

OVERSUPPLY CAUSES OF DOUBLE STOREY TERRACE HOUSES IN JOHOR BAHRU

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Abstract

Malaysia is currently facing an increasing problem in housing oversupply with Johor holding the second largest share in the nation's oversupply stocks. Thus, this paper investigates the factors affecting housing oversupply in Johor, focusing on double terrace houses in Johor Bahru. The first objective reviews the causes of housing oversupply. The second objective evaluates the level of influence of factors on double storey terrace house oversupply in Johor Bahru. Questionnaires are distributed to 21 real estate agents in Johor Bahru to obtain their views on the housing oversupply factors. The level of influence of housing oversupply factors are ranked based on mean score. The study observes that housing unaffordability caused by expensive house prices and tight lending conditions strongly influence the housing oversupply in Johor Bahru. Thus, all parties in the property sector must work together to improve the buyers' housing affordability to reduce housing oversupply in Johor Bahru. The findings of the study guides the developers, planners, policy makers and financial institutions in making property planning and financing decisions. Future research may attempt to investigate factors influencing the oversupply of other housing types or extend the study area to allow further understanding on housing oversupply problems in Malaysia.

Keywords: *Property oversupply; Housing oversupply factors; Housing supply; Housing demand; Johor Bahru housing market*

1.0 INTRODUCTION

The basic principle of supply and demand is market equilibrium, which will exist when the number of supply equals to the number of demand (Marshall, 1890). However, the reality is, achieving market balance is impossible given the current economic uncertainty and complexity that exist especially in the housing sector. Hence the excess or shortage of housing supply. In the Malaysian housing market, despite generating 94,992 sales worth RM32.85 billion in the first half of year 2017 (VPSD, 2017), most states recorded a plunge in sales leaving 20,876 of unsold completed housing units nationwide worth RM12.26 billion. This is a 41% increase of overhang housing units compared to quarter two of year 2016 (14,792 units). Among type of

houses contributing to this huge figure is double storey and three storey terrace houses and condominiums or apartments. The state of Johor, experienced a large sales reduction making it the second highest state with overhang housing units (18% out of the national units) in the nation. The largest contributor to unsold housing units in Johor are condominiums and apartments (28.4%) and double and three storey terrace houses (27.8%).

The alarming residential property market situation emphasizes the importance of examining the causes which led to property overhang (Abdul Manaf et al., 2012). The phenomenon of unsold real estate units is not exhaustive to the recession factor only (Nor Azizah, 2010), thus more studies should be

conducted to identify other causes that affect the oversupply of houses especially in Johor Bahru.

This study aims to ascertain the factors that influence excess supply of double storey terrace houses in Johor Bahru. The objectives of this study are two-fold. The first objective reviews the causes of housing oversupply. The second objective evaluates the level of influence of factors on double storey terrace house oversupply in Johor Bahru. Understanding factors that cause oversupply are essential to create awareness among developers of residential properties especially about what buyers really need (Ahmad Salleh et al., 2016) and assist understanding of policy makers and planners on the root cause of the housing oversupply problem particularly in the Johor Bahru housing market.

2.0 HOUSING OVERSUPPLY FACTORS

Past researchers have attempted to identify factors causing housing oversupply. In 2004, Mahamud and Salleh concluded that economic factor contributed to housing oversupply. Specifically, Mahmud and Salleh (2004) argued that a recession taking place after a market spike have caused housing oversupply. Between years 1990 and 1997, Malaysia experienced a rapid economic growth which led to new houses built beyond the 7th Malaysia Plan target. Following the market spike, an economic downturn that affected Malaysia in 1997 have caused housing oversupply due to large piles of unsold housing stocks.

Meanwhile Rameli et al. (2006) and Rameli and Aman (2011) claimed that housing oversupply might have been caused by weaknesses in the local authority's planning practices. This problem is apparent during development planning and control (Bunos, 2006). Focusing too much on planning and technical land needs without considering the real demand and current market conditions compounded unsold and excess supply of housing. Moreover, ignoring the buyers demand was also argued to cause oversupply for some type of houses. Osman et al. (2017) claimed that few affordable housing units offered in the market have caused oversupply problem in the high-end property market.

Exploring from the perspective of developers, Mustapa and Cheong (2006) discovered the connection between feasibility studies and property sales while Azman (2007) linked ineffective marketing strategies with property sales. Incomplete preparation of feasibility studies by developers was argued to adversely affect the sale of properties leading to housing oversupply. This notion was also supported by Abdul Manaf et al. (2012). Speculation or price intervention and manipulation by developers was also identified to contribute to housing oversupply (Chang, 2005; Bunos, 2006;). Developers took advantage on the soaring demands for medium cost houses by increasing house prices significantly in order to reap large profits (Ismail, 2013; Kai et al., 2013). This situation is worsened with property investors' involvement in the price and rent increase (Saw and Tan, 2014). According to Chang (2005), developers raised the price of new launches followed with rebate deductions for deposits. This caused house prices to rise and encouraged false demands as no deposits was paid. Chang (2005) further noted that although developers were aware of the current market problems, i.e. excess house supplies and low sales performance in the housing market, they still continue to build homes.

The features of the property itself also play an important role in attracting buyers and closing sales. Houses provided with sufficient amenities and located near the city centre would be able to fetch higher demands from the buyers (Khazanah Research Institute, 2015). A mismatch in design and location of properties are repulsive to the buyers, causing low demands for the subject property (Abdul Manaf, 2012). Overpriced properties (Hashim, 2010) coupled with stringent financing conditions posed difficulties in home purchase leading to decline in sales and creation of housing oversupply.

Despite the estate agents key role in facilitating buying and selling of properties, none of the studies have examined the issue from the perspective of real estate agents. Real estate agents are among the most important people in the housing market (Jud, 1983). Since they are directly involved in the transaction process, they are the ones who understand the needs and requirements of buyers. Thus, this study fills in

the gap by gaining insights from real estate agents on factors contributing to oversupply of houses.

3.0 METHODOLOGY

Questionnaires were designed based on theoretical review on housing oversupply factors and distributed to the respondents, registered real estate agents within the Johor Bahru area. Each questionnaire consisted of two sections, Section A and Section B.

Section A focused on the background of the respondent; the agent’s name, position, company address, type of agency, years of work experience, and type of property and clients handled. Additional questions on the Johor Bahru housing oversupply and its effect on the property sector were also asked to the real estate agents to obtain their opinions on the subject matter.

Section B focused on the factors that affect the oversupply of double storey terrace houses in Johor Bahru. Oversupply factors identified in the literature are further grouped under five main themes, namely affordability (overpriced houses, stringent borrowing conditions), research and planning (lack of feasibility studies by developers, poor planning by local authorities), buyers preference (property type or design mismatch, location mismatch), economic condition (inflation) and speculation.

Respondents were required to select a number between one and five to reflect their opinions for each housing oversupply factors listed in the questionnaire. Five options categorised from ‘no influence’ to ‘strongly influence’ represent positive and negative views of respondents. This method followed the Likert scale method, a technique developed by Likert (1967) to sought the views of respondents on a particular subject.

Based on Yamane (1973) sampling calculation method in Equation 1, a total of 70 questionnaires were distributed to registered real estate agents in Johor Bahru through various mediums including face to face interviews and emails. However, the study managed to obtain only 23 completed questionnaires.

$$n = \frac{N}{1+N \times (e)^2} \quad \text{Equation 1}$$

where;

n is the sample size

N is the population size

e is the acceptable sampling error

Data obtained from the questionnaires were compiled and analysed through IBM SPSS. The results were analysed in the forms of mean score and compared against the index range to identify the level of influence of factors on Johor Bahru double storey terrace housing oversupply. Table 1 depicts the level of influence and index range.

Table 1: Level of influence and index range

| Level of influence | Index Range |
|--------------------|-------------|
| Strongly influence | 3.11-3.40 |
| Influence | 3.41-3.69 |
| Somewhat influence | 3.70-3.98 |
| Less influence | 3.99-4.27 |
| No influence | 4.28-4.57 |

4.0 RESULTS

Most respondents (65.22%) worked in an exclusive type of agency followed by sole agency (17.39%). None of the respondents came from joint agency. In addition, most respondents have between one to five years of experience in real estate agency particularly in residential transactions. This could be due to the higher residential land-use category in Johor Bahru compared to other categories. Most of the respondents agreed that, housing oversupply issue is a serious issue that will negatively affect the real estate sector as a whole if remain unsolved.

Further analysis on the housing oversupply factors and their level of influence was performed with results presented in Table 2. Expensive house prices and tight lending conditions were two factors identified as very influential to the housing oversupply in Johor Bahru. Expensive house prices topped the list of factors (4.57) causing housing oversupply in Johor Bahru. This is plausible as prices affect the affordability of the home buyers. Houses will remain unsold if the price offered for a house is too high and unaffordable for the home buyers. Too many unsold houses will generate oversupply houses.

The second factor contributing to housing oversupply was tight lending conditions (4.48) imposed by financial institutions as a precautions measure on the buyers loan repayment.

The third influential factor was the location of the property itself being poor and did not match the buyers preferences (4.04). Unattractive location will drive the buyers away from purchasing a property. The next factor influential to housing oversupply was inflation with a mean score of 4.00.

Table 2: Housing oversupply factors ranking and level of influence

| Factors | Mean Score | Level of influence |
|-----------------------------|------------|--------------------|
| Expensive house prices | 4.57 | Strongly influence |
| Tight lending conditions | 4.48 | Strongly influence |
| Poor location | 4.04 | Influence |
| Inflation | 4.00 | Influence |
| Speculation | 3.96 | Somewhat influence |
| Poor planning | 3.87 | Somewhat influence |
| Lack of feasibility studies | 3.83 | Somewhat influence |
| House type/design mismatch | 3.48 | Less influence |
| Others | 3.11 | No influence |

Speculation, poor planning and lack of feasibility studies were identified as somewhat influence to housing oversupply in Johor Bahru. The lack of developers awareness on buyers profile encouraged speculation (3.96) causing fluctuation of house price. The impact of price increase was passed on to the genuine house buyers who could not afford to purchase a property at such price. Poor planning by local authorities (3.87) implied the failure of local authorities to formulate and enforce a strategic housing supply planning in accordance with the market needs. The failure of the developer to conduct a proper feasibility study and understanding market changes lead to poor property sales (3.83).

House type or design mismatch was identified as less influential to the Johor Bahru housing oversupply (3.48). This suggested that

buyers did not really pay attention to the kind of house they need as long as the house is comfortable and in good condition. Finally, other factors such as poor financial management by the buyers causing failure to secure a bank's housing loan was identified as non-influential (3.11) to the housing oversupply in Johor Bahru.

5.0 DISCUSSION

The findings of the study unveiled some important findings. House prices and financing influenced the most to housing oversupply in Johor Bahru. Both house prices and financing reflect the affordability of buyers. Houses are affordable if they can be bought without serious financial risks. Housing affordability is achieved when households spend less than a third (MacDonald, 2011) or 30% (Bujang et al., 2015; Litman, 2015; Baqutaya et al., 2016) of their gross monthly income for housing including utilities. Thus, houses that are priced beyond the affordability of buyers will eventually cause unsold housing units. Since property purchase involves a huge sum of money it requires house loan financing. However, strict lending conditions imposed by financial institutions have prevented buyers to purchase a house and thus increasing the number of unsold housing units.

6.0 CONCLUSION

This paper have discussed factors affecting the oversupply of double storey terrace houses in Johor Bahru from the perspective of real estate agents. Expensive house prices and tight lending conditions adversely impact housing affordability causing the oversupply of houses. The strong influence of house prices emerged from this study supports the findings of Azman (2007) who also concluded that expensive house price is one of the main factors of housing oversupply. Increased house prices reduce the purchasing power and demand of buyers, especially for low and middle income earners causing housing oversupply. Although the demand for houses are still high, only houses that match the buyers level of income can be purchased by the buyers. One of the reasons that contributed to the escalating house

prices was because the developers were constantly competing to sell higher-priced houses to gain higher profits. Planners and policy makers should address the house price problem in detail to allow house purchase by the buyers and thus reduce the housing oversupply in Johor Bahru.

Concerns for loan repayments by financial institutions led to strict housing loan lending conditions for the borrowers. Strict lending conditions posed difficulty for buyers especially the low income earners to secure housing loans and thus contribute to the accumulation of housing stocks. Thus, financial institutions should find other alternatives to increase the eligibility of borrowing and property purchase which will eventually help in reducing unsold properties.

Other factors identified to contribute to housing oversupply were poor location, inflation, speculation, poor planning and lack of feasibility studies. In this context, developers should prioritise a good location in developing houses as poor house locations were not attractive to the buyers causing unsold properties. The least affecting factor was the design of the house.

This study contributes to the few literature on housing oversupply and benefits many parties in understanding the core problem that causes housing oversupply in Johor Bahru. All parties from planners, developers, policy makers and financial institutions should also work together hand in hand in order to reduce the housing oversupply. It is suggested that further research embarks on other types of housing and broaden the coverage of study area to allow further understanding of housing oversupply in Malaysia.

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