

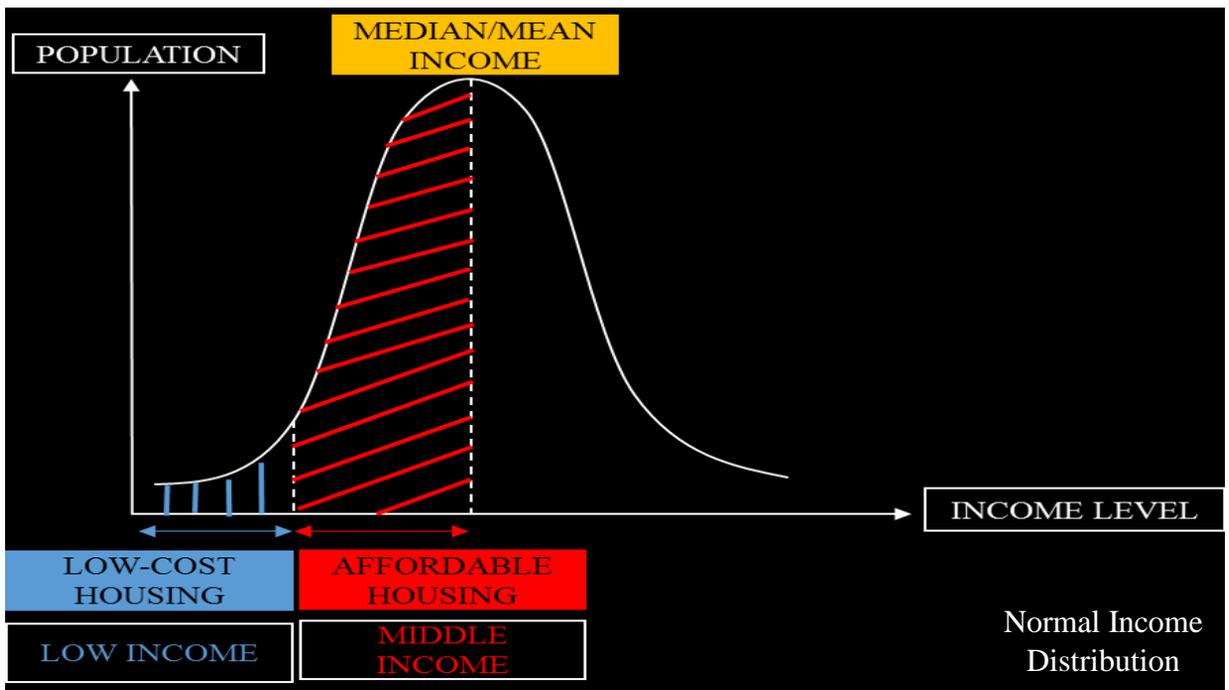
# **AFFORDABLE HOUSING**

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## What is Affordable Housing?

In broad terms, the word “affordable” is highly subjective and guided by the factor of locality. It is measured by the affordability of that particular section of society; in which their income are below the median (in some cases, mean is used) household income. Refer to the diagram below for better depiction. Thus, local incomes and local house prices remain the determining factors in the level of affordability. Apart from price, such housing should meet certain standards pertaining to quality, location, and amenities.

As a general rule of thumb, households should not pay more than 30 percent of their income for housing (whether it is for rental or ownership). Some countries might set this limit higher or even fixed a discount rate from the current market prices for these houses.



## Why is it important?

Housing or more fundamentally known as shelter, is one of the basic necessity components together with food and clothing. At the same time, housing has a secondary function as storage of wealth. As such, real estate has the characteristics of an investment tool and asset class, due to the nature of land scarcity and immense population growth rate.

In the current era where house prices are increasing at a faster rate than income growth, affordable housing becomes a key issue in both developing and developed nations alike, where a majority of the population is unable to buy houses at market price.

As a result, it becomes the increased responsibility of the government to cater to the rising demand for affordable housing. There are several options in which the government could improve such “affordability”; they might include outright public building, public-private partnerships, providing incentives for private construction, and delivering grants to eligible homebuyers.

## Affordable Housing in Malaysia

Population estimates and GDP per capita are accurate as at 2012.

STATE	RESIDENT (EST.)	GDP PER CAPITA (CURRENT PRICES)		30% OF MONTHLY INCOME FOR LOAN REPAYMENT	MAX. AFFORDABLE HOUSE VALUE (10% DP, 30 YRS LOAN @ALR 4.5%)	
		YEARLY (RM)	MONTHLY (RM)		PER CAPITA (RM)	PER HOUSEHOLD (RM)
KL	1,718,680	73,931	6,161	1,848.28	405,000	607,500
SARAWAK	2,501,000	40,414	3,368	1,010.35	220,000	330,000
PENANG	1,654,640	37,006	3,084	925.15	200,000	300,000
SELANGOR	5,626,240	36,135	3,011	903.38	195,000	292,500
MALACCA	832,320	33,550	2,796	838.75	180,000	270,000
N. SEMBILAN	1,040,400	32,511	2,709	812.78	175,000	262,500
PAHANG	1,560,600	26,197	2,183	654.93	140,000	210,000
JOHOR	3,337,360	24,574	2,048	614.35	130,000	195,000
TERENGGANU	1,144,440	22,733	1,894	568.33	120,000	180,000
PERAK	2,396,960	20,569	1,714	514.23	110,000	165,000
SABAH	3,437,360	19,010	1,584	475.25	100,000	150,000
PERLIS	208,080	18,119	1,510	452.98	95,000	142,500
KEDAH	2,080,800	15,814	1,318	395.35	85,000	127,500
KELANTAN	1,654,640	10,617	885	265.43	55,000	82,500

**DP** = Down payment, **ALR** = Average Lending Rate

Certain assumptions were made in this simplified calculation. Income was assumed to be normally distributed and limit of loan repayment was capped at 30% of monthly income. Other loan criteria include 10% down payment, 30 years loan tenure, and mortgage rate at 4.5%. As such, the maximum value for an affordable house was determined for both individual and household income in various states across Malaysia. It is worth noting that the definition of affordable housing is very different even between the area of KL and Selangor. The maximum value of an affordable house in KL is more than double of that of Selangor.

### Progress in Affordable Housing

Acknowledging the importance and urgency of the affordable housing issue; the Malaysian government has set up special bodies and plans in the most recent Budget tabulation. Such schemes include the prominent 1Malaysia People's Housing-Programme (PR1MA), My First Home Scheme (Skim RumahPertamanku), and Affordable Housing Private Scheme (MyHome) to address affordable issues for middle-income earners.

Whereas agencies such as Syarikat Perumahan Negara Berhad (SPNB), and National Housing Department (NHD) through its People's Housing Programme (PHP); emphasized on low-cost housing for low-income earners.

## **Raine & Horne International Zaki + Partners**

[www.raineandhorne.com.my](http://www.raineandhorne.com.my)

Perpetual 99, Jalan Raja Muda Abdul Aziz, 50300 Kuala Lumpur

Tel: 03-2698 0911 Fax: 03-2691 1959 Email: [enquiries@rhizp.com.my](mailto:enquiries@rhizp.com.my)

Company No. 99440-T, VE (1) 0067

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