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LOW-COST HOUSING

FIX NEEDED FOR QUOTA SYSTEM

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LOW-cost housing quotas on new private housing developments have been implemented in Malaysia since 1982.

Under the quota system (depending on states and the size of the new development), private developers are mandated to allocate at least 30 per cent of the new units as low-cost houses that carry a fixed maximum price of between RM42,000 and RM150,000 each.

The average affordable house price for the Bottom 40 (B40) households with a net salary of RM2,125 (gross income of RM2,500) is RM148,000 (based on a mortgage rate of 4.5 per cent per annum, loan tenure of 35 years and 10 per cent down payment).

This is well above the price of the quota units with a size of 800 sq ft, which are typically priced below RM100,000.

However, the implementation of quota units is less than desirable.

Firstly, the allocation of quota units is not transparent. There is no central government agency monitoring the offering and taking of these quota units, which I believe that many low-income households are unaware of.

Private developers do not advertise quota units at their sales booths and simply hand them over to the housing department of the local authority where the projects are located.

Registered eligible buyers (income less than RM2,500) are then privately contacted by the local authority to purchase these quota units.

A research paper titled "A qualitative approach to investigate leakages in low-cost housing provision in Malaysia" by Andrew Ebekozien and his co-authors at Universiti Sains Malaysia highlighted the issue of leakages in low-cost housing to non-eligible persons in Malaysia after conducting in-depth interviews with state government staff, practitioners and a non-governmental organisation representative.

Secondly, the rigidity of low-cost provision quotas has led to many developers choosing to pay levies for non-provision in lieu of physical development, as evidenced by the statistics on approved development projects in Peninsular Malaysia.

The latest statistics on the National Housing Development's website revealed that houses costing RM100,000 make up only two per cent of the total houses approved for construction in the first six months in 2018.

Developers do not have the financial incentive to build these houses as the construction and land costs could easily exceed the maximum selling price imposed on quota units.

A research report, titled "Affordable housing: The game plan transformation" by Rehda Institute, estimated that quota units pushed up non-quota units by 11 per cent through cross-subsidisation.

The rigidity in the provisioning of quota units is not helpful in solving the B40 housing affordability crisis and also exacerbates the housing overhang issue.

A glance at the National Property Information Centre's website reveals that up to the third quarter of last year, there were 7,095 units of completed unsold properties priced below RM300,000.

Some of these properties could be low-cost quota units built in non-strategic locations and lacking in amenities such as public transportation and schools.

The government's inaction to this decade-old policy is not an option as it is also costly to the majority of house buyers who are not entitled to quota units (due to cross subsidisation).

The Local Government Development Ministry must publicise real-time supply and demand data of quota units to the public, such as number of units, pricing, location and the names of the project, developer and local authority.

This is the second-best alternative to the Open Registration System, which has failed to take off as some states governments refuse to use the computerised system to allocate low-cost units to eligible Malaysians.

Demand data, on the other hand, can be generated by soliciting low-income households' preferred property locations and be used as a basis to determine the amount of quota units to be constructed by a local authority.

State governments can design a more flexible quota scheme that leads to building quota units only at in-demand locations. This will allow them to look at quota units holistically for the state instead of on a project basis.

The original intention of the 30 per cent quota units, as stated in Housing Department's website, is "...a social obligation by developers to complement the efforts of the government to provide affordable housing for all".

In short, quota units are a form of corporate social responsibilities (CSR) expected from private property developers by the government.

Are there alternatives to this blanket CSR?

Rehda Institute, in its research paper, proposed for the quota to be removed and replaced with a payment to a special fund to be used to subsidise the rent of public or social housing for eligible low-income groups.

This payment should be temporary so that the private sector will eventually concentrate on market-driven houses and the public sector will take care of low-cost unit offering. This is a fair request, since the provision of public goods, such as low-cost houses, is more cost-effective if driven by the government.

A more incentive-compatible CSR can be designed to encourage the provision of affordable houses by private developers. This includes discounts on compliance costs for private developers that fulfilled their social obligations.

The identification of a flexible pricing scheme (reflecting land and construction costs) and proportional (according to private developers' size) quota system is worth exploring. A blanket quota system is simply unsustainable.

Governments should also identify exemplary practices that developers can emulate in fulfilling quota unit requirements.

A proper implementation of the quota scheme could be a tool for social integration, as new developments mix the low-income with higher-income households in the same neighbourhood.

This could help shift the mindset of private developers toward quota units from "cost" to a CSR they can participate in for the well-being of Malaysians.

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