

# **PAPER 3**

# **GOVERNMENT'S ROLE TOWARDS HOMEOWNERSHIP: CASE STUDY OF PENANG**

**PROJECT TEAM:**

**Dr. Ernawati Mustafa Kamal**

([ernamustafa@usm.my](mailto:ernamustafa@usm.my))

&

Dr. Hasnanywati Hassan

Dr. Atasya Osmadi

[Universiti Sains Malaysia (USM)]

## ABSTRACT

Housing has been the long-term focus of urban development and social and economic policies. Addressing the housing needs of the nation is one of the important agendas for developed and developing countries. Previous studies suggested that the government plays a central role in creating, sustaining, and improving the housing system. This research sought to investigate the role of the government in homeownership in Malaysia, focusing on Penang, and to develop a mechanism of housing price control. This research applied both quantitative and qualitative methods. Questionnaire surveys were conducted among private housing developers, and semi-structured interviews were performed with representatives from the federal government (Ministry of Urban Wellbeing, Housing and Local Government, Malaysia), the state government (Penang State Secretariat Housing Division and Penang Housing Exco), and the local government. Focus group meetings were conducted to discuss the research findings, based on which recommendations were made. Five main factors influencing the housing price in Penang from the developers' perspective, namely, (1) location, (2) macroeconomics factor, (3) demographic factors, (4) land/zoning, and (5) industry factors, were identified. The role of the government in homeownership was determined to focus on low-income and low-middle-income groups. With the tremendous increase in housing prices, the initiatives of the government towards homeownership have extended only recently to the middle-income group with an income of  $\leq$  RM 10,000. This research also determined that the mechanism of housing price control implemented by the government (federal and state) is only for low-cost, low-medium-cost, and affordable housing schemes for housing prices up to RM 400,000. The housing price for other types of development is solely determined by the developers. Housing location, housing affordability rate, and demographic factors were determined significantly related to the mechanism of housing price control. Thus, this research proposed that the mechanism of housing price control should reflect these factors. This research contributes to the body of knowledge on housing studies by highlighting the issues related to the role of the government in homeownership and housing price control. This research benefits the Ministry of Housing and Local Government by providing the mechanism of housing price control as an input for an

increasingly effective National Housing Policy as well as the Penang State Government and local authorities by presenting guidelines on housing price control and by specifying the factors influencing the housing price in Penang.

## **EXECUTIVE SUMMARY**

### **1.0 INTRODUCTION**

This report of the executive summary is to briefly address the results of the analysis and findings of the research entitled “Government’s Role Towards Homeownership: Case Study Of Penang’. This research seeks to investigate the role of the government in homeownership in Malaysia, with focus on the states of Penang, and to develop a mechanism of price control for housing with the aim of assisting Malaysians from various income groups (not only the low-income group) to own a comfortable home to raise the family.

The final report consists of six chapters as follows:

Chapter 1: Introduction

Chapter 2: Literature Review Chapter 3: Research methodology

Chapter 4: Penang Housing and Its Policy

Chapter 5: Data Analysis and Discussion

Chapter 6: Conclusions

Chapter 1 introduces the background of the research, looking at the housing in Malaysia, and the current scenario, and the housing price issues in Penang, which lead to the formulation of the research questions, aim and objectives.

Malaysia faces critical issues on affordable housing. In particular, the housing market in the country has experienced a tremendous increase in house prices, particularly in major cities such as Kuala Lumpur and Penang. A mismatch exists between people’s earning ability, distribution of household income, people’s capacity to borrow and pay their mortgage, and the current housing price offered in the market. These issues have caused inaccessibility to housing, especially to those in the middle-income group because the

housing needs of the low-income people are addressed by the government.

This research raises three important questions:

- 1) What are the factors influencing housing price in Penang?
- 2) How does government play a role towards homeownership; and to what extent does the government have control towards housing price?
- 3) What can be done to control the rising price of housing and further improve homeownership among Malaysians?

The aim of this research is to develop a mechanism of price control for housing, with the aim of assisting Malaysians from various income groups to own a comfortable home.

The objectives are the following:

- 1) To determine the factors influencing housing price in Penang
- 2) To explore the role of the government in homeownership for Malaysians
- 3) To develop a mechanism of housing price control, contributing towards more effective guidelines and housing policies for Malaysians

The state of Penang is chosen as a case study for this research because it is one of the most active states in Malaysia in terms of housing development. At the same time, Penang is facing a critical issue on housing in relation to its housing price, which has increased tremendously over the years compared to those of other states in Malaysia. Penang will be the best model of reference for other states if similar problems occur.

## **2.0 LITERATURE REVIEW**

Chapter 2 reviews the literature on the concept of affordability towards homeownership, the role of the government in homeownership according to the experience of various countries and then to housing provision in the Malaysian context. The chapter also discusses the mechanism of housing price control, the factors contributing towards homeownership and the factors influencing housing price.

The literature review conducted found a huge gap between housing price, distribution of household income, ability of people to borrow money and ability of Malaysians to pay mortgages. At the same time, governments play an important role towards homeownership. According to the experience of various developed and developing countries, strong government intervention in the housing sector is implemented through various mechanisms, including policy, tax system, loans, regulations and incentive programs. A clear pattern is observed in most countries: the government has strong involvement in providing housing during the early years. As the country progressively develops, the government starts to withdraw from providing housing and private developers are taking the leading role. The government, through its state and local authorities, is moving forward by adopting a facilitating role in managing the development.

The Malaysian experience shows the same trend in providing housing, i.e. the direct intervention by the government started as early as the British Colonial period, with the housing policy geared towards providing people with adequate and decent housing whilst focusing on lower-income groups. As Malaysia moved forward, the government sought direct private participation through the involvement of private developers to provide housing because the government alone could no longer cater to the housing needs of the people. The involvement of the government in the housing sector was manifested through its regulations, policy, various housing programmes, tax system and so on. However, the housing price has soared to a very high level, causing an unaffordability issue for various income groups. The effort of the government to overcome this issue is viewed as a short-term measure that will only last for a certain period and as a reaction to the current situation. No solid mechanism that monitors and controls the rise in housing price in the market exists at present. The literature review of homeownership, experiences of various

countries and factors influencing the housing price identified in this chapter are used as basis for this research.

### **3.0 RESEARCH METHADODOLOGY**

Chapter 3 describes the research methodology, and the various strategies undertaken at every stage of the research. It discusses the research design and analysis of data. The overall research process will be divided into three stages. The first stage involved a literature review on homeownership, affordable housing, price control mechanism and housing policy and guidelines in Malaysia as well as various countries. A questionnaire survey and interview questions were formulated based on the outcome of the literature review.

The second stage involved a pilot study using the questionnaires and interview questions with professionals in the property market, including lecturers, surveyors, estate agents and representatives from REHDA, to obtain their views on the proposed questions and on the improvement of housing development. Face-to-face interviews was conducted with officers from the Ministry of Housing and Local Government, Penang State Government and local authorities to understand their role in homeownership in Malaysia and the extent of their control over housing price. A questionnaire survey was then conducted among private housing developers operating in Penang Island. The respondents were recruited from the top management involved in the decision-making process.

The third stage of this research involved data analysis. The questionnaire survey (quantitative) data was analysed using SPSS and PLS software. Data from face-to-face interviews (qualitative) was analysed using content analysis according to the themes and codes. Focus group meetings was conducted with the representatives from the Ministry of Housing and Local Government, State Government and professionals in the housing field to discuss the results of the research. Recommendations was then made based on the results of the study.



#### **4.0 PENANG HOUSING AND ITS POLICY**

Chapter 4 presents a background study of Penang housing and its policy. The chapter discusses homeownership status in Penang, the housing market, existing housing stock and supply, housing price and the new housing scheme launched in Penang. The chapter also discuss the current housing rules in Penang. The background study of Penang housing shows that Penang is facing a serious problem of uncontrolled rise on the housing price. The escalated house price prevents citizens from purchasing a house. Although the market report shows that there is going to be oversupply residential units from year 2015 up to 2020, the availability of affordable housing units is still very limited. Realizing the issue of a mismatch between household income and uncontrolled rise on the housing price, the State Government has focused on affordable housing besides continuous support on low cost and low medium cost housing. In order to curb the speculation and cool down the market, the State Government had also introduced few new rules implemented started on year 2014.

#### **5.0 DATA ANALYSIS AND DISCUSSION**

Chapter 5 presents an analysis of the results and discussions from questionnaire survey conducted with housing developers and interview conducted with selected developers, Federal Government, State Government and Local Authorities. This chapter also presents results from Focus Group Meeting conducted. Through the questionnaire survey, semi-structured interviews and focus group meeting, the factors that influence housing price in Penang have been validated, and the housing price control mechanism has been proposed.

The questionnaire surveys, semi-structured interviews and focus group meeting had:

- 1) capture a clear understanding of the important factors that determine the housing price from the perspective of the housing developers;
- 2) identify the roles of the government from different levels (federal, state and local authorities) on their initiatives and effort towards homeownership; and
- 3) capture the significant relationship between the factors that influence the housing price and the housing price control mechanism that can provide valuable input to the federal

government, state government and local authorities to address the current issues and assist the people towards homeownership.

The results and findings of this research contribute to a comprehensive mechanism to enable policy makers to handle issues related to controlling the housing price on the basis of factors that determine the price.

## **6.0 CONCLUSION**

Chapter 6 summarizes the findings of the research and presents the recommendations. This final chapter also suggests possibilities for future research.

### **Objective 1: Determining the Factors Influencing the Housing Price in Penang**

A questionnaire survey was conducted with 53 developers operating in Penang to obtain a developer's perspective in determining the housing price in Penang. This research established five main factors that influence housing price. The factors according to rank are as follows:

- 1) Location,
- 2) Macroeconomic factors,
- 3) Demographic factors,
- 4) Land/zoning, and
- 5) Industry factors.

This research determined that a housing location with proper infrastructure, high quality, and good design tends to be expensive. Among the macroeconomic and demographic factors, inflation rate and population growth are the main items that influence the decision of developers on housing price. In terms of land/zoning, developers set a higher price for a freehold property compared with a leasehold land. The need for land re-zoning and reclamation also influences the decision of developers in terms of the housing price.

However, the scarcity and the first grade title of lands in Penang are not the main factors that determine the housing price. The industry factors related to regulatory barriers also influence the decision of developers on housing price. This research provides an understanding of the perception of housing developers towards the factors that influence their decisions about housing prices.

## **Objective 2: Exploring the Role of Government in Homeownership of Malaysians**

The findings suggest that the federal government is mainly involved in housing through the Ministry of Urban Wellbeing, Housing and Local Government, Malaysia (KPKT). KPKT acts as a regulatory body responsible in formulating policies and guidelines for housing provision.

Under the 10th Malaysia Plan, the National Housing Policy has been introduced to enhance the capability and accessibility of the people to own or rent houses. The government focus on homeownership and housing price control is highlighted under Thrust 4 in the National Housing Policy, which is as follows:

Thrust 4: Improving the ability of people to own and rent houses especially for the low- and middle-income groups by controlling the prices.

The focus of the federal and state governments on homeownership is inclined towards low- income people. With the uncontrolled rise of housing prices, an increasing attention has been given only recently to the middle-income group with a household income up to RM 10,000. The housing development for other income groups is completed by private developers, and the housing industry is extremely influenced by the decision of developers on the housing price.

The state government is involved in the implementation of housing policy, approval of land conversion, subdivision of a housing project, allocation of low-cost houses, and levy on foreign ownership. The local authorities function as the implementing body of the policies and guidelines set by the state and federal governments. The local government primarily aims to ensure that all developments are performed according to the specified requirements and guidelines.

### **Objective 3: Developing a Mechanism of Housing Price Control to achieve Increasingly Effective Guidelines and Housing Policies for Malaysians**

This research illustrates that no solid mechanism of housing price control is implemented for houses above RM 400,000. The current mechanism of housing price control enforced in Penang and Malaysia is only for low-cost, low-medium-cost, and affordable housing schemes with prices up to RM 400,000 for income groups with a maximum household income of RM 10,000.

The statistical analysis suggests that the mechanism of housing price control should reflect the factors that influence the housing price and that it should focus on the location, current housing rate, and demographic factors because a significant relationship exists between them.

- i) Location and mechanism of housing price control
- ii) Demographic factor and mechanism of housing price control
- iii) Housing affordability rate and mechanism of housing price control

This research also indicates that the government aid/policies and the housing supply structure should consider the location, demographic, and macroeconomic factors. An increase in strategic housing location, which is at the urban area, with proper infrastructure, good quality, and good design signifies a high population and housing rate, indicating a growing need for a mechanism of housing price control.

The qualitative analysis also presents the need of a database by the federal and state governments as well as local authorities for monitoring purposes, which can further assist in controlling the housing price.

This research determines a conflict between the aims and desires of the government through the National Housing Policy to enhance the capability and accessibility of people towards homeownership and the aim of private housing developers to sell their products and make profit. The housing industry clearly has social and economic functions; thus, the need to ensure affordable housing for all and to achieve a sustainable economic

development should highly be balanced.

The recommendations from this research are as follows:

- Affordable housing project developments should consider the location factors. The location required for affordable housing is at the urban area.
- Affordable housing should consider the macroeconomic and demographic factors.
- The federal and state governments should reassess the housing affordability rate (to control the price) to reflect the current market.
- An enhanced coordination should exist between the federal and state governments to efficiently handle housing issues.
- Additional active roles and intervention of the federal government, the state government, and the local authorities should be evident in the housing industry in Malaysia, especially on the issue related to the indication of minimum and maximum housing prices in applying advertising permit, to shape and improve the market to achieve an increasingly affordable and sustainable housing development.
- The federal government, the state government, and the local authorities need a database of housing price sold by developers and purchaser ownership that are linked together for monitoring purposes.
- The state government should strictly monitor the listed genuine buyers to ensure that they are the actual occupants of the houses.
- The low-cost, low-medium-cost, and affordable housing prices should be the net price given by the developers (including the parking space, accessories, etc.) that reflects the actual price.

Overall, this research has achieved its aim and objectives. However, this research recognises that its most obvious limitation is its small sample size. Future research should consider a large sample size to obtain generalised results. In addition, future research should consider extending the framework of this study to include financial aid, government aid/policy, and housing affordability as independent variables because the results indicate that not all the mediating effects are statistically significant. A possible mediator should also be examined. Future research may also consider other states in Malaysia for comparison and include price differentials according to the area of development and the characteristics of developers (e.g., profile of developers, type of development, and price of housing).