

**Malaysian Journal of Social Sciences and Humanities (MJSSH)**

Volume 4, Issue 3, June 2019

e-ISSN : 2504-8562

Journal home page:
www.msocsciences.com**Housing Affordability of Middle Income Households in Kuala Lumpur****Intan Melati Che Hassan¹, Faziawati Abdul Aziz¹, Nor Azlina Abu Bakar¹, Noordin Ahmad²**¹Faculty of Design and Architecture, Universiti Putra Malaysia (UPM)²Faculty of Engineering, Universiti Putra Malaysia (UPM)

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Abstract

The housing price in Kuala Lumpur is more expensive than other areas in Malaysia. The mismatch between demand and supply is not due to lack of supply, but the constraint is on the supply of housing that can be accessed especially by the middle income households. Apart from housing price and household income, housing type is also a crucial factor that directly influences housing affordability in Kuala Lumpur. Terraced and high-rise houses are favoured and within affordable means of the middle income groups. Analysis of the housing price index for these two types in Kuala Lumpur plotted against Malaysia Housing Price Index (MHPI) from 2000 to 2016 portrayed that both exceeded the rate of MHPI with a higher value and sharper gradient in the terraced house index, signifying rapid increment in their values. Detail analysis was also carried out on these two types using Price to Income ratio method to calculate housing affordability. Kuala Lumpur seems to fall into the seriously to severely unaffordable household category at Price-Income ratios of 4.27 to 6.76 for terraced and high-rise, respectively.

Keywords: middle income, housing affordability, housing price**Introduction**

The existing quantitative measures revealed that housing affordability issues have been prevalent in major cities in Malaysia (Ramlan & Zahari, 2016; Zyed et al., 2016). Such complexity is worsened with the absence of an effective measure that assesses the degree of housing affordability problem. There is also apprehension that the existing housing policies are insufficient to tackle this social phenomenon (Zainon et al., 2016; Zairul, 2017). In setting out the causes of the affordability problem, the building industry has often emphasized bureaucratic procedures and regulation as impediments to affordability (KRI, 2015; Aziz, 2017). Hence, it is a challenge to design a policy that comprehensively addresses all issues related to housing affordability, so as to provide practical guidelines for industry and to devise measures relevant to policy requirements.

With increasing urban population and in promoting the well-being of the urbanites, the issue of affordable housing, especially for the middle-income group, emerges to be crucial in Kuala Lumpur. Housing affordability has contributed to housing stress amongst middle-income earners (Bataquyan, 2016). In the 10th and 11th Malaysia Plans, more emphasis and focus has been given to develop affordable houses for the middle income households (EPU, 2016). Prior policies on affordable housing were prepared and implemented mainly to protect the low-income group to own a home (Suhaida et al.,

2011). The programs did work rather well and most low-cost houses were within reach of the low-income group, including in Kuala Lumpur (Md Sani & Rahim, 2012). This, unfortunately, left the middle-income group to struggle to gain sufficient consideration. In view of this situation this paper emphasis on the housing affordability level of the middle-income group in Kuala Lumpur. The factors that directly affected housing affordability are evaluated, namely housing supply, price, type and household income level.

Housing Supply and Prices

In order to understand the dynamic of the housing market and to analyse the price changes over time, the Malaysian House Price Index (MHPI) was introduced in 1997 by the Department of Valuation and Property Services (JPPH). It measures the prevailing transactional data trends of residential house price based on the hedonic approach. Details of the computation are described in Tan (2011) and Mohd Lizam (2014). The houses are valued based on their physical and locational characteristics. MHPI covers four types of housing (terraced, semi-detached, detached, and high-rise units) for the national house price index (overall index), as well as for the 13 states and 2 federal territories.

The data for this study were retrieved from the annual property report by the National Property Information Centre (NAPIC) under JPPH. With detached and semi-detached properties are beyond the middle income households, the housing price index for terraced and high-rise housing types in Kuala Lumpur were plotted against MHPI from 2000 to 2016 (see Figure 1). Both exceeded the rate of MHPI with a higher value and sharper gradient in the terraced house index; indicating a rapid increase in the values.

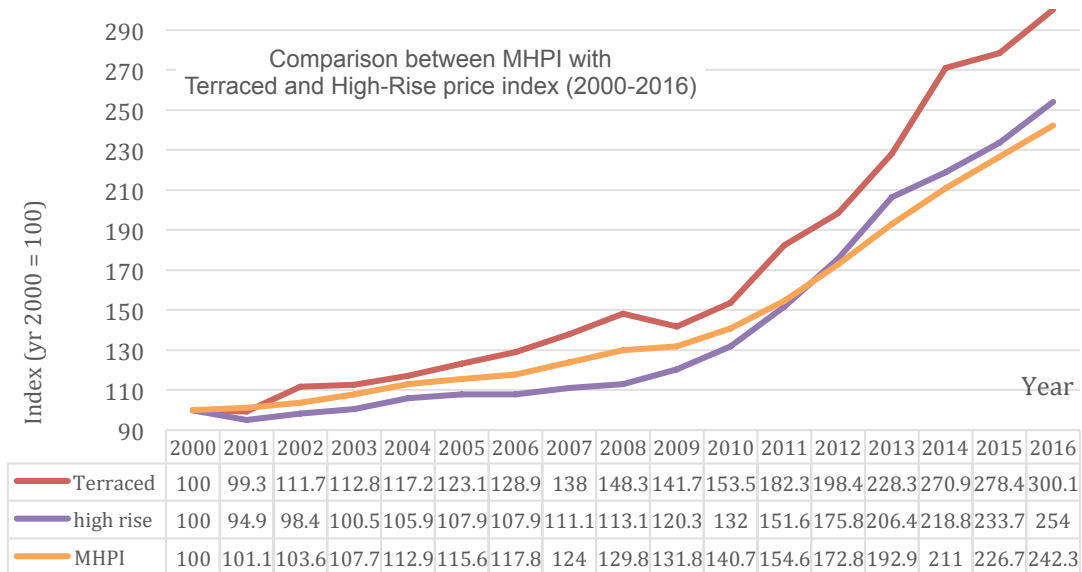


Figure 1: MHPI and Housing Price Index of Terraced and High-Rise Houses for Kuala Lumpur

For the average prices of terrace and high-rise housing types in Kuala Lumpur, they were at about 2 times and 1.3 times more than the national average price for the two types respectively, as presented in Figures 2.

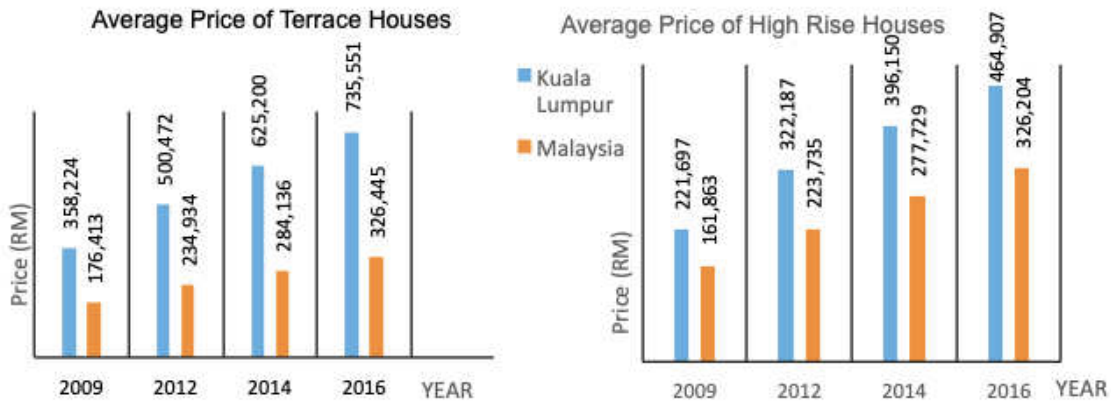


Figure 2: Comparison of Average Price of Terrace Houses and High Rise Houses Between The National and Kuala Lumpur

The 2016 median income of the middle-income group, M40, as published by DOSM in the Household Income and Basic Amenities Survey 2016 was RM 6,275. Using the established Median Multiple (MM) technique, where a house is considered affordable if it is less than three times the household median annual income, the affordable housing price for middle income households should be RM 225,900 which rounds up to approximately RM 250,000. To see the housing supply in Kuala Lumpur, Figure 3 presents the new launches for residential properties for the past five years compiled from yearly property transaction reported by JPPH. Since the trend is for high rise, the data were further grouped into three price categories (see Figure 4). New launches priced at RM 250,000 (and below) drastically declined, when compared to those priced at RM 500,000 and above. Further analysis of the data found that since 2015, only properties worth more than RM500,000 were offered in Kuala Lumpur.

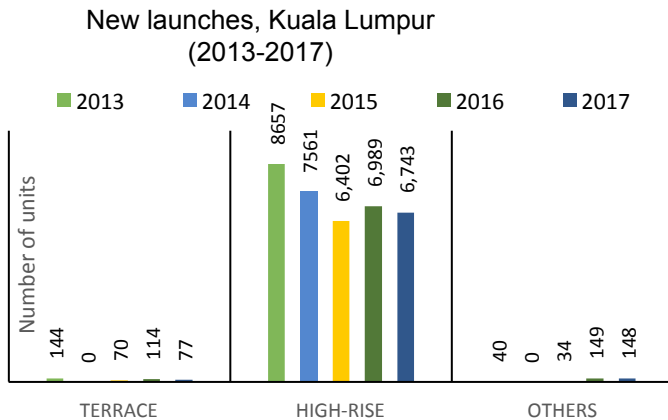


Figure 3: Residential Property Type Launched in Kuala Lumpur (2013-2017)

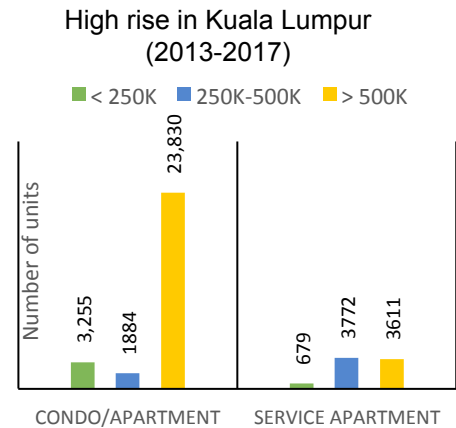


Figure 4: High-Rise Property Type Launched in Kuala Lumpur (2013-2017)

Household Income in Kuala Lumpur

The income of the population has a crucial role in the housing market. Low income has been cited as one of the main causes of the affordable housing crisis in Malaysia, especially those residing in cities and urban areas (Rameli et al., 2016; Chong, 2017). This is associated to the point made earlier, where the increase in house prices was faster and higher than the percentage increase in household incomes. Affordability refers to the financial ability to pay the cost, wherein low earning means low affordability. Wan et al., (2010) estimated that the middle-income group represented two thirds of the

Kuala Lumpur populations. It is also interesting to note that 60% of them were young starters, while most of their income fell below the national median income (Zairul, 2013; Bujang et al., 2015).

Housing affordability differs across income and age groups. The younger age group, hence lower in income, felt the most housing affordability pressure (Bujang et al., 2015; Rangel et al., 2017). According to the 2016 Employment and Salaries & Wages Statistics (DOSM, 2017), the average monthly salary in Kuala Lumpur was RM 3,105 per employee, in comparison to RM 2,594 at the national level. Table 1 summarises the salary and income reports for Kuala Lumpur. For the professionals, several salary surveys and researches (see Jobstreet, 2017; Payscale, 2018) found that the average salary for this group in Kuala Lumpur was about RM5,500 - RM8,500 per month, but such range was only achieved after 5 to 9 years of working experience.

Table 1: Summary of Employment and Salary for Kuala Lumpur (Source: DOSM, 2017)

	% employment	% share of salaries/wages	Average salary (RM)
Services	78.2	82.3	3,270
Construction	14.4	9.9	2,136
Manufacturing	6.7	5.7	2,627
Others	0.7	2.1	1,395*

*Note: Agriculture sector

Kuala Lumpur recorded the highest median monthly household income of RM 9,073 in 2016. Table 2 shows the breakdown of the median income of the household head. Note that a majority were from paid employment and with a median monthly of RM 6,689. The median household incomes since 1999 until 2016 in Kuala Lumpur and Malaysia are displayed in Figure 5.

Table 3: Median Monthly Income by Source of Income (Source: DOSM, 2017a)

	% ¹	RM ²
Income from paid employment	61.9	6689
Income from self-employed	19.5	9740
Income from property and investment	13.7	10971
Current transfers received	4.9	11982

¹Percentage of income by main source of income of household head

²Median of monthly household gross income by the number of income recipient

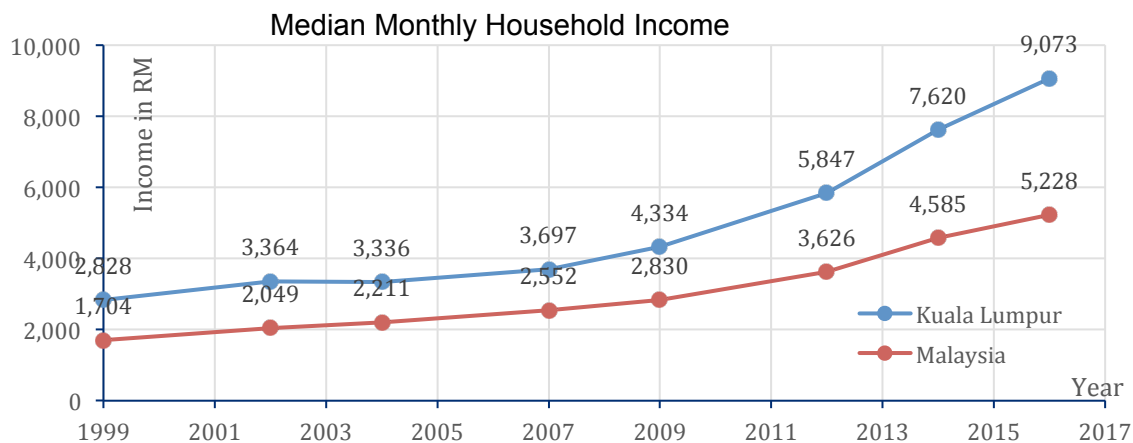


Figure 5: National and Kuala Lumpur Median Monthly Gross Household Income, 1999-2016 (Data: EPU, 2015)

Housing Affordability for Middle-Income Group in Kuala Lumpur

Many variables can be used to measure affordability. Studies carried out locally by Chiali and Choon (2014), Md Yusuf et al., (2014), BNM (2015), KRI (2015), Bujang et al., (2015), and Ling and Almeida (2017) showed that housing affordability was linked with, among others, household income, housing costs, locational factors, non-housing costs (household expenditure), and housing standards. Li (2014) studied papers related to housing affordability from top-tier urban and housing-related journals published from the past two decades. From the 112 journal papers reviewed, three common approaches were determined to assess housing affordability in the following order of popularity: ratio income, residual income, and composite. This paper does not intend to elaborate these approaches since they can be referred to separate references like Gabriel et al. (2005) and Meen (2018). However, it should be highlighted that price-income ratio (PIR), and MM is a form of PIR, is the most widely used measures for housing affordability in Malaysia (Md Sani, 2015).

By using the common PIR technique, the ratios of housing cost to the median income for terrace and high-rise units in Kuala Lumpur and Malaysia are computed and illustrated in Figure 6. The years selected had been based on the availability of income survey data conducted every 2-3 years. Although the population in Kuala Lumpur earned the highest pay every month, the housing supplied ranges from 4.27 to 6.76 times the annual median household income. This is categorised under seriously to severely unaffordable. It also exhibited the unresponsiveness of housing supply in Kuala Lumpur in regard to population demand, subsequently the poor housing market. Thus, a pressing need is present for government intervention to study the causes that affect the supply of affordable housing in Kuala Lumpur.

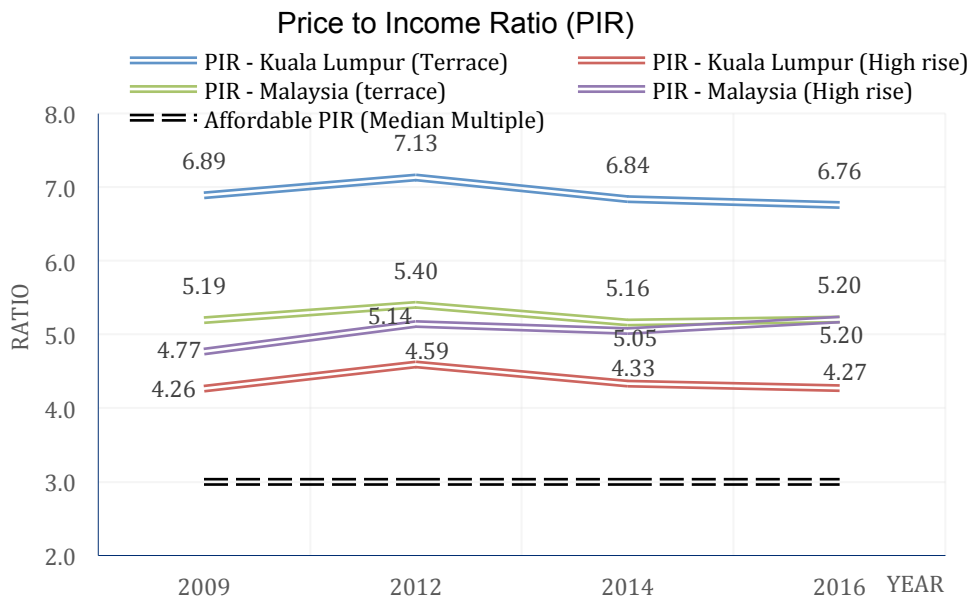


Figure 6: Price to Income Ration (PIR) of Terrace and High-Rise Houses for Malaysia and Kuala Lumpur (2009-2016)

The government accommodated to the low-income household to have their own shelter since the establishment of the Malaysia Plan in 1960 through *Program Rumah Mesra Rakyat 1Malaysia* (RMR1M), *Program Perumahan Rakyat Termiskin* (PPRT), and *Program Skim Perumahan Mampu Milik Swasta* (MyHome) (EPU, 2014). Middle-income households were not qualified for low-cost or social housing and also were uncovered by the housing assistance program. The present analysis showed that they too cannot afford the private sector housing projects since the concentration was on high-end housing. Several projects, such as RUMAHWIP and PR1MA, did provide some hope, but they yet to have an impact on the overall demand for affordable housing in Kuala Lumpur.

Conclusion

The structure of the housing market that influenced the housing affordability issues faced by the middle-income households in Kuala Lumpur is deliberated here. The three aspects that influenced the housing affordability in Malaysia and specifically in Kuala Lumpur were housing price, housing type, and household income level. The trend of the new launches for the past 5 years were for high rise and normally priced at RM 500,000 and above. Even though the population in Kuala Lumpur earned the highest pay, in comparison to the population in other states, the housing supplied there are between 4.27 and 6.76, categorised under the seriously to severely unaffordable household.

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