

# Housing Affordability among Generation Y in Malaysia A Conceptual Analysis

Amira Aishah Binti Mohd Shoed<sup>1</sup> & Geetha Subramaniam<sup>2\*</sup>

<sup>1</sup>Universiti Teknologi MARA, Shah Alam, amirashoed@yahoo.com

<sup>2</sup>Universiti Teknologi MARA, Shah Alam, geethamaniam@gmail.com

## Abstract

Over the past few years, the house prices in Malaysia have experienced a huge value development and turned into a stress pattern for those who want to own a house, especially first time home buyers. This conceptual paper will examine issues of housing affordability among young Malaysians who have intentions of buying a house. The persistent increment of house prices have influenced the capability and ability of individuals to buy houses. The issue is extremely serious among the first time home purchaser, particularly the Generation Y. Thus, this paper will discuss some of the reasons behind this issue and also examine the current government housing policies which are in place to help home buyers. This conceptual study would form a theoretical framework for further empirical work to be done by future researchers and which can be used by policy makers and stakeholders in designing affordable housing for Generation Y in Malaysia.

**Key Words – Housing Affordability,  
Generation Y.**

## INTRODUCTION

Housing affordability refers to a condition when people have the potential to save a certain portion of their income to buy a house, as well as to pay other expenditures in their working period (Anirban et al., 2006). It refers to the ability of a person in acquiring something in financial terms. Housing affordability is one of the key variables that

can portray the socio-economic stability and development of a nation. Housing affordability is important so that houses provided are at reasonable and affordable prices for all income groups. The Government of Malaysia recognizes that housing is a fundamental requirement for every citizen. It is additionally an essential segment of the urban economy. These have led the Government of Malaysia to formulate policies and programmes aimed at ensuring that all Malaysians have the opportunity and chance to obtain an appropriate place to stay.

Generation Y or commonly referred to as Gen Y refers to the younger generation of population born between 1980 to 1995. Basically, they will be first time home buyers and would have either just completed their studies or in their early years of marriage.

A close look at the housing prices in Malaysia by the Valuation and Property Services Department of Malaysia (JPPH), Ministry of Finance revealed that, the prices have appreciated dramatically in the past decade (JPPH, 2015). Figure 1 shows the average house prices that have continued to increase from year to year from Quarter 1 (Q1) 2004 to Quarter 4 (Q4) 2013 (JPPH,2015).

As shown in Figure 1, during the period of 2004 to 2013, Malaysia experienced a dramatic increase in housing prices. It is alarming to note that in Q4 2013, the average house price for all houses in Malaysia hit RM 275, 870. The price has increased since the past four quarters; RM 251,731 (Q4 2012), RM 256,199 (Q1 2013), RM 265,737 (Q2 2013) and RM 274,351 (Q3 2013).

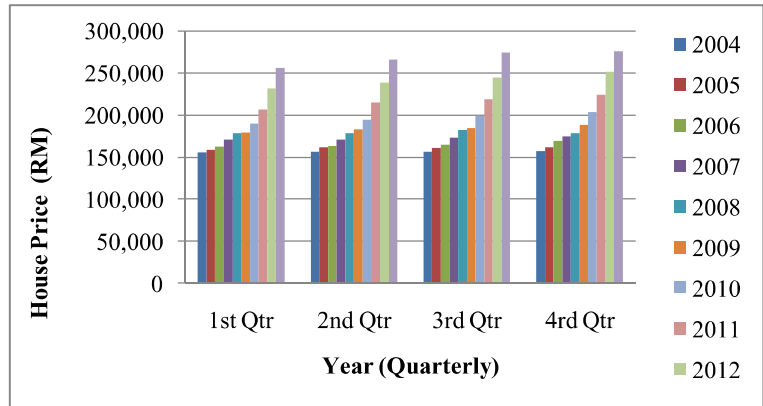


Figure 1 - House Prices in Malaysia, 2004 to 2013

Source: Valuation and Property Services Department (JPPH,2015)

Figure 2 shows the house prices in Malaysia according to states for the year 2013 and 2014. Among the states in Malaysia, Kuala Lumpur and Selangor recorded the highest house prices. Based on

the figure, it can be seen in Q1 2004, the highest price of RM682, 438 was recorded in Kuala Lumpur, followed by Selangor at RM442, 024 and Sabah at RM 426, 421.

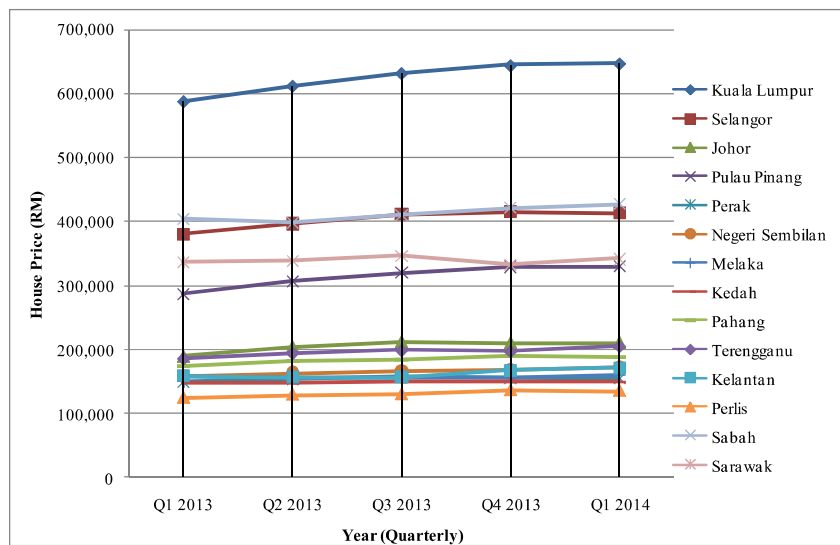


Figure 2 - House Prices in Malaysia by States, 2013 to 2014

Source: Valuation and Property Services Department (JPPH,2015)

## **Current Housing Scenario in Malaysia**

The Property Market Status Report (JSSH, 2014) shows that the primary market recorded a higher number of new launches in Q3 of 2014 i.e. 68,351 new units compared to 62,376 units recorded the year before. They also highlighted that the rise was largely due to the number of condominiums and serviced apartments, which amounted to nearly 44.9% of total new launches. As expected, the states which recorded the highest number of new launches were Selangor (18%), Kuala Lumpur (17.4%) and Johor (16.8%). However, in terms of performance, landed units achieved higher overall take-up at 34.4% compared to its high-rise counterpart which amounted to just 11.1%. Further analysis shows that the type of landed property which performed well in sales were among the new launches which consisted of terraced houses securing 36.9% in sales performance. The report also revealed that the number of residential overhang units on residential property under construction increased by 6% while the unsold not constructed recorded an 8.5% rise.

This scenario in house prices shows a worrying issue of housing affordability challenge among many Malaysians, especially the younger generation. This housing affordability influences the home ownership among Malaysians, especially the younger generation. Some issues emerge in home ownership in the housing sector. Based on property market status reports, reviews reveal that many new units have been developed but the review also highlights that many existing units are unsold. The growing housing sector encourages developers to build more new housing units. As indicated by the National Property Information Centre, there were approximately 7,538 new residential units launched in Malaysia in 2014, while there was a current stock around 4.8 million units in the market recorded in Q3 2014 (Property Market Status Report, JSSH, 2014). However, unsold houses were 26,469 in contrast to 61,524 units in Q3 2014. The huge number of unsold units suggest the issue of difficulty in selling and affordability.

Affordability is more likely to be a perceived and a real problem among households with less accessible resources and especially in those areas where housing cost is high and rising quickly. So as to enhance the housing sector in Malaysia, particularly in terms of cost and affordability, government involvement or intervention is needed. The involvement or intervention of the government in

solving the housing issues can be done through policies and development strategies. For example, the Ministry of Housing and Local Government have introduced the National Housing Policy (NHP). The point of this approach is to provide sufficient housing, comfort, quality and affordability to enhance the ability of living (National Housing Policy, 2010).

This issue has become a national issue as housing is a fundamental right and a fundamental need. Besides, it is a real concern in the current global economic condition and national economic scenario with GST and increasing cost of living.

## **Government Housing Policies and Programmes to Help Home Buyers**

The Malaysian government has set up several programmes to help Malaysians buy their own homes. First, My First Home Scheme or “Skim Rumah Pertamaku” (SRP), was announced in the 2011 Budget by the Malaysian Government to assist young adults who have just joined the workforce to own their first home. The Scheme allows young adults aged 35 and below with a monthly income below RM 3,000 (First Home Scheme, 2010) to acquire 100% financing from financial institutions, enabling them to own their 1st home without the need to pay a 10% initial installment or down payment. Due to increasing house prices, an amendment was made in the 2013 Budget, where the monthly income limit was increased from RM 3,000 to RM 5,000 and certain qualifying criteria were abolished with effect from 1st January 2013.

First home buyers are a young age group who have just completed their studies and joined the workforce. A majority of them would have just graduated from studies. Normally, the decision to purchase a house is made when the household size becomes larger or a single person gets married (Skim Rumah Pertamaku, 2011).

Another program by the Malaysian government to help those in the middle-income group is the 1Malaysia People’s Housing Programme. Perbadanan PR1MA Malaysia was established under the PR1MA Act 2012 to plan, develop, construct and maintain high-quality housing with lifestyle concepts for middle-income households in key urban centres. PR1MA homes come in various types and sizes within an integrated community. It is sensibly designed to suit different household needs, priced

between RM 100,000 to RM 400,000, which is aimed at Malaysians to own a home that is well within their reach. PR1MA is open to all Malaysians with a monthly household income between RM 2,500 to RM 10,000 (PR1MA, 2014).

Bernamea (2015) reported that, in the 2015 budget, 80,000 more housing units will be built through this programme with an allocation of RM 1 billion. Prime Minister Datuk Seri Najib Tun Razak said that each unit under the programme would cost 20% lower than the market price. The announcement of 80,000 more housing units to be built under the 1Malaysia People's Housing Programme was made under a broader announcement for the construction of around 223,000 new housing units aimed at helping the low and middle income groups to own homes. Additionally, to address the issue of home ownership at affordable prices, various projects and programmes will continue to be implemented, as announced in the 2015 budget. Among them are, National Housing Department (JPN) to build 26,000 units under the People's Housing Programme (PPR) with an allocation of RM644 million, Syarikat Perumahan Negara Berhad (SPNB) to build 12,000 units of the Rumah Mesra Rakyat (RMR) and also 5,000 units of Rumah Idaman Rakyat (Najib, 2014). In addition, recognising the affordability problem, the Youth Housing Scheme was announced by the Malaysian Prime Minister Datuk Seri Najib Tun Razak in the 2015 budget. The Youth Housing Scheme is a smart partnership between the Government, Bank Simpanan Nasional, Employees Provident Fund and Cagamas. The scheme offers a funding limit for a first home not exceeding RM 500,000 for married youths aged between 25 and 40 years with a household income not exceeding RM10,000. The maximum loan period is 35 years. Under the scheme, the Government will provide monthly financial assistance of RM200 to borrowers for the first two years to reduce the burden of monthly instalments. The Government will also give a 50% stamp duty exemption on the instrument of transfer agreements and loan agreements. The Government will also provide a 10% loan guarantee to enable borrowers to obtain full financing including the cost of insurance. Borrowers can also withdraw from EPF Account 2 to top up their monthly instalment and other related costs. However, this scheme is offered on a 'first come, first served basis' for 20,000 units only.

Recently, as announced by Prime Minister Datuk Seri Najib Tun Razak in the 2016 budget, there was no relaxation on the measures to cool the rise in the property prices. Budget 2016 instead chose to concentrate on what the government can do in terms of providing more affordable houses. A total of

351,500 housing units will be built, involving multiple agencies, for all segments of society to address the issue of home ownership and the rising cost of living. Among them is a RM1.6 billion allocation for 175,000 houses under the PR1MA programme which will be sold at 20% below market price, 10,000 Rumah Mesra Rakyat houses to be built by SPNB where each household will enjoy a subsidy of RM20,000 and 5,000 units of PR1MA and Perumahan Penjawat Awam 1Malaysia (PPA1M) units to be built in 10 locations around LRT and monorail stations, including Pandan Jaya, Sentul and Titiwangsa (Rashid, 2015).

## **THE ISSUE - HOUSING AFFORDABILITY AMONG GENERATION Y (GenY)**

Over the past ten years, the residential property market throughout Malaysia has encountered a significant price expansion. According to the Minister of Housing and Local Government, Abdul Rahman Dahlan, in the 16th National Housing and Property Summit 2013, there is a 40% difference between the demand for affordable housing and its supply in the nation right now. This is because according to the National Property Information Centre (NAPIC), just 31.7% of the total number of housing units constructed in the year 2012 had a price tag below RM 250,000 (Annual Property Market Report Year 2013). In addition, 80% Malaysians gain less than RM 6,900 per month and cannot afford houses priced higher than RM 300,000 (Department of Statistics Housing Income Survey, 2013). Besides, affordable housing accessibility has become a more critical problem among the middle income group, which is the reason the government has introduced the 1Malaysia People's Housing Programme (PR1MA). Additionally, as mentioned by the Prime Minister Datuk Seri Najib Tun Razak, the number of people applying for PR1MA is seven times higher than the number of homes available (Bernama, 2015). Thus, this demonstrates that there is a mismatch between the demand and supply of houses towards the right target group in Malaysia.

Malaysians, especially the Gen Y find it extremely difficult to keep pace with the price hike of housing units. The continuous increase in house prices has affected the ability of people to buy homes, especially for the first time home buyers aged 24 to 35 years the most (Mentaza Khan, Mahamud & Kamaruddin, 2012).

## **THEORETICAL CONSIDERATIONS**

### **Theory of Supply and Demand**

Applying the basic economic model of supply and demand helps us in understanding the determination of the price of quantity of goods sold in the market. The explanation works by looking at two different groups, the buyers and sellers asking how they react to each price equilibrium. Consider an equilibrium as a situation where there is no inherent tendency to change and the market just clears. The equilibrium must satisfy the market-clearing condition, where quantity demanded is equal to the quantity supplied. A lower than equilibrium price causes an excess demand and a higher than equilibrium price causes a shortage. This mismatch between demand and supply will cause the price of house to rise or fall for market to clear. However, in the market for housing, what is noted is that there is a surplus of luxury houses, including luxury apartments and condominiums and a shortage of mid-range terrace houses being constructed. It is also noted that this mismatch affects the Gen Y more than the other age groups.

### **Housing Affordability**

One of the main issues in the housing sector around the world is about housing affordability. The meaning of affordability is excessively subjective. As indicated by Zan and Yue (2008), affordability or moderateness is not a characteristic of housing, but a characteristic of a housing administration as it identifies the capacity and the yearning of buyers to pay for it. Additionally, another definition of housing affordability is a condition when individuals can possibly save a certain portion of their income to buy a house, as well as to pay for other expenditures in their working period (Mostafa et al., 2006). Vliet in the Encyclopedia of Housing (1998) as cited by Mentaza Khan, Mahamud and Kamaruddin (2012), proposes a sliding scale of moderateness which considers both family unit size and wage level where almost 30% of the family unit wages were spent on houses and the balance for other family costs. Thus, the commitment towards housing is averaged at a rate of 30% of the adjusted income salary.

## **FACTORS AFFECTING HOUSING AFFORDABILITY – A REVIEW OF LITERATURE.**

### **Introduction**

In Malaysia, much has been researched with regards to housing affordability in the last ten years. For example, Hashim (2010) took two distinct notions to demonstrate the distinctions of moderateness. The findings reveal that the demand for possessed property is dictated by the cost of housing, population development and the family arrangement rate and income growth. He discussed that housing business is unsustainable when the cost was too high and possession was troublesome. Research also has been done on low cost housing and also on the middle and lower income Malaysians.

Housing affordability has become the main issue in the housing sector as the house price and living cost continue to increase especially in urban areas. Factors such as household income, house price and expenditure of household influence the affordability levels of house buyers. The continuous increment of house prices has affected the ability of an individual or a person to purchase a house. The problem is more severe among first time home buyers aged between 24 – 35 years old, especially fresh graduates, more so with increasing household expenses. Although the government has introduced several schemes for first time home buyers, they still fall below the affordability level. This concurs with the continuous increase in home price and high living expenses in theory. This means house ownership becomes nearly impossible for young people in urban areas (Mentaza Khan et al., 2012).

Studies show that housing affordability is influenced by socio-demographic factors, individual attitude, spending behavior and institutional support and government policies. Hence this paper highlights these four variables.

### **Demographic Factors and Housing Affordability**

Bujang, Abu Zarin and Jumadi (2010), claimed that in recent times, there has been an increasing volume of literature researching on the relationship between affordable housing needs and population in Malaysia. They concluded that demographic factors have a greater influence on housing affordability. Their micro level study which used primary survey among 200 respondents in Johor Bahru found that demographic factors such as marital status, number of household, age, educational level and household income influence the housing market

and have brought about diverse levels of moderateness. However, this study concluded that reasonable housing cost in Johor Bahru was not more than RM150,000 for each unit.

Secondly, the Gen Y have been faced with a few issues relating to housing affordability. Bujang, Jiram, Abu Zarin and Md. Anuar (2015) also found that the affordable housing price among young Malaysians, more specifically Gen Y whose monthly income is below RM 3000 is at RM 200,000 per unit. In addition, the study found that the affordability issues faced by Gen Y to buy and own a house are increasing house prices, difficulty to pay the deposit, lack of affordable or low cost house supply in the market and also the difficulty to secure credit.

Another interesting study in Guangzhou, China by Qianwei, Danglun and Jie (2013) was done on the potential determinants of housing affordability of the 'sandwich class'. In an East Asian term, the 'sandwich class' refers to the lower middle class. This study examined home-ownership and affordability, using indicators such as their own assessment of the most extreme home cost, the greatest month to month contract installments, and the greatest cost in advance portion that they could bear given their present and anticipated financial assets. The findings reported that the home-ownership reasonableness determinants of the lower working class in Guangzhou are both permanent income and transitory income, the structures of both income and down payment, housing related assistance (Housing Provident Fund and employer-provided housing subsidies), and occupational sectors, gender and marital status.

### **Spending Behaviour and Housing Affordability**

Income levels and house prices are not the only determinants of housing affordability. In fact, spending behaviour among buyers is another determinant for housing affordability. Ab Majid, Said and Daud (2014) assessed the extent of expenditures that influence housing affordability among young couples aged between 20 and 35 years living in the state of Selangor, Malaysia. A total of 215 responses were recorded using a nine part questionnaire. They are monthly loan repayment, food and beverages, transportation, utilities, communication, household equipment, healthcare expenses and children's education, miscellaneous spending and saving. The results show that all expenditures are very significant ( $< 0.01$ ) within indicated Cronbach's Alpha analysis ( $> 0.7$ ). Nonetheless, each expenditure indicated

different correlation values at two different statuses of home owners. The result suggests that the spending patterns among young couples have a significant impact on housing affordability.

A study on home-ownership affordability in Nigeria's urban housing market conducted by Nwuba, Kalu and Umeh (2015) established the determinants of households' affordability outcomes, and the nature of their impact. The cross-sectional survey using semi-structured questionnaire was used to collect data from a sample of households selected through a stratified random technique across Kaduna State, the study area. The binary logistic regression analysis was used to model the probability of home-ownership affordability as a function of specified explanatory variables. The findings show that home-ownership affordability is influenced by expenditure and spending behaviour. Apart from household income, another determinant of home-ownership affordability with positive impact is savings while current rental housing expenditures and non-housing expenditures are determinants of affordability with negative impact.

### **Individual Attitude and Housing Affordability**

According to Price, Amould and Zinkhan (2004, as cited in Qiuxie & James, 2013), the most important determinant of consumer behaviour is behavioural intention and that depends both on a person's attitude towards performing the behaviour and the influence of others' opinions about the behaviour. Attitude plays a critical role in consumer behaviour, and it is especially important because it motivates people to behave in consistent ways. In addition, attitudes simplify consumer decision making by providing a way for the individual to evaluate alternatives based on his or her knowledge of the attributes and benefits offered by each.

Qiuxue and James (2013) conducted a study on how internal influences such as perception, attitudes, learning behaviour, motivation and emotions impact house buying behaviours. A survey on consumer commercial house buying behaviour was conducted in GuangXi, China. The data were analysed using multiple regression analysis and revealed that perception, attitudes, learning, motivation and emotion significantly influence consumer house buying behaviour.

Ab Majid, Said and Daud's (2014) study on household incomes and high house prices found that the house price is no longer the principal benchmark

for housing affordability. This is because housing affordability is influenced by buyers' habit through their expenditure patterns. Among young couple households, the pattern of household income generally influences house ownership. The different pattern would contribute to different levels of their affordability.

## CONCLUSION

This conceptual review on housing affordability among Malaysians led to some interesting conclusions. Firstly, it looks like there is a major issue of increasing house prices and affordability especially among the Gen Y in Malaysia. Secondly, there is a concern of mismatch between the types of houses constructed and the types of houses affordable to Gen Y. Thirdly, studies show that there are many socio-demographic factors which influence housing affordability, where some have higher influence than others. Fourthly, other than socio-demographic factors, other factors such as individual attitude, spending behavior and government housing policies also greatly affect housing affordability. Finally, the Malaysian Government is serious in combatting the issue of house ownership among Malaysians based on its policies and programmes in the last five years. However, the issue is that how effective are these policies for the Malaysian Gen Y. Also, how aware are some of the Gen Y regarding these Government policies and programmes.

It is obvious that no single factor is attributable to housing affordability among Malaysians. Therefore this conceptual study paves the way for an empirical study to be done to examine the extent to which this housing mismatch affect housing affordability among young Malaysians. Besides, this conceptual study would form a theoretical framework for further empirical work which can be used by policy makers and stakeholders in designing affordable housing for Gen Y in Malaysia. With so many government policies in place, the study will also look at the effectiveness of these policies in addressing the issue of housing affordability among Malaysia's Gen Y.

## REFERENCES

- Ab Majid, R., Said, R., & Daud, M.N. (2014). The Assessment of Young Couples' Behaviour on Expenditure Towards Homeownership. *International Surveying Research Journal (ISrJ)*, 4 (2), 35-52.
- Bujang, A.A., Abu Zarin, H., & Jumadi, N. (2010). The Relationship Between Demographic Factors and Housing Affordability. *Malaysian Journal of Real Estate*, 5 (1), 50-58.
- Bujang, A.A., Anthony Jiram, W.R., Abu Zarin, H., & Md. Anuar, F.H. (2015). Measuring the Gen Y Housing Affordability Problem. *International Journal of Trade, Economics and Finance* 6 (1), 22-26.
- Hashim, Z.A. (2010). House Price and Affordability in Malaysia. *Akademika*, 78, 37-46.
- JPPH (2015) Valuation and Property Services department, Ministry of Finance Malaysia, from <http://www.jpph.gov.my/>
- Khazanah Research Institute. 2015. Making Housing Affordable. Kuala Lumpur: Khazanah Research Institute. License: Creative Commons Attribution CC BY 3.0.
- Malaysian House Price Index Data. Valuation and Property Services Department. Retrieved March 29, 2015, from <http://napic.jpph.gov.my/portal>
- Mentaza Khan, P.A., Mahamud, R., & Kamaruddin, N. (2012). An Overview of Housing Affordability For First Time Home Buyer In Malaysia. 3<sup>rd</sup> International Conference on Business and Economic Research Proceeding. 12-13 March, Bandung.
- Mostafa, A., Francis, K.W. Wong., & Chi, M.E.H. (2006). Relationship between Housing Affordability and Economic Development in Main China: Case of Shanghai. *Journal of Urban Planning and Development*, 132 (1), 62-70.
- National Housing Policy. Retrieved April 1, 2015, from [http://www.kpkt.gov.my/lain\\_terbitan/DRN\\_KPKT\\_\(ENG\).pdf](http://www.kpkt.gov.my/lain_terbitan/DRN_KPKT_(ENG).pdf)
- National Property Information Center 2013. Retrieved March 30, 2015, from <http://napic.jpph.gov.my/portal>
- Nwuba, C.C., Kalu, I.U., & Umeh, J.A. (2015). Determinants of Homeownership Affordability in Nigeria's Urban Housing Markets. *International Journal of Housing Markets and Analysis*, 8 (2), 189 – 206.
- PR1MA. Retrieved 10 April, 2015, from <http://www.pr1ma.my/>

- Property Market Status Report, Q3 2014. JSSH, Ministry of Finance. Retrieved March 29, 2015, from <http://napic.jpoh.gov.my/portal>
- Rashid, F.H. (2015, October 24). Boost for home ownership. *New Straits Times*,
- Qianwei, Y., Danglun, L., & Jie, C. (2013). The Determinants of Homeownership Affordability among the 'Sandwich Class': Empirical Findings from Guangzhou, China. *Urban Studies Journal Limited*, 50 (9), 1870-1888.
- Qiuxue, L., & James, P.T.J. (2013). Influences on the Buying Behavior of Purchasing Commercial Housing in Nanning City of Guangxi Province, China. *Journal of Management and Marketing Research*, 2 (12), 1-11.
- Razak, N. (October 10,2014). The 2015 Budget Speech. *Bernama*. Retrieved September 16, 2015, from <http://www.bernama.com/bernama/v8/newspiece.php?id=753>
- Salvatore, D. (2009). *Principles of Microeconomics*. New York: OXFORD University Press.
- Skim Rumah Pertamaku. Retrieved April 10, 2015, from <http://www.srp.com.my/docs/html/home.html>
- Zan, Y., & Yue, S. (2008). The Affordability of Owner Occupied Housing in Beijing. *Journal Housing and Built Environment*, 23, 317-335.