM850 – RM1,200	RM30,000
Less than RM10	RM750 – RM1,000	RM25,000

Source: Ministry of Housing and Local Government

With these subsidies and controlled price, the demands for low-cost houses will always exceed supply. Only when build in the wrong locality, there will be no takers. Again, this wrong project locality is avoidable. Developers will automatically avoid or delay construction of houses in locality when market demand is low. As researches have pointed out that two major deciding factors for house buyers are *affordability and locality*. Characteristics of a good location, as pointed out by Ms Lim, Managing Director of Research Inc. Asia Sdn. Bhd are: 1. Good location – accessibility to major roads and highways; 2. Good public amenities – hospital, school, post office, places of worship, etc; 3. Good commercial facilities – shops, banks, petrol station; 4. Close to KL City Center; 5. Profile of neighbours, and 6. Quiet neighbourhood. (Lim, 2000). Chart 2 shows the characteristics of a good location.

Chart 2: Characteristics of a Good Location



Source: Research Inc. Asia, 2000

The Problem of Low-Cost Houses

The issue of low-cost housing has been the focus of much attention from politicians and the media in Malaysia, with developers often becoming the unfortunate targets of public criticism for not doing enough for the poor in the country. Yet, what is often not highlighted is the fact that Malaysia has one of the most successful programmes of housing for the poor that is the envy of developing and even some developed nations in the world. This often-unsung success story was highlighted as a best practice model in Malaysia's submission at the United Nations Habitat II Conference in Istanbul in 1996.

Although many issues and problems related to low-cost housing still challenge both policy makers and the private sector, a point that must be made is that there is probably no other case in the world where so much attention and efforts are committed towards ensuring that the poor have as much opportunity and access to owning their own homes as everyone else. Key to this unique example of a highly successful programme of low-cost housing is the substantial and active direct participation of private sector developers in the entire low-cost housing programme. (Chan, 1997).

Developers have to know the current issues and problems in low-cost housing programme to well prepare them for their success in the mixed housing development. First, they must accept that the 30 per cent policy for low-cost units will stay as their social obligation to society. The concept of cross-subsidization was introduced in the late 1970's and early 1980's. The private sector housing industry was prevailed upon to participate in the building of low-cost houses through a system of cross-subsidies. Private developers have in general accepted such imposition as a precondition and prerequisite for obtaining approvals for development. The imposition requires developers to incorporate in the pricing of non low-cost housing units an element to absorb the income deficit from the building of loss-making low-cost houses. Other forms of cross-subsidization introduced in the late seventies and early eighties included: -

- The banking industry was required to provide end-financing at lower and regulated interest rates to lower income house purchasers. This invariably led to other sectors having to borrow at inflated rates to support such subsidies.
- Attempts were made to require the building material industry to supply building construction materials for low-cost housing at preferential prices.
- The legal profession was called upon to charge a discounted flat fee to act as solicitors for low-cost house purchasers.
- Stamp duties were abolished for low-cost housing transactions. (Ghani Salleh and Lee, 1997).

The survey conducted by Ghani Salleh and Lee, had identified the escalating price of construction materials, delays in obtaining approvals, shortage of labour and non-receipt of waivers as promised by the government as major problems facing housing developers involved in low-cost housing programmes. They conclude that the increasing dependence on cross-subsidy from the non low-cost housing component may appear a justifiable approach to ensure that the developers give back some of its profits to society as a social obligation. In reality however, cross-subsidy increases the burden on the non low-cost house buyer. This is because there is no clear trade-off between the level of profit which the developer is willing to accept and the amount which the developer is prepared to forgo as contribution to society. In short, it is the non low-cost buyer who actually shoulders the bulk of the burden of cross-subsidy. (Ghani Salleh and Lee, 1997).

During the Sixth Malaysia Plan, a total of 260,797 units out of the targeted figure of 343,000 units of low-cost houses had been built but unfortunately, about 43 per cent of the houses had been transacted without proper checking and monitoring to persons who eligibility and income were unknown. Table 6 shows that Perak state had the most transactions occurred (35,690 units), followed by Selangor (14,796 units), Johor (13,386 units), Negeri Sembilan (11,888 units), Terengganu (10,719 units) and Kedah (9,666 units).

Table 6: Transactions of Low Cost Houses Between 1991 – 1995

State	1991	1992	1993	1994	1995	Total
Perlis	84	147	179	55	97	562
Kedah	1,394	1,169	2,382	2,793	1,928	9,666
Perak	10,156	6,917	5,702	5,664	7,251	35,690
Pulau Pinang	176	74	66	51	425	792
Selangor	4,177	2,882	2,957	2,186	2,594	14,796
Kuala Lumpur	488	885	366	206	258	2,203
Negeri Sembilan	1,780	3,618	1,936	2,071	2,483	11,888
Melacca	647	1,028	1,031	1,371	1,224	5,301
Johor	2,737	3,510	1,729	2,502	2,908	13,386
Pahang	757	1,128	1,740	790	696	5,111
Terengganu	1,426	1,969	2,435	2,547	2,342	10,719
Kelantan	335	268	317	292	287	1,499
Sabah	372	144	311	365	334	1,526
Sarawak	-	-	-	-	-	-
Total	24,529	23,739	21,151	20,893	22,827	113,139

Source : Valuation and Property Services Department, *Property Market Report*, (1991 – 1995).

The shortage of suitable strategic land and high land premiums in urban areas has prompted developers to build high-rise flats instead of low-cost terrace houses. Developers must aware that high-rise buildings above certain number of floors are not cost effective for low-cost housing because of the additional costs for foundation, fire safety and mechanical equipment such as lifts. Building low-cost houses in suburban areas will encounter the problem of no takers if construction in non-strategic localities. The shortage of suitable strategic land is among the reasons for the poor performance of state governments in building low-cost houses as stated in the Seventh Malaysia Plan. The low achievement by the public sector was mainly due to unsuitable project sites as a result of competing demand of more suitable land for other uses and high infrastructure and construction costs. These factors contribute to the increase in the cost of the house exceeding the fixed price of RM25,000. As the loan to state governments to implement low-cost housing was based on this fixed price of RM25,000 per unit, they had to subsidize the difference between the actual cost and the selling price and were thus discouraged from implementing the programme. As a result, during the plan periods, the state governments utilized only 57.9 per cent of the loan provided. (Seventh Malaysia Plan, 1996-2000; p.558).

Another problem that hampers the construction of low-cost houses in urban areas that developers must know and take into consideration in their planning and costing is the present of squatters. Squatter relocation costs and delayed project completion will escalate developmental costs. A national survey sponsored by National Housing Department and conducted by University Science Malaysia (USM) in 1999 indicates that there are 590,000 squatter-residents in the country with 25,000 of them (Malaysian citizen) and over 100,000 non-Malaysian citizen in Kuala Lumpur (*Utusan Malaysia*, 31 October 2000; p.20). Table 7 shows the distribution of squatters in the nation as surveyed by USM.

Table 7: Distribution of Squatter-Residents in Malaysia, 1999

State	Total Residents	Percentage
Sabah and W.P. Labuan	190,103	32.1
Selangor *	168,658	28.5
W.P. Kuala Lumpur	129,129	21.8
Sarawak	29,159	4.9
Johor	26,211	4.4
Perak	12,185	2.1
Kedah	11,262	1.9
Penang	7,679	1.3
Kelantan	6,182	1.0
Perlis	4,319	0.7
Pahang	3,155	0.6
Terengganu	2,906	0.5
Negeri Sembilan	1,130	0.2
Malacca	145	0.0
Total	592,222	100.0

* Survey conducted by Selangor State Government

Source: National Housing Department, *National Squatters Survey by USM, 1999*.

The Problem of Housing Technology

Can cost reduction be achieved through technology enhancement in the housing industry? Yes, this can be achieved provided the volume of units to be built is in sufficient numbers of 1,000 units and above to make the technology viable and to enable the initial capital costs to be spread over a large number of dwelling units (Yeang, 1997).

It is proposed that an industrialized building system through the use of modular co-ordination be developed. Denmark is a successful example. The concept allows standardization of building components and the development of an open system, thus enabling a flexible system of construction. While accepting the ideas of prefabricated construction system, this approach avoids the burden of large capital investment by individual companies and the constraints of non-interchangeable component. By reducing site work, through the use of prefabricated methods of construction, it is possible to achieve better quality construction. Currently, the volume of low-cost houses required is sufficiently large to allow mass production. Two factors encourage starting modular co-ordination with low-cost housing. First, the comparatively simple technology need of the housing unit itself. Second, the number of units required to be built is large. The number and variety of components required is small. The constraint on the size of the unit and the number of rooms required means that it is logical to standardize (Parid Wardi Sudin, 1997).

Unfortunately, the idea of introducing the modular co-ordination system in construction was introduced many years ago, till today it has not taken root in the construction practices of the country. As recently, the Works Minister Datuk Seri S. Samy Vellu said that the Works Ministry, the Housing and Local Government Ministry and the Treasury will jointly organize a seminar to study the feasibility of building prefabricated low-cost house. He said the prefabricated method was better than conventional construction as it was strong and durable, stable and better connected at the joints. It is also cost

effective when used on a large scale and buildings can be completed faster (*New Straits Times*, 27 September 2000; p.14). With modular co-ordination, the housing delivery system will definitely become more efficient since components can be systematically factory-built and installed on site. This will also provide some relief to the industry's problem of labour shortage, especially skilled workers. According to Construction Industry Development Board's (CIDB) manpower development division general manager Amir Abdullah, CIDB has three Akademi Binaan Malaysia (ABM) training institutions which are capable of training up to 6,656 workers and 956 school leavers a year but the response from school leavers is very low. For the last two and a half years, the institutions have only managed to train about 3,000 individuals a year. He says unskilled foreign labour and inexperienced site supervisors and the use of inferior construction materials are among the reasons for the numerous construction defects that are reported. "We are highly dependent on foreign workers – many of them are not trained in construction skills." (*The Sun*, 17 September 2000; p. 16).