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OVERSUPPLY OF THE HIGH-COST HOUSING IN MALAYSIA
Factors Influence the Developer's Decision in Supplying More High-Cost Housing

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ABSTRACT

High overhang of housing rates together with the price of houses offered continues to rise lead to Malaysian housing market become very unaffordable. Therefore, it is important to investigate the reason behind the developer's action in continuing to develop the high-cost housing despite the huge number of unsold housing units in the market in Malaysia. Respondents involved in this study were housing developers from Johor, Selangor and Perak who are currently or previously involved in the high-cost housing development projects that priced above RM300,000. The paper is expected that the developers able to meet the actual housing supply for high-cost housing type.

Keywords:*Developers, High-cost housing, Housing demand, Housing supply*

INTRODUCTION

In housing development, one of the important aims is to provide an adequate supply of housing by focussing on the actual median house price stated by different region (BNM, 2016). However, the latest findings in the Preliminary Property Market Brief 2017 by the Residential Performance on the sales performance in the unsold status for all types of housing prices are incongruent with this aim (NAPIC, 2017). In particular, the report found that the storey terraced, and storey type contributed to the slow market absorption as the sales performance recorded for this housing type is only 28.9%. It was found that the unsold housing units have increased to 20,867 units worth RM12.26 billion. Besides, more housing launches were made by developers., NAPIC (2017) and BNM (2017) found that the housing launch for the category of houses priced above RM250,000 is increasing rapidly compared to housing priced below RM250,000. Figure 1 shows the housing launch for priced below RM250,000 beginning 2015 until 2017. Housing launch for priced between RM250,000 until RM500,000 is high as it is having an increment unit as much as more than 10,000 units every year and experienced the highest housing launched unit during 2016 and 2017. Not only that, housing launch for housing priced above RM500,000 is also still high compared to the housing priced below RM250,000. Even the sales performances for that category is not increasing from time to time.

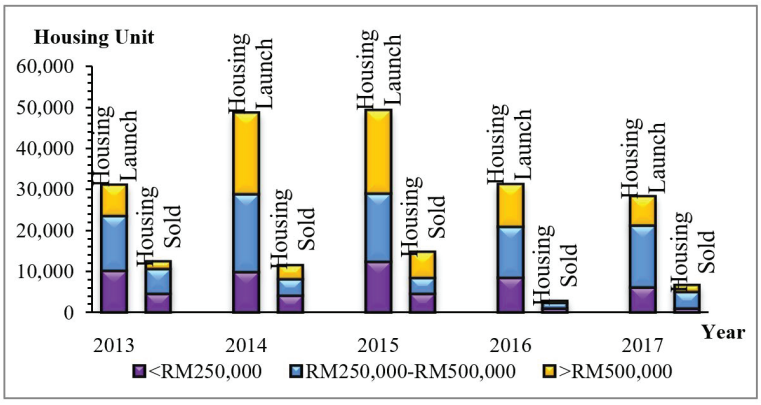

Figure 1: New Housing Launches by Price Range in Malaysia
Source: NAPIC, (2017)

Malaysia enters 2019 with unsold completed residential units rising to 30,115 units during 2018, with an increase of 48.35% from the 20,304 units a year ago. Most of the units launched were priced between RM500,000 and RM1million, of which a third remained unsold. Meanwhile, those priced between RM300,000 and RM400,000 also saw 33% of the launched units being left on the shelf (NAPIC, 2017). This sign shows that the launch of new housing unit had slightly turned to the luxury property segment during 2012 until 2017. The situation is getting worse when the sales performance of housing priced above RM250,000 was recorded as the lowest total sold units in a decade as only 17% of housing launched are sold. The unsold volume and value increased by 40.0% against the preceding half of 2016, predominantly priced starting RM250,000 to RM1,000,000 (BNM, 2016). This is close to double the historical average of 72,239 units per year between 2004 and 2016 which is equivalent to 130,690 units were unsold are identified during 2017. By looking at this scenario, it can reflect that unaffordability issue become worse as the majority of unsold unit come from overflow supply of high-cost housing.

From the perspective of supplying an adequate supply of housing, recent research by Nicol (2002) revealed that supplying adequate housing cannot be done by only looking at the total demand. He added generally housing developers are not associated with the housing development that link to affordability level and housing choice by the population. According to the Star Online (2017), unresolved unsold units happens is because the housing developers is only focusing on supplying without taking consideration for the genuine demand. A latest study done by Zainun et. al (2016) identified that the mismatched between supply and demand contribute to several problems. In addition, surplus of housing supply lead to construction wastage and of course has an impact on the cost and economic aspects. Meanwhile, the shortage of housing supply can lead to the increasing of the house price (Zainun et. al., 2016).

SUPPLY SIDE ECONOMIC THEORY

Supply side theory is a theory that links the increased production such as capital, labour, entrepreneurial and land with the direction of rapid economic growth. Supply-side theorists opined that corporate income tax reduction and loose regulation are the driving force of an economy.

It is a macroeconomic school of thought that economic growth can be effectively stimulated by minimizing barriers faced among suppliers in producing supply by lowering income tax, capital gains tax rates, and regulation. By freeing up more money at a corporate level, companies will invest in research, capital and human resources, which in turn should produce a greater number of goods and services. However, according to Mourouzi-Sivitanidou (2002), policies are not sustainable in the long-run period.

Golland and Gillen (2004) agree that government can provide solution to the housing market problems especially in terms of supply to enable the development of well-run housing is sustained. For example, during 2013, BNM introduced the Interest Capitalisation Scheme (ICS) and Developer Interest Bearing Scheme (DIBS) to make the housing market become sustainable (Cagamas, 2013). During this time, the housing phase was in the resolving slums clearance phase due to the lack of affordable housing provided in Malaysia (Shuid, 2015). However, in November 2013, DIBS was prohibited by BNM, along with the introduction of more punitive Real Property Gains Tax (RPGT) rates. The scheme cannot be allowed to continue for the betterment of the housing industry because it risks creating a property bubble as prices have been artificially increased. Since both schemes are artificially inflated property prices, and also have encouraged speculators to enter the property market with very small capital outlay (Cagamas, 2013).

Other examples, in the early year 2018, Perumahan Rakyat 1 Malaysia (PR1MA) had announced two policy changes to its programme, namely the decision to reduce the moratorium period for the resale of PR1MA homes from 10 years to five years, and the widening range of eligibility of the household monthly income level from RM10,000 to RM15,000 (Surendran, 2017). An introduction of a moratorium restricts resale activity by homebuyers was based on investment who only intended to resell home purchased in the short term (KRI, 2015). In other words, moratorium acts as a buffer period to allow for the subsequent batches of housing to be supplied at prices that make speculative behaviour redundant (KRI, 2015). It is sufficient time for new developments to be built under this system so that there is a steady stream of new housing stock.

In response to the move by PR1MA, the National House Buyers Association, on the other hand, predicted that the reduction of the moratorium period would lead to speculative activities (Surendran, 2017). Therefore, the association then suggested that the government commences the moratorium period from the date of vacant possession, or in other words, the date the completed unit is handed over to the purchaser. Stressing on the above arguments, Canto et al. (2014) suggested the supply side theory offers policy prescriptions such as tax policy, regulatory policy, and monetary policy to stable the housing supply market. The significance of the policies will be detailed out in the following section by exploring the fundamental of each policy that needed to be considered in planning the housing supply.

Tax Factor

Basically, policy development entails the selection of a destination or desired objective. The actual formulation of policy involves the identification and analysis of a range of actions that respond to the concerns. The housing policy of Malaysia is to provide Malaysians of all income levels, particularly the low-income groups, accessibility to adequate, affordable and quality shelter. It provides direction to housing development in the country which should emphasise human settlement philosophy through the provision of social services and amenities as well as economic activities that are necessary for the attainment of better quality of life, national integration and unity.

It should be noted that "good tax policy" does not change during times of large budget deficits or healthy surpluses. Besides, it can fall woefully short. As a result, it can create adequate revenue during recessions, and poor tax systems as it can raise plenty of money. In the local context, the introduction of goods and services tax (GST) on 01 April 2015 with the rate of 6% is part of the government's tax reform program to increase the capability, effectiveness and transparency of tax administration and management (Minister of Finance and Economic Planning, 2014). According to the GST implementation rules, the sale of residential properties will not be taxed, while the sale of commercial properties is subject to an additional 6% of the standard rate. Besides, the developer may claim 6% of the government within one month so the developer's cash flow will not be disturbed.

However, Hisyam (2015) disagree with the statement that the implementation of GST in Malaysia had increased construction cost to 5% and had indirectly increased the price of the housing input due to exempt taxes policy that has indirectly affected the housing buyer's affordability (Rusnani et al., 2014). This statement is strongly supported by Karim et al. (2017) who found that housing unaffordability caused by expensive house prices has strongly influenced the oversupply of double storey terrace housing in Johor Bahru. In a survey made on developer, Zainal et al. (2016) found that all developers have not received any refunds from the government after the implementation of the GST due to the government's offline system, calculation errors and authorities are still in the process of learning new systems. The delay in repayment of tax claims for commercial real estate will complicate the overall cash flow of the organization which is a critical condition faced by all respondents (Grigore & Gurau, 2013). In contrary, the percentage of unsold housing stock increases year after year as recorded by NAPIC since most developers manipulate the government incentives provided for housing buyers by supplying more high-cost housing (Nurul, 2014). The following subtopic discusses on the role of monetary policy to housing supply factor that is created among the developers.

Monetary Factor

Monetary policy is a short-run period policy regulated only by central bank to manage inflation as well as to reduce unemployment (Ling et al., 2017). In Malaysia, all the management of money supply including changing interest rates and adjusting the quantity of money is under the responsibility of Bank Negara Malaysia (BNM). By using monetary policy, BNM can increase or decrease money supply as well as the interest rate based on different economy situation whether inflation or recession in order to achieve macroeconomic objectives (Ling et al., 2017). Meanwhile, in the housing market, monetary policy plays an important role by adjusting the lending rate to stabilize and control the rising trend of housing price and strengthening the market with healthy demand supply chain (Haron & Liew, 2013).

According to Khazanah Research Institute (KRI) (2015), monetary policy is only sustainable in the short-run market as it depends on the housing market condition during that period. Detailed explanation can be

done by looking at policy changes imposed by BNM during the collapse of the housing market throughout 2008 to 2009 due to major losses in the world resulting in bank lending rates drastically declining (Ferlito, 2018). During that time, BNM improves the credit expansion by offering lowest interest rate and base lending rate (BLR) to support a favourable lending policy. As a sequence, about 41% of total loans of the banking system come from property financing. However, the strongest growth in residential property transactions have reached the peak at slower pace and the decline transactions during 2012 reflect the less heated house price movements (Ferlito, 2018). This phenomenon was stated by Yip et al. (2017) and the phenomenon has affected consumers to borrow more indirectly this has caused housing property to boom due to high expectation of future housing prices. As a result, this will increase household debt and only influence developers to develop more housing unit.

Malaysia's household debt in 2008 which had contributed only to 60.4% of the country's nominal GDP showed a significant increase starting in 2015 despite a slight decline during 2016, and 2017 respectively recording 89.0%, 88.3% and 84.3%. As a result, Malaysia is now listed as one of the top 15 countries with the highest household debt by the Bank of International Settlements (BIS) (Majid et al., 2017). Since then the construction output has grown at a slower pace, while the property transactions started to decline. In order to understand the relationship between property's transaction and the contribution factors, it is vital to analyse the cycles involved first (Majid et al., 2017). Majid et al. (2017) used volume of housing transaction to identify phases such as boom, bubble, trigger and crash that were involved in the Malaysian housing cycle beginning 1990 to 2012. Ferlito (2018) found that the property transactions and consumer confidence are indeed related and has indirectly affected the different cyclical movements. The finding shows that the increasing consumer confidences indicate an encouraging more consumption on the household debt.

Regulatory Factor

In particular, the federal government is responsible in providing a general framework, while the state government level translates the established policy based on more detailed and strategic requirements. The local government level will complement each other specifically for each

planned plan (Abdullahi & Aziz, 2011). However, only state governments and local councils are solely responsible for all matters involving residential properties in Malaysia. Specifically, the scenario of land development in Malaysia sees local authorities as having the ultimate authority either to approve or reject development proposals (Mohd et al., 2009). This is because housing construction industry is filled with different risks and challenges according to scenario in every place (Mohd et al., 2009).

Nicol (2002) explains that considering the factors that meet the housing needs are still inadequate to achieve optimum housing supply. In this regard, Nicol suggested that the housing planning process should not only be based on fulfilling the housing requirements but also fulfilling the demands of housing as required by households. To reinforce this statement, Golland and Gillen (2004) also explain that the process of estimating the actual needs for housing needs should also consider the household income, their ability to pay, their priorities in terms of price and location and their preferences in terms of duration, type, form and method of housing will be developed. In view of this, it is evident that the formulation of housing policies has changed from time to time since the early 1980s in line with the current focus on addressing specific household demands (Golland & Gillen, 2004).

Thus, in relation to the issues of oversupply in the local context, Zulkepli (2011) found that there is no specific housing policy in all structure plans in confirming the consideration of the actual supply and demand elements during the process of development control. This is seen to have answered the problem with the overwhelming increase in housing units. Reflecting on the housing control process in Malaysia it is at a very weak level as every application for housing will be approved although there is no demand in the housing market. There are many cases, where housing applications are approved by the Local Planning Authorities, although they are not located in a specific residential land use zone as defined by the Local Plan. By the pretext, developers prefer to face inelastic project demands such as luxury housing which can give high profit since the demand does not decrease enough in order to eliminate the gains from the increament of price (Wood, 2007). This statement proven to be true when majority of developers are prone to apply approval for high-cost houses instead of other housing categories throughout a decade. Figure 2 shows clearly the different house prices approved by JPN throughout the year 2010 until 2018.

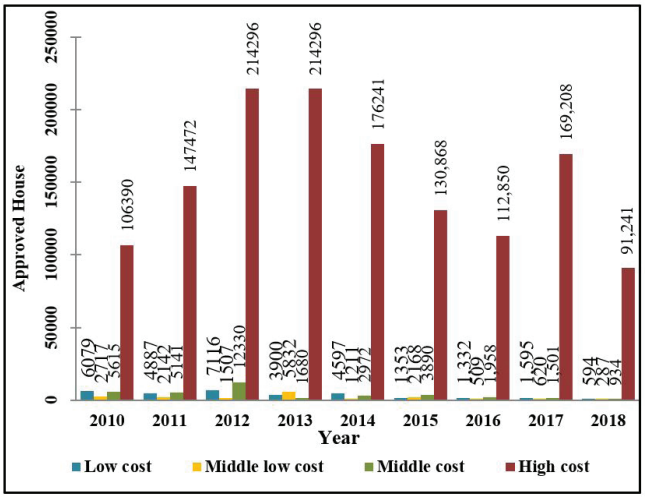

Figure 2: Total of Housing Unit's Construction Approved from Year 2010 until 2018
Source: JPN, (2018)

METHODOLOGY

To achieve the aim, survey method via self-administration and emailing were used in collecting data. Additionally, this survey focused on the factors from supply side that contributed to the oversupply of the high-cost housing in Malaysia. The questions were be divided into four sections. Each of the section of A, B, C and D are close-ended questions type. Section A is about developer's characteristics, section B, C and D is about factor of house price, internal factor and factor of construction cost respectively that influences developers in providing oversupply of high-cost housing in Malaysia.

The respondents chosen were housing developers that are currently or previously involved in the high-cost housing development projects priced above RM300,000 only. Next, this approach was conducted at three states that have the highest number of unsold high-cost housing units (BNM, 2017 & NAPIC, 2017). Johor, Selangor and Perak were chosen by taking consideration the housing turnover trend which put these states in the top spot recording the lowest number of house transactions for houses worth RM300,000.

From that figure, only the districts that listed having a high number of overhang high-cost housing unit reported since 2017 until 2019 in the Unsold Property Enquiry System Malaysia (UPESM) were chosen. Therefore, a total population from Johor, Selangor and Perak are 45, 50 and 36 respectively. However, the sampling only involved two districts for each state due to the limitation of time and cost. Thus, in Johor the data collection was carried out at Johor Bahru and Muar; in Selangor it was carried out at Petaling and Hulu Langat, while in Perak it was carried out at Kinta and Manjung.

All the factors involved were analysed using SPSS software in the form of correlation analysis. The strength of the influenced factors toward the developer's decision in providing oversupply of high-cost housing in Malaysia can be identified based on the correlation coefficient (r) value from the correlation analysis that acts as an indicator and guideline to determine the strongest factors.

RESULTS AND DISCUSSIONS

Based on the results, from the three main factors involved, factor of house price has the highest correlation strength that influence the developers in providing oversupply of high-cost housing in Malaysia. The analysis found that the increase in house prices due to the factor of high rate of urbanization and having high degree of accessibility contribute most to the correlation strength in influencing developers to provide oversupply of high-cost housing. The finding is the same with Zulkepli's (2011) study, who found that housing location factors play an important role in the housing market demand. Besides that, the increase in house prices also come from the factor of ease in obtaining a housing loan of up to 100% for first home buyer and the factor of monthly instalment facilities up to 60% of basic salary and fixed allowance for any public sector first home financing. The reason is the high pressure of debt burden and monthly loan instalment generally determine the amount a house that buyer can afford where it can totally affect the consumer's purchasing decisions (Parker, 2015).

Meanwhile, the factor of construction cost is identified as the second main factor that has the highest correlation strength in influencing developers to provide oversupply of high-cost housing in Malaysia. The factor of

cost building materials was due to the increase rate of some construction materials like cement, brick and sand that are difficult to predict and they were identified to be influencing developers to construct more high-cost housing units. However, the result showed that it did not match with the findings of Owusu-Ansah's (2012) study. In this study, it was found there was nothing to show the relationships between the cost of construction and the housing supply. Other than that, the factor of infrastructure facilities provision such as complete recreational area such as fields and playground and the provision of extensive housing land areas resulted in rising costs of housing construction. Subsequently, this has affected the developers to build more high-cost housing units. Moreover, the factor of land price increment due to residential areas which are full of potential development and having high degree of accessibility have caused the rising costs of housing construction that led to developers to build more high-cost housing. The findings are in line with the results obtained from KRI (2015) that houses provided with sufficient amenities and are located near the city centre would be able to fetch a higher demand from the buyers.

Last but not least, the internal factor is identified having the least correlation strength in influencing developers to provide oversupply of high-cost housing. The development approval factors by local authorities were identified as the reason for developers to offer an oversupply of high-cost housing units. From the analysis, the failure factor in examining and determining the exact total supply for housing unit was identified as the most influence internal factors used by developers to offer more high-cost housing units. This kind of correlation suggests that the low possibility of government interventions is by enhancing the developer's action to supply the high-cost housing as to meet the demands. Besides that, the factor of increasing number of housing demand each year together with the factor of existing sales performance also has affected the internal factor among developers to develop more high-cost housing projects.

CONCLUSION

Housing demand and supply must be in a balance state to get the equilibrium price in the housing market. In addition, this research found that the increase in house price is due to the factor of housing location that has a high degree

of accessibility and because of high rate urbanization. These two factors are identified as the most frequent reasons given by developers to offer more high-cost housing. Besides that, the factor of construction cost has also led the developers to build more high-cost housing in order to create more margin. As such, this research is expected to benefit three major groups, which are housing developers, planning authority and academician. This research can be used as a guideline for developers to supply adequate units of high-cost housing since this research will provide the economic factors that influence the determination of housing units in a way to minimize the oversupply issues. The findings are expected to be one of the sources of reference to the housing supply sector as the determination of housing supplies is still minimal in Malaysia than in other developed countries.

Besides that, this research can assist the planning authorities to determine the best allocation in the process of defining development standards and approving applications development of high-cost housing based on the current market needs. Finally, this research as a whole can provide ideas and knowledge to academicians to develop a prediction model of demand or supply in minimizing the vacancy unit problem appearing among the properties. The problem occurs are due to the oversupply unit especially for the housing market by using macro factors as well as local factors. Therefore, the results of this research can be used as a basis for further research to a wider area in which it might involve market analysis across the country.

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