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Market analysis of housing shortages in Malaysia

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Abstract

The annual supply of housing in Malaysia is approximately four units per 1000 of the population; this is less than the recommended 8-10 units per 1000 in developing countries, implying that the Malaysian housing deficit units are likely to be on the increase. While the market is the most efficient way to determine housing price, the capital market for [affordable] housing have a very weak mechanism that if left unregulated will be ineffective and inefficient. The cost of accommodation continues to increase despite various government measures in the form of taxes and subsidies. Through a case study approach and survey questionnaire, this study examines the operation of affordable housing market the factors that determine the cost of affordable housing. The case study involved one of the affordable housing schemes. The study demonstrates that to base affordable housing price on market prices are seriously deficient in that it ignore the basic essence of affordable housing provision. There is no real basis for economists' strongly held believe that house prices must be determined by the market to be efficient. With the Kaiser-Meyer-Olkin measure 0.714, and Bartlett's test of sphericity (χ^2 (1005) = 563.821, p < 0.05), the major determinants of housing costs are strategic location, size of the housing and location. The study shows that government can intervene in affordable housing market in various ways to increase the homeownership rate

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1. Introduction

The aim of this manuscript is to give a contextual overview of affordable housing market, rather than explain in full detail the complex issue in affordable housing market. A market is defined as a situation or arrangement that brings buyers and sellers into a close contact to exchange goods or services. In the market, the price paid for a good or service is determined by the supply and demand forces. Specifically, a market aims to allocate resources and to maximise the surplus of buyers and sellers. With the market structure, a buyer will not pay more than the value of the good or service 'earned'. On the other hand, the market allows sellers to maximise their surplus. While the market is the most effective way of allocating resources, it also fails because of factors like price, income distribution and quantity regulation, taxes, subsidies, externalities, public goods, social interests, common resources, monopoly, and high costs of the transaction. In other words, the market mechanisms could also lead to inefficiency [1]. Market failure is a situation where the market does not achieve 'economic efficiency' due to delivery of 'inefficient outcomes'. Therefore, alternative methods (such as first-come-first-served basis, majority rules, context, lottery, personal characteristics, and force) prove to be more efficient. In fact, there is no single mechanism – including the market – that allocates all resources efficiently [2]. Housing is a major industry where price mechanisms or market regulations are applied for efficiency. However, housing provisions are often controlled by governments. But, economists contend that the rent control would create scarcity, increasing both rental costs, encourage black market, search activity, reduce productivity and cost of ownership [2]. But like education and health, housing is an investment and not consumption. Hence, the question to ask, is if the benefit exceeds the cost? Housing is a measure of quality of life. For instance, a country with adequate housing would spend less on the preventions and controls of diseases, security, rehabilitation homes, and enhancement in social integration and economic prosperity. For the pensioners or retirees, housing is to them a security issue. The market capitalisation for housing has a weak mechanism that, if not regulated, is likely to be ineffective and inefficient. However, to invest in housing provision requires households to have funds. This is where the role of government in the housing market is crucial. The government can fill these gaps in a number of ways, including providing housing directly, providing funding without houses, or both. The role of government is therefore multiple or triple. Governments fill these gaps through subsidies, incentives, loans, lands, to both developers and home buyers.

From the mainstream economists' perspective, the market is able to reduce both shortage and surplus in the affordable housing market through price mechanisms; without government intervention. But unfortunately this theory has not worked and neither will the shortage in the housing supply go away if the economic theory only is considered. The immediate question therefore is why is the market unable to correct the housing shortages [and surplus in some cases]? Or can it? Again, the immediate answer is that affordable housing is a market failure; therefore, government has to intervene. Government intervenes in housing allocation through the rent control. Primarily, this is based on income and house price. Government sets a rent ceiling to increase access to homeowners. In market failure situation, equilibrium does not exist. That is, the quantity demand and supply does not reconcile each other. Often affordable housing is synonymous or perceived as a requirement of specifying minimum performance standard. But this is not the case, rather the ultimate aim to provide the desired standard at balance expenditure. Though in most cases, the standard of the house has an impact on the rental or selling price, but in reality what determine the price or value of the house extend beyond the quality standard alone/production costs rather factors like location, environments, transactional costs and other associated costs. Hence, the questions that required intermediate answers include; how does government formulate the policies on affordable housing supply, how does the government regulate affordable housing supply, what are the objectives of the government policies on affordable housing supply, what are the applicable instruments and what are the determinants of housing costs? However, this study addresses itself to the effect of rent control and on the determinations of the housing costs. The housing cost aspect is critical as the housing cost determinants change prospective home buyers' and homeowners' or homebuyers' willingness to buy a home or own a house, and therefore change their decisions. The study is based on a case study and survey questionnaire.