

Encik Abdul Rasheed Ghaffour: Sustainable development of affordable housing

Keynote address by Mr Encik Abdul Rasheed Ghaffour, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Dialogue on “Sustainable Development of Affordable Housing”, Kuala Lumpur, 4 July 2017.

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I am sure many of us here can still remember when we set out to buy our first house, which may be between 20 to 30 years ago. Back then, a typical terrace house or a 3-bedroom apartment came at a price tag of between RM200,000 to RM300,000. The monthly repayment would be around RM1,200 to RM1,600. It was a big commitment. But it was manageable; it made financial sense, and it was affordable.

That was many years ago. Those who are starting out today face much higher barriers to buying a house. The numbers speak for themselves. Lets take a widely used measure – the Median Multiple, for example. Under this measure, a house is considered affordable if the median house price is less than three times the median annual household income. For Malaysia, this ratio has consistently been above four since more than 10 years ago. In our major cities, the ratio can be as high as ten. Even if we look at other measures, the broad conclusion remains: housing in Malaysia is becoming less affordable.

This dialogue on “Sustainable Development of Affordable Housing” is therefore very timely. Confucius once famously said that the strength of a nation derives from the integrity of the home. This underscores an important truth. Housing is not just about putting a roof over our heads, nor is it only a personal or financial issue. Assuring housing stability helps ensure that households can meet other basic needs and establish roots that build stronger communities. The challenges facing affordable housing are also complex and call for multiple stakeholders to work together to find solutions that will deliver desirable outcomes over the long term. It therefore has much broader socio-economic dimensions that concerns all of us.

It is firstly crucial to frame the issue of affordable housing correctly. Fundamentally, the issue is one of **a large and growing mismatch between demand and supply**, owing to significant changes in our housing markets and demographic shifts. Prior to 2012, investor purchases of multiple homes increased very sharply, crowding out first-time homebuyers and pushing up prices of homes across the board in preferred locations. At its peak, the growth in housing loans taken out to buy second and third homes exceeded 15%. This excludes cash purchases. This in turn drove a higher concentration of new supply in higher priced segments, further widening the demand-supply gap for affordable homes. By 2012, annual house price growth had risen above 11%, almost four times the 10-year average house price growth between 2000 and 2009.

Demand for affordable homes has also increased rapidly from the higher rate of net new household formation. This reflects trends that point to smaller household sizes; the young moving out from family homes earlier, including to take jobs in urban cities; and an ageing population preferring to remain in their homes than move in with their adult children. Such demand pressures have been further compounded by income levels that have not increased in tandem with the increase in house prices.

All told, the shortage in affordable housing based on 2014 data is estimated at 960,000 units. This could rise to one million units by 2020 if further measures are not taken to increase supply of affordable houses and improve affordability.

Financing measures implemented by the Bank along with fiscal measures by the Government between 2010 and 2013 did in fact achieve this to a certain degree. House price growth has

since moderated to 5.5%, closer to income growth, following measures taken to dampen speculative activities in the housing market and manage high household debt levels. Lending standards that are more aligned with the level of income have also encouraged private developers to shift their focus to the more affordable segments which should help improve supply conditions.

Approval rates for housing loans by the banking sector remain high at 74%, with more than 60% of the new housing loans extended for house purchases below RM500,000. Loan rejection rates for houses in the affordable segment have actually been on a declining trend, falling by 18% since 2012. Nevertheless, there is also scope for financial institutions to develop innovative financing schemes – such as equity finance – to make home ownership more affordable. These include shared ownership schemes where buyers can acquire partial interest in a home, instead of being burdened by an outright purchase. Similarly, we have also observed lease-to-own schemes under Islamic finance arrangements, where tenants have the option to increase their stakes in a home after leasing for a period of time. Bank Negara Malaysia continues to work with the industry to uncover new opportunities, including through financial education, to support first-time home buyers within their means.

Financing therefore is not the issue. More to the point, financing measures have had an important role in tempering house price increases and encouraging an increase in the supply of affordable homes.

This alone, however, is insufficient. Public policy can play a bigger role in advancing the affordable housing agenda. Given the structural factors that are shaping the housing market, solutions have to go beyond advocating for the construction of more houses. It is also imperative that we improve the existing ecosystem for affordable housing delivery to respond to both current and new challenges ahead.

Let me briefly touch on several key components of such an ecosystem.

First is having **good data**. An integrated database on housing supply and demand is critical – this should provide insights on the needs and preferences of households, their linkages with demographic shifts, as well as housing gaps across different parts of the country. As much as possible, the repository of information should be made available to all relevant stakeholders, thereby enabling better-informed decisions across the board. For the Federal and State Government authorities in particular, the database will be useful in supporting housing interventions that are more targeted, more efficient, and better coordinated with other public policies to build stronger communities.

With an aggregated view of market conditions, large-scale housing projects can also be better planned and executed. This will be key in capitalising on the lower costs made possible through smarter procurement processes and industrial construction approaches, as proven in countries such as Singapore, Hong Kong and Australia. It will also enable affordable housing quotas for development projects to be implemented in a way that is more responsive to market conditions, and therefore more practical to enforce.

Importantly, we must seek to connect affordable housing initiatives with broader social development programmes to create livable and vibrant communities. Homes should be reasonably close to centres of employment, schools and healthcare facilities. Good connectivity between these areas and transportation hubs would encourage the development of affordable housing, strengthen supply conditions, and create opportunities for the more efficient allocation of scarce development resources. A major part of this is an integrated public transportation system that spans the greater KL and Klang Valley. The Government's ongoing efforts to improve public transportation such as the LRT and MRT projects are major steps in the right direction.

Second, **innovative financing models** to fund affordable housing projects should be further developed. Current intervention measures largely focus on subsidising home-buyers or the direct provision of housing. Over the longer term, these need to be complemented by new, more sustainable alternatives that combine public and private funding for affordable housing development and investment. In other parts of the world, public-private partnerships through joint ventures have replaced traditional methods of financing for the supply of public housing. Public funding could also be deployed more efficiently to crowd in private capital for affordable housing developments – for example, by providing cost-efficient funding to institutions that finance affordable housing projects.

Regardless of the measure, it will be crucial to build in mechanisms that promote programme efficiency and effectiveness. These include business models that are based on sound commercial principles, good governance and appropriate risk management strategies. Schemes introduced could specify minimum technical standards, execution guarantees and other conditionalities for financing or payment. ‘Social impact bonds’ – which have gained interest in some countries such as the United Kingdom, United States, and Australia – are a useful example. These investment structures operate on a “pay-for-success” model, where the Government repays the costs of a programme plus a return, only if pre-defined social outcomes are achieved.

Third, there is a need to **foster more diverse collaborative partnerships to deliver affordable housing**. This includes a vibrant community of social housing enterprises, private foundations and non-profit organisations that support or complement the Government’s affordable housing agenda. Notably, such organisations have also been instrumental in encouraging the development of a vibrant **rental market as a viable alternative to home ownership**. For example, in Australia and Hong Kong, social enterprises have had an important role in building affordable housing units or revitalising existing properties for sale or rental, typically targeted at lower-income groups.

We need to consider how similar models could be developed here and the role of public policy to enable this. In the context of rental properties, a robust legal and institutional framework to safeguard the rights of tenants and landlords, mechanism to protect tenancy deposits, and arrangements for dispute resolution have been key success factors for countries that have a thriving rental market. At the same time, the introduction of “rent-to-own” schemes could also complement this. The Government has recently launched such a programme. We would welcome the private sector, particularly developers, to also explore such a strategy.

Sound, innovative and coordinated public policy is central to addressing the affordable housing challenge. We have advocated that this should reside with a **central authority that leads, oversees and coordinates affordable housing initiatives** for the nation. This would promote greater strategic and operational cohesion at the national level. Regulatory processes that increase the cost of supplying affordable homes should be reviewed and streamlined. The central authority can also spearhead more effective communications and build stronger collaborations with key partners to advance the affordable housing agenda. Certainly, more can also be done to increase awareness and further increase the take-up rates for financial assistance programmes introduced by the Government such as Skim Rumah Pertamaku (SRP), Skim Jaminan Kredit Perumahan (SJKP), Skim Deposit Rumah Pertama (MyDeposit), Skim Pembiayaan Fleksibel for PRIMA homebuyers and Skim Pembiayaan Fleksibel (SPEF) for PR1MA homebuyers.

We only have a few hours ahead of us to discuss a very complex and important issue that has no easy solutions. We need to think creatively and act collectively, and today, we have an opportunity to do both. I am therefore excited to hear the insights from our distinguished speakers, as well as the constructive exchange of ideas between everyone here today. As we do, we should keep in mind that the goal of affordable housing is not just about owning property; it

is about building stronger and more resilient communities – with greater opportunities created for those within them to succeed in life. This could well change how we see the problem and approach its solutions.