

Abdul Rasheed Ghaffour: Solutions for safe, adequate, affordable housing for all

Opening remarks by Mr Abdul Rasheed Ghaffour, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Cagamas - World Bank Affordable Housing Conference "Solutions for Safe, Adequate, Affordable Housing for All", Kuala Lumpur, 2 April 2019.

* * *

Thank you for inviting me to deliver the opening remarks for this conference. The issue of housing affordability is close to everyone's heart. Having a family myself, I can truly understand the need and desire to own a safe, comfortable and affordable home. As such, I am pleased that the public discourse on this issue around the world and in Malaysia has been gaining traction over the past few years. This reflects the significance, concern and gravity of the situation.

To ensure a fair standard of living, the United Nations recognises the provision of adequate housing as a necessary objective to pursue. Adequate housing includes ensuring affordability, habitability and accessibility, all of which are issues that this conference seeks to address. In my remarks today, I will touch on the responsibilities of individuals, the private sector and policymakers to realise the agenda of affordable housing, mainly from Malaysia's perspective.

For any individual, irrespective of income level, one of the biggest investments he or she will make in life is the purchase of a home. The downpayment and monthly mortgage represents a significant commitment, where for many, may even span a lifetime.

As such, it is of utmost importance that we consider the principles of sound and prudent financial management in this undertaking. We cannot in good conscience, overburden and cause anyone to enter into financial difficulty in pursuit of owning a home. This fundamentally goes against the intention of owning a house. Therefore, based on the principles of fairness, justice and prudence, it is necessary for us to be absolutely clear on what 'affordable' means. This will influence both the diagnosis of the issue and the solutions to be implemented. We must be fair and just to the needs of the ordinary person.

At its core, affordability is a function of two things; the income of the individual and the price of the house. A house is affordable if its price does not overburden the person's finances and reflects its true value. It is crucial that the percentage of income spent to service the mortgage does not go beyond the person's financial capacity, and that they are able to pay for other obligations on top of this commitment.

To this end, at the individual level, we need to put emphasis on the value of financial literacy and financial education. For example, the Credit Counseling and Debt Management Agency recently launched the "Rumahku" portal to help potential borrowers in Malaysia to understand the financial commitments associated with owning a house. It also helps them to understand their capacity to meet these commitments.

So far, more than 3600 people have completed the modules and a substantial number of them, one in five, have decided not to proceed with the purchase. This points to two things. Firstly, the module is successful in nudging participants to reassess their existing financial obligations before they can take on more than what they can handle. Secondly, it reinforces the need to continue pushing for financial education. Individuals need to know their capacity, and what they can afford before undertaking a commitment of this magnitude.

We have established that every individual needs to play their part to ensure that they are fully aware of and are able to undertake the commitment of buying a house. However, the responsibility does not reside with the buyers alone. Industry players in the private sector also

have a role to play to support the national agenda of affordable homes.

As one of the core players in the housing market, developers have a significant role to play. In providing the supply of homes for the public, developers should seek to provide homes at an affordable price point. Using international affordability metrics, houses in Malaysia are considered to be “seriously unaffordable” with a median multiple of five times. This, in turn, affects home ownership. Take the latest data of unsold residential properties of about 171,000 units. About 74% of them are priced beyond what ordinary Malaysians can afford.

It is, therefore, imperative for developers to adjust their product offerings and consider bringing their costs down. One of the ways would be to seriously explore leveraging on more advanced and cost-efficient construction technology, such as Industrialised Building System (IBS). As cost of construction remains one of the major determinants of house prices, increasing efficiency and lowering costs can lead to a more inclusive housing market. Beyond considerations for price points that reflect greater affordability for the buyer, developers also have the responsibility to build houses that cater to the modern needs of the public. Aspects of quality, sufficient amenities and safety must be considered as critical elements of modern living.

Financial institutions also play an important role in the housing market through the provision of financing. The effective intermediation role of financial institutions is equally critical for a well-functioning housing market. In the provision of financing, financial institutions need to ensure that they lend responsibly to those who are deserving, capable and able to repay. Financial institutions need to protect the public interest by ensuring that buyers do not borrow beyond their means and fall into financial hardship. To this end, the financial institutions should also continue to provide effective and transformative financial services to ensure that society at large would benefit and thus, improve their quality of life. I take note that there are a few interesting sessions during this conference related to innovations in finance, including one on fintech.

At the recent release of the 2018 Financial Stability and Payment Systems Report, Bank Negara Malaysia reported that financial institutions in Malaysia will continue to support economic activity, including to households for affordable housing. Loan disbursements and net financing to households grew healthily last year by around 6.7% and 4.7% respectively. The approval rate stood at 71.3%, with around 70% of loans for first time buyers of properties priced below RM500,000.

Finally, for policymakers, our role is to continue pursuing greater coordination with the private sector to build a sustainable housing market. In Malaysia, various initiatives have been announced to support this agenda, including the launch of Bank Negara Malaysia’s Fund for Affordable Homes, the National Home Ownership Campaign, stamp duty exemptions and provision of mortgage guarantees and rent-to-own schemes.

While we are seeing a gradual rebalancing of housing supply towards the more affordable segments in Malaysia, it is important that future supply is tailored to the needs of future demand. As such, moving forward, it will be critical for Malaysia to accelerate the establishment of an integrated housing database. The database would be important to provide timely information to help build an efficient housing market through greater transparency and lead to better planning by policymakers and developers. The newly established single authority for affordable housing should play a proactive and strategic role in managing affordable housing in Malaysia. Local authorities and developers should also work together to reduce the cost of building houses. Last but not least, there is a need to build a healthy rental market.

Policymakers need to be clear that the drive for affordable housing is not necessarily equivalent to the drive for “home ownership” alone. Adequate housing is about access, which can be achieved not only through outright ownership, but also through the ability to rent a decent home at affordable prices. The overriding policy priority should not be ownership at all costs. We need to learn from the Global Financial Crisis on the importance of a sustainable housing market.

Policymakers need to protect the interests of the public and the stability of the economic and financial system. It is also in the interest of the public that they do not buy homes that they cannot afford and fall into financial hardship, which will have detrimental consequences to socioeconomic stability.

More broadly, we need to remember that one of the best ways to achieve the affordable homes objective is to promote employment opportunities and income growth for the people. This will strengthen their economic capability and financial position for home ownership. To some extent, we have observed some encouraging trends, including the fact that house prices are now growing more in line with income growth.

Another important avenue for policymakers is the exchange of information and ideas. Through the sharing of experiences, especially with policymakers from other countries, we are able to learn and explore new frontiers. Platforms such as this contribute to the rich marketplace of ideas that will spur us to think of innovative policies and effective ways to implement them.

Tackling the issue of affordable housing requires us to be creative, proactive and holistic in our solutions. This will require collaboration and commitment from all parties involved; policymakers, the private sector, developers and the public at large. It will not be easy, but it is necessary for us to build a better future not just for our families, but for our future generations.