

AN OVERVIEW OF HOUSING AFFORDABILITY FOR FIRST TIME HOME BUYER IN MALAYSIA**Puteri Ameera Mentaza Khan¹, Rosadah Mahamud², PM Dr. Norhaya Kamaruddin³**

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*puteriameera@gmail.com¹, rosadah@utm.my², norhaya@utm.my³***ABSTRACT**

This paper will investigate housing affordability of first time home buyer in Malaysia. Housing affordability has become the main issue in housing sector as the house price and living cost continue to increase especially in urban area. Affordability levels of house buyers are determined by household income, house price and housing expenses. The continuous increases of house price have affected the ability of people to purchase house. The problem is more severe among first time home buyer age 24 – 35 years old since the household expenses continue to increase. Although the government have introduced a new scheme for first time home buyer but they fall below the affordability level. This suggests with the continuous increase in home price and high living expenses in theory. This means the house ownership is impossible for young people in urban area.

Keyword: *Housing Affordability, Affordability, First Home Buyer, Malaysia*

1. Introduction

In many countries, housing acts as a physical facility, an economic good, a social good, bundle of services and formally one of the economic sectors. The people are the main agenda of the government houses, housing is an element in the social fabric and in that it is also a society's set of social relations which is provided to everyone just as it attempts to do in education, food and in most cases, health care (Bourne, 1981). Housing also acts as a shelter for households and the housing environment is important for household comfort. In the Kuala Lumpur Structure Plan 2020 also have taken seriously about the quality of housing environment as in this plan many improvements of housing environment have been done. Other than housing environment, many factors will be taken into consideration when buying a house such as accessibility, facilities, size, and others. However, owning a house always becomes an issue in many countries. This is because the affordability level for each household is different.

In this new era of civilization, housing affordability has become a serious issue on the globe. Many country have take seriously about this issue as they conducted various of research in order to find the best method to solve this problem (Duan, 2011; Camilleri, 2011; Hashim,2010; Wan Abdul Aziz et. al., 2010; Yang and Shen,2008; Kosareva and Tumanov, 2008). Owning a house is not a simple thing and various factors must be taking into consideration. This is because even though housing is a basic need that is important to household, it involves a high cost. Housing cost is the single largest expenditure among household expenses (Assaf et. al., 2010; Duan, 2011; HERA, 2006). Due to high cost, many household prefer to choose rental than owning a house. Because of high cost also many individual own their first home in their 30th or late 20th. Due to the above reasons, many young household especially are unlikely to own or buy a house (Vliet, 1998).

The housing affordability of household is indirectly influence the homeownership in Malaysia. Many issues arise when involve in homeownership in the housing sector. If reviewing property market status report, lots of new unit have been develop even tough lots of existing unit is unsold. Growing housing sector encourages the developers to build more new housing units. There are approximately 7,600 new residential units launched in Malaysia (Property Market Status Report, Q4 2010), while there is an existing stock about 4.4 million units in the market. However, if we look at the existing stock of completed units but unsold was 23,133 compared to 94,836 units, which was launched in 2010. The huge amounts of unsold unit suggest difficulty of selling and affordability has been the cause of this.

Homeownership is influent by a housing affordability of household. When household are affording to buy a house this indirectly will increase the homeownership in the country. Affordability is more likely to be a perceived and real problem among household with fewer available resources and in those areas where housing cost is high and rising rapidly. In order to improve housing sector in Malaysia especially in homeownership among renters and buyers, Ministry of housing and local government have introduce Notional Housing Policy (NHP). The aim of this policy is to provide adequate housing, comfort, quality and affordable to improve the ability of living (National Housing Policy, 2010). Subsequently, In order to ensure this goal is achieved, the affordability should not only being look from the ability of household to pay the mortgage repayment but also the suitability of housing for a living. Therefore, the aim of this paper is to investigate the problem of housing affordability for first time home buyer in The Greater Kuala Lumpur. It analyses the seriousness of this issue and its impact on homeownership for young family. The high living cost in cities dwelling has deny the possibilities of young first home buyer to own house in Kuala Lumpur.

2.0 Literature Review

2.1 Housing Affordability

The definition of affordability is too subjective. As state in the Encyclopaedia of Housing, affordability is a relationship between income distribution, a household's income and the cost and financial condition in housing submarket (Vliet, 1998). According to Yang and Shen (2008), affordability is not characteristic of housing but a characteristic of a housing service as it relates to ability and the desire of consumers to pay for it. The Encyclopaedia of Housing suggest that a sliding scale of affordability is relates to both household size and income level where

almost 30% of the household income were allocated for houses and the balance are for other household expenses. Similarly, contribution towards housing are set at a percentage of 30% of the adjusted income. This is supported by the U.S Department of Housing and Urban Development (HUD) that mention a household should spend no more than 30% of its total income on housing cost, including mortgage or rent repayment and utilities(Vliet, 1998). If a household have spent more than 30%, it will be housing cost burdened (Cook et als, 2006).

The problem of housing affordability is the main issue facing developed economic as well as developing economic. The housing affordability focuses on the renting sector as well as homeownership. Allocates too much of the expenses on houses will cause the expenses to be neglecting (Assaf et. Als., 2010). Household with high income may not necessarily spend on housing payment as they are the variables that may affect family spending on house purchase. According to Stone as cited by Vliet (1998), family size may also determine the amount what can be allocated to house. Hence at any given income level, the proportion of income devoted to housing should decrease as household size increase.

Nowadays, Housing affordability has become the main issue in housing sector around the world. Countries that have faced housing affordability problem are such as Australia, United State, Canada and others country include Asian country. In Hong Kong there are have a research regarding the housing expenditure and affordability. According to Ho and Chiu (2002) budget or expenditure for house is important to determine either the home buyer is afforded to buy a house or not. The household income should satisfy the need of housing basic necessities after paying for housing expenditure.

In Malaysia, the increase in house price has cause household to fill difficulties in buying house particularly in urban area. Furthermore, the increasing in the property market especially in town has reached over 30%, will cause new worker miss the opportunity to own houses (Razak, 2011). Since owning houses requires a substantial income and also a down payment, young household may not likely own or buy a house (Vliet, 1998).

2.2 Previous Study on Housing Affordability

According to Bogdon and Can(1997),housing affordability should not concentrate only on the affordability issues but also to compare houses affordability across region, metropolitan statistical area (MSAs) or cities when spatial approaches should be considered. Household should have to balance between the high cost of urban area and the cost of living away from city centre. In Australia, the comparison of house price being done from 2001 until 2009. The five key workers for multiple incomes have being chosen to identify the pressure on household. The researchers have discussed that the commuting distance may have to accommodate in order to afford home. At the end, this researcher suggests that living away from CBD area may be solving affordability problems (Kupke and Rossini, 2011).

Government policies may also improve housing affordability through determining housing aggregate demand, private saving and house price. Guest (2005) undertake a simulation analysis on the effect of the above variable and suggest that life cycle timing effect can have a positive or negative. Negative effect may offsets the boost to housing demand adjust house price. Thus house price can be determined by the wealth, income and substitute effects.

This is different with the research in Northwest China. In Investigation on housing affordability in Lanzhou research, Duan (2011) has use PIR and HAI to analyzing the influence factors of purchasing standard housing. According to him, housing affordability is not only economic problem but also an issue that affects the lives of majority of people as well as social stability. Finding show that the housing affordability in Lanzhou has many fluctuations between 2001 and 2008, but it is lower than the acceptable level, which appears that Lanzhou household still has difficulties in affording their home with their own money or mortgage loan.

In Malaysia, there are several research regarding housing affordability have been done (Hashim, 2010; Wan Abd Aziz et als, 2010; Suhaida et. als.,2010). Hashim (2010) have taken two different countries to show the differences of housing affordability level. Based on his researched the demand for owner occupied is determined by price of housing, population growth and household formation rate and income growth. According to him housing market is unsustainable when price were too high and ownership was difficult. However there are no researches about first time home buyer has been done. Most of the research is focus on low cost housing.

Hence, as discuss above, the housing affordability can be influenced by various factor such as allocation for house payment or mortgage payment, family size and population, housing price, government policies and household income.

2.3 First Time Home Buyer

In Malaysia, government have launched first home scheme to access housing affordability problem among first time home buyer. But unfortunately, this scheme looks cannot achieve the objective because of few constrain that will discuss in this paper. However, based on this scheme, the criteria of first time home buyer can be used to identify first time home buyer group. According to My First Home Scheme, first time home buyers are individual below 35 years old and obtain a monthly income below than RM3000 (First Home Scheme, 2010).

Basically first home buyer is a young age group who just started to survive in life. Most of them are just graduated from studies. Usually the decision to buy a house been made when the household size become larger or single person is getting married. As said by HERA (2006), a young single person will probably expect to rent but a married couple with a child will consider buying a house. Based on Duffy and Quail (2005), the group of first time home buyer is them in the range between 24 years old to 34 years old.

3.0 Housing affordability concept

The research followed closely the concept of housing affordability as described in the literature section. Housing affordability is very controlled by the supplies that are in the housing market as well as the income availability of the population. Hence both aspect of the demand and supply side need to be analysed in order to provide a clear picture of the housing affordability of first time buyers in Malaysia. The demands for houses are determined by variables such as monthly income and household expenditure. As this research is advocated the first time buyers, the profiles of first timers need to be identified. Accordingly the categorisation of first time buyers by various organisations are those age between 24 to 35 years old and having household income below RM3000. On the supply side, the variables that need to be investigated are the housing supplies that are available in the market. Since supply also address first time buyers, the market that will be examined are those affordable for first time buyer where the prices would be in the region of below RM150,000(an approximate repayment of RM1000 per month or one third of the monthly income).

3.1 Data

Data required determining housing affordability of first time buyers are as follows:

Income level and expenditure of first time buyers: This data are obtained from the Statistic Department, Malaysia;

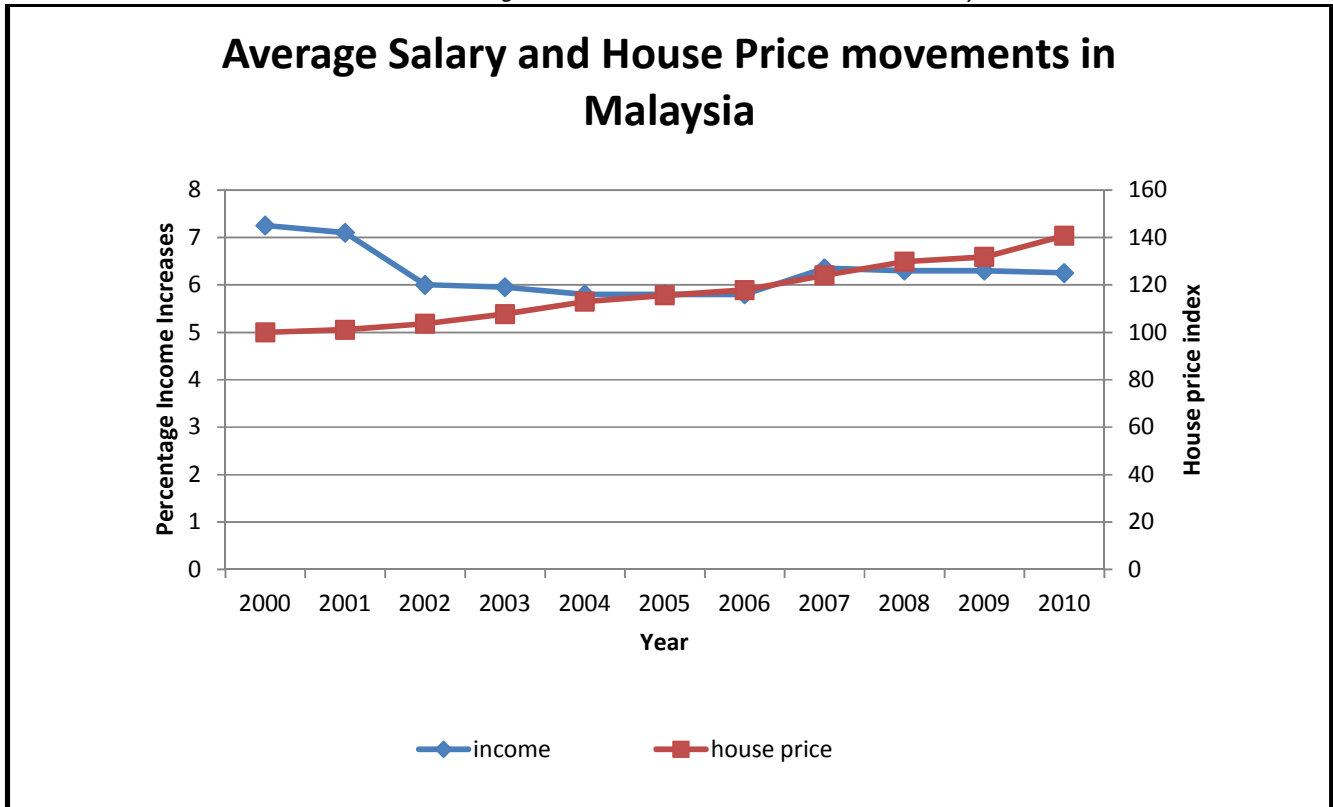
House prices: these are obtained from house price index and the property market report of the Valuation and Property Service Department;

Population distribution: these are obtainable from the housing and population census 2000 Department Of Statistics, Malaysia.

4.1 Housing Affordability in Malaysia

The affordability level of the people in owning houses is determined by the income of the people and the prices of houses in the market. The property market report for (Q1) 2011, record that the minimum house prices in Kuala Lumpur city area has reach over than RM200,000. If the income of the first time buyers is in the region of RM3000 with a monthly instalment of RM1000 and the market price of RM150,000. Hence, young families with an income level less than RM3000 could not own a house in Kuala Lumpur as the prices are within their affordability level. A further analysis on the trend of income level and house prices as shown house prices index gives another view on the housing affordability of first time buyers in Kuala Lumpur. The trend of house prices and average income of the people are shown in Figure 1.

FIGURE 1: Average Income And House Price Increase In Malaysia



Source: Adapted From The Edge Malaysia And Valuation And Property Service Department

The movement of house prices as shown in figure 1 appears to increase steadily from 2000 to 2010. While price increases, there was a smooth decrease in the income level and income meets house price at 2008 bringing the income and house price in equilibrium. After 2008, there was a continuous decrease in the income level while price continues to increase. According to the current trend, it shows that houses are not affordable to most of the people in the country. The relationship between house price and income is important to describe the housing affordability of the people. In this situation income will have to increase by more than 20% or housing price would have to decrease for more than ten (10%) to ensure that household can afford to buy a house (Yang and Shen 2008).

The increase in house prices have boosted the property sector and also attracted many of new development for residential building. Increase in population due to migration to cities also contributed to the enhancement in this sector. According to Department of Statistic Malaysia, the total population in Kuala Lumpur increased by 306,000 in 2010 from the total of population of 1,416,000 in 2000 (Housing and Population Census 2000). The increase population in major cities has cause the demand for residential property to increase. These indirectly give opportunity to developers to build more residential building.

Rapidly developments of housing sector and the drop in the affordability level may also contribute to the increase of unsold residential units in Kuala Lumpur. Based on the property market report, there are a number of new units have been develop although many existing units remain unsold. Currently, there are approximately 7,600 new residential units launched in Malaysia, while the existing stock in the market is about 4.4 million units. However, if we look at the existing stock of completed but unsold units has decrease to 23,133 compared to 94,836 units, which was launched in 2010 (Property Market Status Report, 2010). Increasing of housing price maybe have become one of the reason for huge number of unsold unit. As can seen housing price in urban areas have reach over RM400,000 for single storey terrace and over RM500,000 for double storey terrace (Property Market Report, 2010). The high price of houses have make housing in urban area become unaffordable compared to houses in the sub urban area. Furthermore the high living cost and relatively small income have caused difficulty for city dwellers to own houses in urban areas.

4.2 House Price, Home Repayment and Housing Expenditure

The housing affordability is further examine to determine how it affects the daily life of first time buyers in the city of Kuala Lumpur in terms of how the income are distributed to home repayment and other living expenses and how the housing market determine the choice and location of their home. First time buyers are young people below the age of 35 years old is also under the pressure of supporting new families. Their household commitment suggests that they will need to divide their monthly income to various commitments such as food, transport, rents and others. Table 1 shows the income of first time house buyers, monthly expenditures, house types, prices and hosing supply.

TABLE 1: Housing Type, Stock, Price and Affordability Level for First Time Home Buyer in Kuala Lumpur

Age	House type	Average mean price in KL (RM)	Max. income (RM) (First Home Scheme)	Monthly expenditure (RM)	Monthly Housing repayment (housing loan calculator)	Balance	Housing supply	Total household
< 24	1 – 1 ½ storey	326,207	3000	1895	1595	-490	22,210	17868
	2 – 2 ½ storey	530,887			2596	-1491	67,457	
	Cluster(low cost)	118,200			578	527	4248	
	Low Cost Houses	181,138			886	219	4360	
	Low Cost Flats	71,763			351	754	95,745	
	Flats	128,297			627	478	48,263	
	Condominium/ Apartment	431,094			2108	-1003	142,059	
25 - 34	1 – 1 ½ storey	326,207	3000	2306	1595	-901	22,210	70646
	2 – 2 ½ storey	530,887			2596	-1902	67,457	
	Cluster(low cost)	118,200			578	116	4248	
	Low Cost House	181,138			886	-192	4360	
	Low Cost Flat	71,763			351	343	95,745	
	Flat	128,297			627	67	48,263	
	Condominium/ Apartment	431,094			2108	-1414	142,059	

Source: Property Market Report, 2010, Report on household expenditure survey 2009/10, 2011, Property Market Stock, 2010.

There are two categories of first time buyers. The first category are those aged twenty-four years old and below. These categories are mainly represented by young people normally single while the second categories are represented by house buyers who normally have families. First time home buyers are usually individuals who just start work or fresh graduates. They are mainly at the age of 24 to 35 years with income between RM1000 to RM3000. Living in the city with such pay can be a burden to many young people as cost of living continues to rise.

Based on the consumer price index suggest that price for daily goods is increase regularly. Food and drinks are increased by 4.7% yearly while utility costs for electricity, water, gas and fuel increased at 1.9%. Others consumer goods such as transportation, health, others goods and services also show similar increases (Consumer Price Index 2011). The high household's expenditure means that lower amount can be set aside for home ownership (to Vliet, 1998 and Beamish et al, 2006). Hence it worth examining how home repayment fits into the prices of available units and the parties that are affected as well as the location of homes that are affordable by the first time home buyers.

Based on the data shown in Table 1, single first time buyers are more fortunate since their household expenditure are still within their affordability level leaving some balance for house purchase. The monthly income of RM3000 and a monthly housing expenditure of RM1895 these buyers can still pay a monthly repayment of RM627 for flats. This monthly repayment is about twenty percent of the monthly income. Although they can own homes, they still have to compete with other buyers since demand is higher than the available supply. There is a total of 88514 number of household that falls into this category while the supply of such house is only 48263. However for those units which approximately two times higher. As for young families, their situation is even worse as with the same amount of income they would have spent higher to raise their families. According to the survey data, the household expenditure for is about RM2306 monthly. In order to own a cluster homes, they would have to set aside RM 578 which they can afford. However competition is much greater since the number of household in this category is greater compared to the stock available in The Greater Kuala Lumpur. This suggest that with the stated affordability level, competition to own houses is so great that majority of the population are not able to own houses which suggest that government would need to intervene to assist first time home buyers to buy comfortable decent houses in Kuala Lumpur.

The difficulties of young Malaysian to own homes have called the government of Malaysia to launch a housing scheme called My First Home Scheme (MYFHS) where these first time home buyers can get finance to purchase their house from participating banks identified. The finance provided by this scheme is up to RM400,000 and this have match with some prices of houses in Kuala Lumpur. Although this have been welcomed by the people, some still feel that with high repayment cost and lengthy payback period, it may be a burden to many young home owners as the balance for living expenses may not be enough to sustain the high cost urban living.

4.3 House price distribution in Kuala Lumpur

House price is another important factor that can determine housing affordability in Kuala Lumpur. According the property market report, the house price for Kuala Lumpur area has being distributed according to areas or 'mukim'. The highest house price is located in the central area of Kuala Lumpur followed by the fringe area of Setapak, Petaling, Cheras and Batu while the sub urban area is the Hulu Kelang. The distribution of prices according to these areas is as shown in table 2.

TABLE 2: Mean House Price in Kuala Lumpur Territory

Type / Mukim	Batu	Cheras	Kuala Lumpur	Petaling	Setapak	Hulu Kelang
	Mean housing price (RM)					
Single Storey Terrace	296,146	219,333	488,678	258,316	292,769	-
Double Storey Terrace	524,212	377,000	659,167	444,143	407,056	347,500
Flats	83,000	53,000	159,167	136,618	99,286	78,000
Apartment / Condominium	512,785	165,000	444,127	205,310	246,891	120,000

Source: Property Market Report, 2010

Tables 2 suggest that first time buyer can only buy flats in Kuala Lumpur area. These have been the main residential units developed in Kuala Lumpur. These flats are usually small measuring of about 750 square feet and sometimes not suitable to large families. This may not meet the specifications of the National Housing Policy to provide comfortable and quality houses to the people. Living in high density area with only basic accommodation can sometime be quite uncomfortable and hence some may choose to stay away from the city. As we towards the outskirts of Kuala Lumpur prices began to decline. In these area, young people can afford to own terrace houses and apartments where the development are less dense, houses are bigger, comfortable and there are more green areas. These areas are mainly located within 10 to 20 Kilometres surrounding Kuala Lumpur. Hence for a more comfortable home, these young people would have to pay for transport cost to the city centre.

5.0 Discussion on housing affordability in Kuala Lumpur

The above picture suggest that housing the first time buyers need to be given attention since they represent the biggest number of the working population of the country. Problem of giving these young people a comfortable home is important for them to raise children for the future generation. This has also been the agenda for the government in the National Housing Policy 2010. The first time buyers are squeezed between the facilities of the low income earner and the high income group who have greater affordability.

In the current situation, the first time buyers have no choices but to live in medium cost flats and with high cost of living for goods and services. However they can save in transport cost considering that they work in the city. The other choice is to live further away with more comfortable homes but to bear the cost of transport to and from the city. Indeed living in the city can be burdensome to first time home buyer. In such situation, the government could intervene to provide assistance to these groups of people. The picture provided in this study is similar to those in other countries such as Australia (Kupke and Rossini, 2011). Hence lessons from Australia can be adopted here to improve the housing situation of first time buyers.

5.0 Conclusion

This paper has reviewed the affordability of first time buyers in owning houses in The Greater Kuala Lumpur. Although it is only an overview, it has given light into the problems surrounding home ownership in The Greater Kuala Lumpur. Compared to others country, the percentage of homeownership in Kuala Lumpur (79%) is much lower especially from Penang (87.1%) and Johor (91.3%) (Housing and Population Census 2000, 2003). The paper suggested that housing affordability is greatly affected by the income level and the ability to pay for housing repayment. Based on an overview of housing affordability for first time home buyer, it was established that the first time home buyer can only buy high density flats in The Greater Kuala Lumpur. This is due to the high cost and high housing expenditure in the city. Even though the government has introduce first home buyer scheme to help first time home buyer but the long repayment period and other uncertainties can cause burden to the first time buyers.

One of the fitful finding in this investigation is that in housing the people, a comfortable home with all basic necessities is vital. The market of house prices showed that the prices of homes in the city centre is beyond reach. Hence this problem can be addressed by the provision of affordable homes in areas away from the city. In order to overcome the high transport cost, provision of an efficient transport system to the city must be planned. In this way the government objective of providing one hundred percent house owners can be attained. This call for a cooperative effort of the ministry of housing in order to address the matter in the National Housing Policy.

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