

# Economic Research

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## *Affordable Housing Woes: Holistic Long-Term Policies Necessary*



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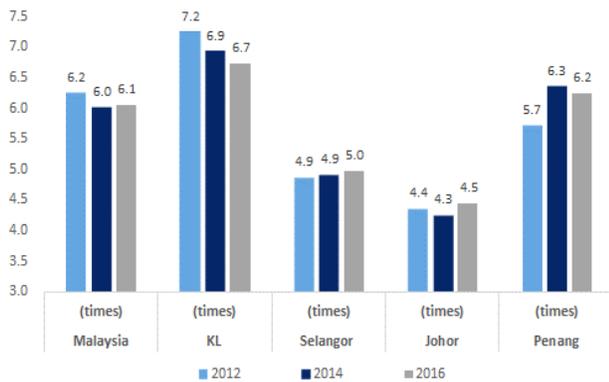
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- There have been persistent calls to loosen mortgage lending in Malaysia to encourage home ownership. In response to such calls, Bank Negara Malaysia (BNM) has created a “Housing Watch” website with data showing that it is the lack of affordable housing, not access to credit, that is deterring home ownership.
- In most of Asia, access to adequate and affordable housing is a growing problem. In some countries, it is because of low incomes. In others, housing is expensive because supply is tight and access to financing is limited.
- In Malaysia, there appears to be a combination of factors at play. For one, house prices have escalated in recent years. Over the 2010-2016 period, prices surged by an average of 9.3% per annum (p.a.), compared to only 3.6% p.a. over the 2002-2008 period. It is noteworthy that since 2012, the growth pace of house prices has outstripped that of income levels. This is due in part to the fact that the supply of new housing has increasingly become concentrated in the higher-priced categories. According to the central bank website, 80% of new Malaysian housing launches in 1Q2017 were priced above RM250,000. Between 2010 and 2014, the proportion of the higher-priced category had been significantly lower at 67%.
- In urban states, more than half of unsold units are in the high-end high-rise segment, for example condominiums. While both total incoming and planned supply of new residential properties have been seeing quarterly declines since at least 2H2015, that for high-end high-rise units have continued to rise. This has led to an acute oversupply situation in the high-end segment at a time when there is a shortage in the affordable segment.
- With the median annual household income of Malaysians standing at around RM63,000 (*Household Income and Basic Amenities Survey 2016*), however, many find the bulk of the newly launched homes unaffordable. It does not help that the growth pace of Malaysia’s median monthly household income on a compounded annual growth rate (CAGR) basis has moderated in recent years. A house is considered affordable, according to the World Bank-recommended Median Multiple methodology used to evaluate urban housing markets, if it can be financed by less than three times a household’s median annual income.
- Given the situation, MARC feels that loosening mortgage lending to boost home ownership is not the way to go. It is important to assess the potential adverse consequences before proposals aimed at encouraging home ownership through easy financing are considered. Household debt in Malaysia, at 88.4% of GDP (December 2016), is already among the highest in this region. In addition, about 43% (or RM467.1 billion) of total household debt, according to BNM’s Financial Stability Report 2016, is held by those with annual incomes of RM60,000 or less. Financial stability is unquestionably a critical ingredient in any high-performing market economy and BNM has done well in keeping the financial system stable and resilient.
- It is noteworthy that the United States mortgage crisis was due in part to easy bank credit access. Before the crisis emerged, borrowers borrowed more than ever before, and those with bad credit qualified as subprime borrowers. We all know what happened to the “American Dream” of as many as 10 million families who lost their homes to foreclosure during the crisis.
- The current global economic outlook is clouded by challenges that include tightening global financial conditions, heightened financial volatility, geopolitical uncertainties and risk of rising protectionism. On top of that, the global policy environment has become decidedly more uncertain, and policy space has shrunk. Against such a backdrop, policymakers will likely prioritise financial stability if they have to choose between growth and financial stability.
- This is not to suggest that the issue of housing affordability can be ignored. A prerequisite for prosperity and growth, urbanisation is indispensable for development. In fact, sustainable urbanisation is key to successful development. There are concerns that its efficacy as a driver of development could be hampered by the multitude of issues it generates if it proceeds too rapidly.

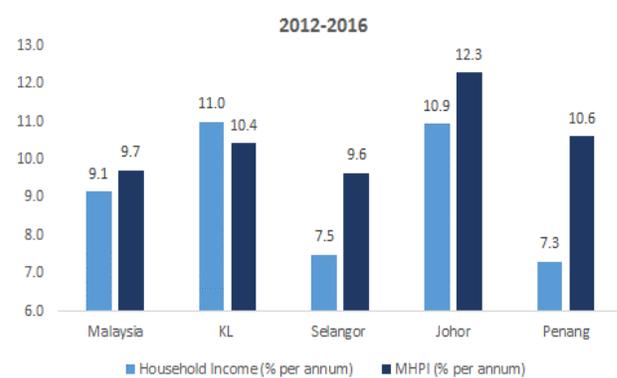
- According to Dr Joan Clos, Executive Director of the United Nations Human Settlements Programme, ensuring housing affordability is a complex issue of strategic importance for development, social peace and equality. The lack of affordable housing is actually one of many issues associated with rapid urbanisation. In China, for example, housing affordability across its largest cities continues to plummet due to the spectacular surge of its urban population. Over the 1980-2016 period, its urban population as a percentage of total population rose from 19.4% to 56.8%. Similarly, the urban population in Indonesia climbed to 54.5% from 22.1% within the same period. In Malaysia's case, the surge over the same period was also quite dramatic – from 42.0% to 75.4%.
- The housing affordability problem needs to be tackled from a quality of life development issue perspective using holistic long-term policy measures. A solution to the problem would require, among other things, a rebalancing of the supply-demand dynamics of the housing market and effective implementation of medium- and long-term development measures to accelerate household income growth. Considering the complexity of the housing affordability issue, loosening mortgage lending requirements alone will be insufficient to solve the problem. More importantly, it is not a long-term policy measure and should not be treated as one.

**Chart 1: Average house prices to median annual income ratio**



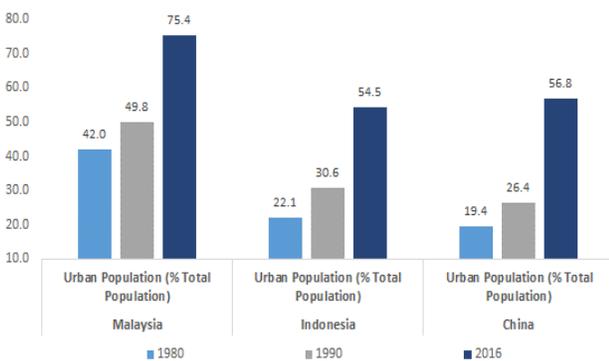
Source: Napic, DoSM, MARC Economic Research

**Chart 2: House price index and median income growth**



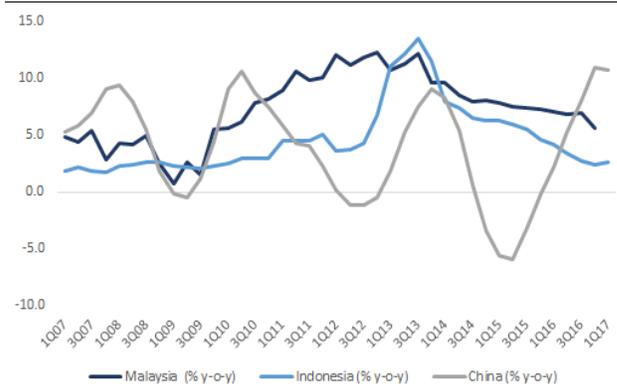
Source: CEIC, DoSM, MARC Economic Research

**Chart 3: Urban population as % of total population (Malaysia, Indonesia and China)**



Source: World Bank, MARC Economic Research

**Chart 4: House price growth (Malaysia, Indonesia and China)**



Source: BIS, MARC Economic Research

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