

# **A Case Study On The Low – Cost Housing With Special Emphasis On The Low – Cost Flats**

**By**

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**A Research Paper Submitted in Partial Fulfilment of the Requirement  
For the Degree of Corporate Master in Business Administration  
Faculty of Economics and Business  
University Malaysia Sarawak  
2003**

## APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion it conforms to acceptable standard of scholarly presentation and is fully adequate. In scope and quality, as a research paper for the degree of Corporate Master in Business Administration.



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This research paper was submitted to the Faculty of Economics and Business, UNIMAS and is accepted as partial fulfilment of the requirement for the degree of Corporate Master in Business Administration.



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I hereby declare that this research is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by giving explicit references and a bibliography.

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Date : 12<sup>th</sup> May, 2003

Dedicated to my wife, Sharifah Jamilah and our lovely girls Intan, Effy, E-er and Zaza for their prayers, patience and love.

## **Acknowledgements**

The author wishes to express his sincere gratitude to research supervisor, Mr. Hamri Tuah, lecturer of the Faculty of Economics and Business, UNIMAS, for his guidance advice and understanding during the course of preparing this research paper. Much is appreciated for his efforts in reading through the manuscript carefully and offering constructive comments.

Special thanks are extended to my research assistants of SASHAZ COMPUTECH Kuching, they are Siti Hajar, Masrinah, Saidin, Khairul and Muktani and also Mr. Joseph Eng for his proof reading.

Finally and most important, I thank ALLAH SWT. Who has given me and blessing in my endeavour and efforts in completing this project. May he continue to bless us all our future undertakings.

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# CHAPTER 1

## INTRODUCTION

### 1.1 Background

Proper and adequate shelter is one of the essential necessities of human life. This applies to all human beings whether they are poor or rich. As a developing state, Sarawak is limited in resources and technology in facing the colossal challenge of providing housing to thousand of her people in particular those from the lower income group.

Urban growth in the state is viewed as a series of unmitigated problems. Some institutions and some sector can adjust to change and respond positively to the stimulus of rapid growth, but others are simply paralyzed by it. Reasons for being paralyzed or simply unable to reach the opportunities varies by contexts, time and situation. Context relate to place, which include the people, culture and shelter. Time and situation relate to the period of development, now and then. While situation relates to the issues and request in question. Therefore, to make and deliver changes can be difficult at wrong time, place and situation. As the Sarawak's Chief Minister stated:

*"Development is supposed to change people and elevate them from lower level of income to higher level... ..(but) people have to change their way of life- with them playing a part in the process of change"* ( Taib Mahmud, 18 April 2000).

In the eighties, the market for houses was buoyant and the demand far exceeded supply. This caused house prices to increase by leaps bounds. The situation was aggravated by rampant speculations and quick profits-taking by means of over-booking. Speculations and quick profit-taking had ceased when the government introduced the Housing Developers ( Control Licensing ) Regulations 1982, which include the 10% payment of the house price on signing the Sales and Purchased Agreement.

Previously, purchasers need only to a minimum of **RM1,000** registration or booking fee and a house may change hand four or five times in a space of few months with the price increasing at every step including in the nineties. Today, it can be said that house prices have stabilized.

However, while house prices have stabilized, there is still a shortage of affordable houses. 'Affordable houses' means affordable by the **lower-income** groups. The problem of lack of affordable houses can be viewed from two aspects ; the high cost of houses and the type of houses available in property markets.

In the 70s, the price of low-cost houses in the state was below **RM17,000** per unit and that of a double terrace house was about **RM65,000** while the price of single storey house was somewhere in between. Prices started going up in the 80s and 90s respectively due to the increasing demand and inflation. Today, a low cost house costs **RM32,000 - RM33,500** ( SHDC Annual Report, 1999 ) in Sarawak and a fixed rate of **RM25,000** in West Malaysia while a double storey terrace house costs on the average of **RM150,000 to RM180,000** per unit depending on its location. At its peak in the early 80s a double storey terrace house was going for as high as **RM180,000**. At a current rate of **RM150,000**, a buyer would have to be earning about **RM4,000** a month before he or she can afford to buy a double storey terrace house. Even for a low-cost house, the monthly repayment from financial institution is around **RM250.00**. This rules out of large proportions of households earning less than **RM1,000** per month. Therefore the escalation of house prices in the last two decades has put house ownership beyond the reach of most people in the country. These **have vast** social implications. Potential buyers of medium and high-cost houses are forced to **buy** houses that are meant for other lower income groups. For example, the middle income groups are forced to buy and complete for the compact low-cost houses while the lower income groups are forced to resort to illegal squatting on government land or **privately-owned** land.

## 1.2 Problem Statements

There is therefore a need to build more-low cost and medium cost houses in particular the low-cost houses. Private developers need to reorient their strategies towards building low-cost houses that are affordable to buyers. The government would like to see private developers to be aware of their social obligation and responsibility towards society, and developers have been asked to build more low-cost houses and to participate in the Special Low-Cost Housing scheme of 80,000 units per year since the Fifth Malaysia Plan.

The Government, on its part has been encouraging the constructions of low-cost houses since the Sixth and Seventh Malaysia Plan Period. During the Seventh Malaysia Plan the performance of both and public sectors was encouraging in which a total of 45,583 low-cost units were able to completed as compared to its target of 29,000 units, an increased of 157.2%. The target was achieved as the government special emphasis on constructing more low-cost flats rather than the traditional low-cost terrace houses were the low-cost flats would give greater density as an added advantage to cater lower income group to own a decent shelter for their family. In addition, the growing scarcity and cost of urban building land in the state has led to the Sarawak state government through its agency, The Housing and Development Commission (SHDC) seriously follow the steps taken by the federal government looking into building more low-cost flats. Since the Seventh Malaysia Plan, SHDC has completed about 8,196 units of flats in order to match the demand of about 18,000 applications of low-cost housing.

Housing is accepted as one of the basic necessities of life, for the lower-income earners. Their main problem is their inability to buy a unit because of the shortage of low-cost housing. However, SHDC special emphasis on constructing more low-cost flats in the state in order to overcome the shortage was given a lukewarm attitude by the people especially the lower income earners. The low-cost flats introduced by SHDC can be considered 'half failed' as it did not achieve its target of selling all the units available to the targeted group. A total of 3,703 units or about 45% of the total 8,196 units offered to the successful applicants were sold through SHDC has reduced the

deposits from a normal rate of RM1000.00 to only RM500.00 in order to encourage more buyers. Thus this study will focus on why a low-cost flat is not acceptable as a decent housing especially for the lower income group in the sociological perspective which include the impact, perception and changes in their way of life living in a low-cost flats.

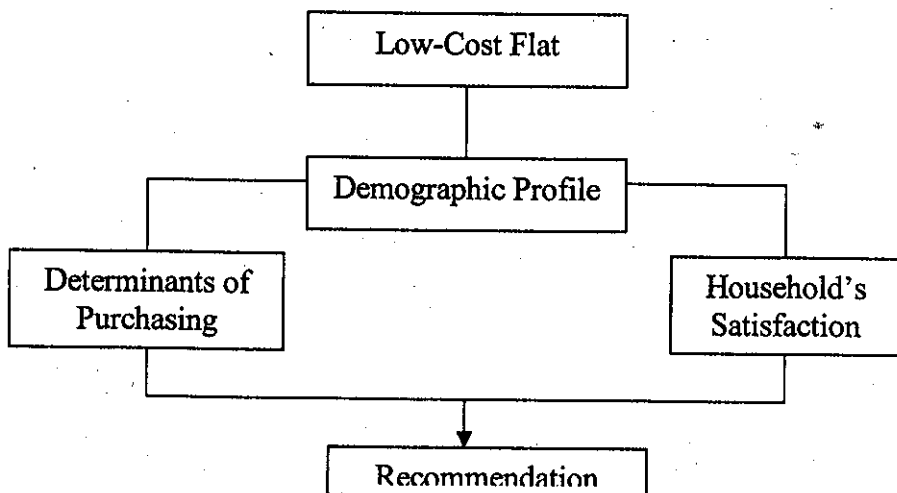
### 1.3 STUDY OBJECTIVES

1. To identify the profile of buyers;
2. To determine the factors affecting the buyers to buy low-cost house;
3. To identify the satisfactions/ needs of the low-cost flats owners;
4. To make necessary recommendations to solve the problems in SHDC future undertakings.

### 1.4 SIGNIFICANT OF STUDY

This study will benefit the Government agencies in general and the SHDC in particular, as it would provide a guideline for implementing future Low-Cost Flats projects. In addition, the public, especially the low-income groups, will benefits as their plight for more low-cost housing will be given serious consideration by the agencies concerned.

### 1.5 FRAMEWORKS



The flow chart above depicts the research frameworks of low-cost flats which include the study of Demographic Profile and divided into the Determinants of Purchasing and Household's Satisfaction. A recommendation is then established for future undertaking by the relevant authority.

## **1.6 LIMITATION OF RESEARCH**

It can be anticipated that several difficulties will be faced by the researcher during the information and data gathering phase and document collection as the authorities will be subject to the Official Secret Act (OSA). Another problem could be the degree of cooperation from the related agencies, authorities and the flats' owner. Last but not least, pressure of time can be major constraint in conducting this study more necessary. The private component of the housing sector that is, the business activities with housing is heavily dependent for efficient operation upon the existence of a set of laws, constitutions, and public agencies.

## **1.7 DEFINITION OF TERMS**

### **1.7.1 Low-Cost Housing Scheme**

In Malaysia, conventional low-cost housing is provided by the public and private sectors. Low-cost housing is generally defined as the appropriate housing units of which the construction is in accordance with identified minimum standards complying to a code of practice specifically created for low-cost houses (Wang, 1980).

### **1.7.2 SHDC**

SHDC or known as the Sarawak Housing and Development Corporation is a state government agency established in 1971 (SHDC's Annual Report, 1999). SHDC's duties include to implement the development of the low-cost housing scheme for the low-income group.

### **1.7.3 Housing**

Housing is a real. Physical artifact. It is easily visible, a central component in our daily lives, and virtually

important to us all as shelter. In its broader social context, however, housing is immensely diverse and complex, and intimately interrelated with its socio-economic, political, and neighbourhood environment (Bourne, 1081:1).

#### **1.7.4 Poverty Income Line (PLI)**

The Poverty Income Line (PLI) is a standard measurement for identifying poverty rate in the country (Year Book of Statistic, 2000). For Sarawak, the Poverty Line for a household head is RM450.00. thus, those earnings below the poverty line is considered as the low-income group.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.1 HOUSING : The Social and Economic Elements

##### What is housing?

Housing is often called "Shelter" in economics and in some societies this is literally all that housing provides ( Lund, 1996 ). Shelter itself is certainly a part of what is meant by "housing". In the past, shelter is provided by some primitive societies in the form of a large roof under which all the members of the community may gather. Shelter for soldiers is provided in the form of large barracks/ building and during the World War II, subway stations played an unexpected role as shelter from bombs ( Wilcox, 1988 ). Privacy is also bound up with the concept of housing. People desire separate shelter, and the separation from the elements. Privacy is rather difficult concept to define and it is clearly a social; rather than a physical concept. This primitive community with one big roof might conceivably saw roof into separate pieces and the housing issue would be one of deciding how many pieces to make out of the one large roof. Thus social customs come into the society which vary in cultures. As societies advance economically, recreation outside the homes seems to become customary and has become one of the principal hallmarks of urban civilization. As the societies economics standard rises, private sanitary facilities such as toilets, wash basins, laundry equipment migrates very quickly into individual dwelling units. Location is another major attribute to housing (Leather and Morrison, 1997 ). The location of dwelling unit relative to the place of employment and to everything else' is thus one of its most significant features. A household not only requires housing which is private, but which is also reasonably close to places of employment and other urban activities. The quality of locations depends very much upon the availability and cost of transportation to other locations. Housing does not mean much to urban family unless it knows where that housing is located and what transportation systems are available. For some people, housing is some investment as well as a place to live. A

family owning its home gives that family a degree of security in a psychological and financial sense. Psychological, ownership is an extension of the attribute of privacy.

Financially, ownership is not only a symbol of wealth which most families ever manage to accumulate. The value of investment in a house may increase due to a sudden rise in demand for property or it may fall as the people become less desirable or there is an economic decline. Sheer physical shelter—a roof over one's head is certainly an element of housing and it may require no more in terms of economic resources to build an attractive, secure, private dwelling than it costs to provide an exposed, insecure, uncomfortable eyesore. It cannot function effectively unless the community has recognized and clarified the concept of real-property ownership. The first necessity for the operation of a housing market is a system which defines rights pertaining to property and establishes a set of financial institutions because the product involved is so durable and heterogeneous.

Housing finance involves very long-term investment in the form of wealth which is not very liquid. There are many technical aspects of housing and the housing market which suggests that a certain degree of specialization in housing by some financial institutions will improve the efficiency of the sector. The private component of the housing sector does not serve all the housing needs which the public, as a community, may feel should be served. Low-income families are an obvious case. The most effective and efficient private housing industry will not meet a housing need which is not backed up with purchasing power. The public sectors acquire an additional function. It must change the nature of demand by means of public investment so that these non-market needs are satisfied. The housing sectors will not behave efficiently or satisfactorily without a variety of vital and substantial public activities. Housing-market economic analysis requires and understanding of the interaction between private activities and public purpose. The purpose in connection with housing is to secure for that sector as much of the nation's economic resources as the well being of the whole community requires and to encourage the efficient use and appropriate distribution of these resources.



## **2.2 The Dual Nature of The Housing Sector**

In most nations the housing sector is a blend of private enterprise and government activity. The role of government is substantial which generally allows the market place the freedom in making economic decisions. The dual nature of the housing sector makes economic analysis of housing more necessary ( Achtenburg and Marcus, 1986 ) The private component of the housing sector that is, the business activities with housing is heavily dependent for efficient operation upon the existence of a set of laws, constitutions, and public agencies.

## **2.3 Affordable Housing and The Homeless**

Affordable housing and homeless are related. If a society cannot provide affordable housing, for instance by subsidizing rents, the number of homeless will increase. It is the market segment of lower income households which has posed the problem of adequate provision in all capitalist societies. The exact number of homeless in a country is difficult to estimate. In West Germany, in the early 1960s there was a large number of homeless as a result of the post-war housing shortage (Jurgen Fredrich). The figure dropped considerably in the following decades, and rose again in the mid- 1980s as a result of economic problems. The United States experience shows that hotels often used to house homeless are transformed into apartments (Schmidt 1989). There is little doubt that the problems of affordability and homelessness will continue to accompany the structural economic changes. As further consequence, "affordable housing", supplied to a large extent in new housing estates is no longer affordable for many households for living there. Affordable housing is like poverty, a relative term, depending upon the level and quality of provision a country wants to supply and can supply. The crisis of affordable housing and shelter for homeless is a result of economic changes, therefore, it is impossible to solve these problems by urban planning by just providing homes or by transfer payments.

Thus this brings us to the question of policies to ameliorate these social disparities. In countries such as Britain, Australia, New Zealand and the United States it seems to have some elements in common that is the governments rely upon home-ownership to a growing extent and seems to have little propensity to subsidize

social housing on large scale (Oxley 1993). With respect to policy, it has mixed suggestions. Most authors agree that it is the responsibility of the government or the society at large to help the lower income groups. Many European countries had the tradition of governmental subsidies for rental dwellings, which were then managed or owned by the local government (Comparative Housing Policy). The final conclusion to be drawn from these trends is pessimistic. Housing departments or private investors cannot solve national economic problems. They can at best alleviate them. The problem of affordable housing thus remains a problem of economic growth of a society.

## 2.4 Meeting Housing Needs : Issues and Policy Directions

Malaysia has come a long way in its endeavor to attain economic prosperity as it today. Malaysia's success can be attributed to political stability, efficient government administrative machinery and the practice of free market economy. In relation to this, the housing industry has flourished under favorable conditions. In addition, the availability of financial facilities for housing industry where Bank Negara plays a crucial role in this respect has also been a factor (BNM Annual Report, 1999). Loans, both for bridging and end-financing, are readily available and this is one of the driving forces behind the success of housing industry. In a free market economy, production of goods depends on the interplay of market forces that is demand and supply. The housing industry is no exception. Housing developers tend to concentrate in areas where the potential of profit maximization is high such as building medium and high cost houses. Under these circumstances, if the provision of shelter is left entirely to the private sector, the low income group will be deprived of the opportunity of house owner&p. Realizing these phenomena, the government has placed greater emphasis on the provision of low-cost houses since the beginning of the Fourth Malaysia Plan (Malaysia, 1996). The government has adopted two-prolonged strategy, firstly direct intervention in the form of public low cost housing programmers implemented by the State Governments and secondly, indirect measures in the form of condition stipulated in the approval of private housing projects. Each housing project approved should consist of at least 30% low-cost house and the selling price shall not exceed RM25, 000 per unit in West Malaysia (Malaysia, 1996). This approach is to ensure

Multi-approach data collection technique therefore must be used to ensure that both subjective and quantitative information are captured. Campbell (1953, 1956), a prominent advocates of the use of multiple methods in the measurement of social variables, argued that more than one method should be used in a validation process. If different methods produce similar findings, then our confidence in the results increases. This is called convergent validity (Campbell, 1954) because the results from using different methodological approaches converge on the same meanings. Further relevant theories will be synthesized into a framework for guiding both the empirical and analytical aspects of the study. By bringing all these essentials into the research, useful explanation of the case could be obtained. Perhaps prescriptions that could have impact on decision and policy-makers could be obtained.

### 3.3 Identification of Population and Sample

A survey research is probably the best method available for this study in collecting original data for describing a population too large to observe directly. Careful probability sampling provides a group of respondents whose characteristic may be taken to reflect those of the larger population (Babbie, 1995).

The study area is populated by about 1,500 multi-racial population while the average household member is 4 persons per house and this directly translates that there are about 380 households in the area.

A simple random sampling was then used to pick the house to be interviewed. Simple random sampling is used because:

“It reduces the possibility that a biased or unrepresentative group will be selected. More confidence may be placed in the representatives of the sample when the population is homogenous with regard to its characteristics”. (Drew, 1976:126)

The sample here is the list of the houses of the area. On ensuring that every household has a chance of being chosen, the address of each house was written on a small slip of paper and all of these slips were deposited in a box. After they had been

thoroughly mixed, the first selection was made by drawing a slip out of the box without looking at it. This process was repeated until sample of 200 was chosen. The method would avoid personal bias in choosing household and as such the data will be more reliable because it should represent all types of household in the group being studied. Data on the list of houses and their locations was obtained from SHDC.

### **3.4 Information Collection Techniques**

Two main methods of information collection were used in this study questionnaire and interview, while direct observation was used to obtain information on subjective views and on the area physical layout. Secondary data/ information was also collected to verify and substantiate the empirical information.

#### **3.4.1 Interviews**

Appointments were arranged for interviews with relevant government officials from SHDC, State Planning Authority, and Land & Survey Department. Access to the agencies was made through existing personal networks. The purpose of the interview was to explore views on various issues pertaining to development and planning. The interviews were guided by set of pre-established questions. Each interview was recorded with permission from the officers concerned and at the same time written notes was taken. The duration of each interview lasted between one to one and a half hours.

#### **3.4.2 Questionnaire**

The questionnaire was designed to collect information on socio-economic background of respondents and their perceptions. The questions were prepared in Bahasa Malaysia. The survey was conducted through face-to-face approach. The researcher asked questions and filled-in the questionnaire. According to Weinberg (1983), the face-to-face interview has traditionally been considered the most reliable method for collecting attitudinal, opinion and some special population groups (Rossi et al., 1983). In the case of the study area, the approach was

## CHAPTER 3

### RESEARCH FOCUS AND METHODOLOGY

#### 3.1 Study Area Profile

The study covers the low-cost housing projects undertaken by SHDC. However special attention was given to the Low-Cost Flats and specific attention has been given to SHDC Low-Cost Housing Scheme in Demak Laut, Kuching, Sarawak known as *Rancangan Perumahan Rakyat (RPR) Sepakat Jaya, Demak Laut*. The study area is situated in Kuching North, specifically on the northern bank of Sarawak River with a total area of about 100 acres and just around the area is located the State Industrial Zone called The Demak Jaya Industrial Estate and is about 20 Km from the city center and the trip to the city center is also shorten through the new link road located at the Sarawak Barrage entry point. The location of the study area is shown in Map 1 and Map 2 (refer to Appendix 1).

The study area consists of twelve blocks of low-cost flats and comprises 384 units with a total area of about 30 sq. meters per unit. Each unit has two bedrooms, one living room and a kitchen. The Floor Layout Plan is shown in Map 3 (refer to Appendix 2). The area is occupied by about 700 families with the overall population of 1, 500 and is a mixture of Malay, Iban, Bidayuh, Chinese and other races of Sarawak.

#### 3.2 Fieldwork Planning and Development

The primary aim of this research is to explore the rationale and perception people living in the new environment such as flat. Many of the issues the study seeks to understand are vague; its interpretations vary with individual belief, position in office and approach to life. Thus researcher believes it is necessary to capture all these differences in order to produce a comprehensive view within the context of the study.

that the private sector plays its role in the provision of affordable houses for the low income households and at the same time supplement the efforts of **the** government. However, the private sector can no longer keep up with the conditions stipulated by the **government** due to the rising cost of other factors such as **labour**, material and land. Even the practice of cross-subsidy in a mixed housing projects can no longer be carried out commercially with the selling price fixed at **RM25, 000 per** unit, the private sector should look upon the provision of low cost housing as a social obligation. Presently, the government is actively considering various measures to coordinate efforts to increase the supply of affordable housing by looking into areas such as the supply and price of building materials, financing; planning housing **research** and housing information system.

found useful because most respondents preferred to be interviewed in their local dialect.

### **3.4.3 Observation**

Field observation was one of the methods used in gathering information for the study. It was useful in identifying and recognizing the respondents' attitude and sentiment, the conditions of the public amenities available in the neighbourhood and other development programs in the area. The following conditions were observed:

- Housing conditions and density of the area
- Drainage system
- Garbage disposal
- Water and electricity supply
- . Main road and accessibility link to the houses (e.g. footpath and wooden plank-walk)
- . Other public facilities

### **3.4.4 Secondary Sources**

Secondary information such as academic texts, journals, government, publications, newspaper, magazines and internet, have helped researcher to develop and understanding on history, issues and problems that. have been directed to the study area. The knowledge has directly helped in question formulation for questionnaire and interviews.

## **3.5 Analysis of Data**

### **3.5.1 Reliability Test**

Reliability test was used to **determine** whether the data collected for sampling were reliable. This test is important to the researcher as it reported evidence of it's reliability and validity of the data in order to achieve a positive results.

### 3.5.2 Descriptive Statistics

Descriptive statistics such as frequency, percentage and mean were used to describe the demographic characteristics of the respondents and their other socio-economics background. The descriptive statistics were used to measure the level of respondents' perception and satisfaction towards the flats and public amenities available in their area.

### 3.5.3 Non-Parametric Test : Chi-Square

Non-parametric test is a Chi-Square test for the frequency distributors of cases across a range of values for a single variables. The test is called "Chi-Square" test because the sampling distribution we use to assess **the probability** of the null being true is a Chi-Square distribution where the research question we are addressing does not direct us to collapse the data k down into two categories, but rather directs our attention to the frequency distribution of cases across a wide range of categories or values of a variable.

### 3.5.4 Factor Analysis

Factor analysis is used to find latent variables or factors among observed Variables. In other words, if the data contains many **variables**, we can use factor analysis to reduce the number of variables. Factor analysis groups variable **with similar** characteristics together. With factor analysis we can produce a small number of factors **from** a large number of variables which is capable of explaining the observed variance in **the large** number of variables. The reduced factors can be used for further analysis.

These are three stages in factor analysis:

1. A correlation matrix is generated for all variables. A correlation matrix is a rectangular array of the correlation **coefficients** of the variables with each other.
2. Factors are extended from the correlation matrix based another **correlation** coefficients of the variables.