



**SPEECH BY  
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MINISTER OF FINANCE II**

**20th National Housing & Property Summit**

**Date : 6 October 2017 (Friday)**  
**Time : 9.00am**  
**Venue : Sunway Resort Hotel & Spa**  
**Attire : Formal**

## **SALUTATION WILL BE PROVIDED**

### **INTRODUCTION**

**1. I would like to convey my sincere thanks and appreciation to ASLI for inviting me to this year's 20<sup>th</sup> National Housing & Property Summit, and for giving me the platform to address several concerns pertaining the developments in the housing and property sector. As more and more young households aspire for independence through owning their own homes, the government is fully committed to embark on the aspiration that every household has access to efficient facilities, and quality and affordable housing in accordance to the country's objectives as outlined in the 11<sup>th</sup> Malaysia Plan. Truly, this gathering of relevant stakeholders here today will allow for a meaningful and impactful discussion from receiving updates of what is the latest faced in the housing and property market to hearing different points of view as well as ideas and solutions to resolving these issues.**

## **CAUSES OF THE UNAFFORDABLE HOUSING ISSUE**

**Ladies and gentlemen,**

**2. Housing and property development is an important sector for every economy aspiring to achieve sustainable and equitable economic development. This sector has the largest upstream and downstream activities supporting a wide array of manufacturing, services, utilities and employment opportunities from professional to the ordinary workers. A downturn in the housing and property sector will have dire consequences to the purchasers, financiers and developers. Formulating a viable national level policy and strategy is critical in order to address the current concerns in the housing and the broader segment of the property sector.**

**3. Despite continued growth, the Malaysia's commercial property and housing market are currently undergoing a disproportion, or in certain segments; a glut. Since 2012, the increase in house prices in Malaysia has outstripped the rise in income levels. Consequently, prevailing median house prices are beyond the reach of most Malaysians. This is primarily attributable to a gross mismatch between housing supply and demand amid diverging expectations**

**between households and developers. The issue has been compounded by the fact that the distribution of new housing supply has been concentrated in the higher-priced categories (i.e. RM250,000 and above). It is estimated that 80 percent of new launches in the first quarter of this year were for units priced above RM250,000. However, these units are considered affordable to only 58 percent of households in Malaysia. The oversupply of higher-end properties beyond what households can afford results in a significant portion of these non-affordable properties remaining unsold, where 83 percent of unsold units are in the above RM250,000 price segment.**

**4. The provision of affordable homes has become a challenge for policymakers worldwide, with Malaysia being no exception. According to Bank Negara study, the issue of affordable housing reflects mainly the supply-demand imbalances in Malaysia, which worsened during the 2012 - 2014 period. During these years, new housing supply fell short of the increase in demand - an average supply of 85,000 new units versus the formation of 118,000 new households. This is in contrast to the period 2007 - 2009, when the new supply exceeded the demand for housing. The effect of the supply shortfall on housing**

**affordability is also exacerbated by the slower increase of 12.4 percent in household incomes, relative to 17.6 percent increase in house prices. Both of these trends are more acute in key states such KL, Penang, and Johor.**

**5. Further, the rising trend of local and foreign home buyers who own multiple properties for purpose of investment has lead to speculative prices and worsened housing affordability issue. Though the government has raised the minimum property threshold for foreigners from RM500,000 to RM1 million to prevent them from "snapping up" property meant for the lower and middle income groups, it is expected to have minimal impact as foreign investors only make up approximately 7% of Malaysia's property market. On the other spectrum, the maximum loan-to-value ratio (LTV) of 70 percent introduced by Bank Negara in 2010, is imposed only on borrowers with three or more outstanding housing loans. Therefore, this measure surely will not affect eligible first-time house buyers, who typically qualify for an LTV of up to 95 percent. Both of these initiatives will improve the chances of first-time buyers getting a loan as it shifts financial institutions' focus away from the speculators – local and foreign.**

## **DEBUNKING HOUSING FINANCING MYTH**

**Ladies and gentlemen,**

**6. The public's ability to purchase properties highly depends on access to financing, which remains readily available to eligible buyers. During the first quarter of this year, Bank Negara had reported an overall housing loan approval rate remains high at 74.2 percent. Banks had approved a total of RM22.3 billion of house financing to 90,137 borrowers. Of these, more than half was for buyers of housing units priced below RM500,000, and about 72 percent of housing loan borrowers in 2016 were first-time buyers. As at end-2016, about 56 percent of loans outstanding were for houses priced below RM250,000, while loans for houses priced between RM250,000 to RM500,000 accounted for another 25 percent.**

**7. I must say that this is clearly a positive trend as it shows that financing remains ample for eligible home buyers, despite concerted efforts in curbing speculative activities in the housing market. It is interesting to note that based on BNM's engagement with banking**

**institutions, housing loans rejected by banking institutions mostly involved borrowers with high levels of pre-existing debt obligations that would expose them to severe financial risk if further debt is extended. For such borrowers, the risk of foreclosure is significantly higher and they are much more likely to fall in financial hardship in the event of income shocks. Thus, it shows that while access to financing is not a hindrance, the escalating price of housing above and beyond rakyat's affordability seems to be primary issue facing on home ownership, particularly with respect to affordable housing.**

## **WAYS TO OVERCOME AFFORDABILITY ISSUES**

**Ladies and Gentlemen,**

**8. There is an inherent need to provide multi-pronged solutions to address the shortage of affordable houses and the high house prices relative to income. Firstly, leveraging on the use of technology, and new cost-saving construction methods and materials is perhaps the way forward to make housing for affordable for the masses. To this end, developers have to increase supply based on the demand patterns and reduce construction cost. According to a McKinsey study, construction costs could be reduced**

**by 30% and completion shortened by 40% if developers make use of value engineering (standardizing design) and industrial approaches, such as assembling buildings from prefabricated components that are manufactured off-site, or the Industrialized Building System (IBS). Additionally, smarter procurement processes such as the establishment of a buying consortia could cut the cost via discounts on bulk orders, which can be passed on to the buyers through lower house prices.**

**9. Despite the push from Government to adopt smarter and cost-effective methods, we have not seen a remarkable progress particularly in the private sector. If all developers leverage on greater use of IBS, greater economies of scale can be achieved and more comfortable margins to reduce price of properties and eventually making them more affordable. The Ministry of Finance has approved incentives for the use of IBS for the importing of machines required. We are also looking into the feasibility of more incentives to promote IBS adoption for house buyers purchasing IBS projects.**

**10. Secondly, there is an urgent need for a more holistic regulation of properties in Malaysia. During Invest**

**Malaysia event in July, I suggested the establishment of a single entity to overlook the issues of property glut in the higher-end segment and rising housing cost, which if left unattended, would create a housing bubble, where properties are artificially high priced. The single entity is to spearhead the planning and delivery of affordable housing nationwide through unlocking scale efficiencies, facilitate the management of a database, as well as to undertake research on policy options to address the affordable housing challenge.**

**11. Lastly, as I have previously pointed out, there is a value proposition to explore ways to develop a more robust rental market. In Malaysia, only 24 percent of households rent. The society has to correct the social stigma - renting is not the last resort, it is simply a choice. The government remains committed to strengthen the legal and institutional framework of the rental market in order to kickstart this development. For instance, establishing a neutral third-party that protects tenant's right to deposit recovery while allowing the landlord to use the deposit if the tenant breaches the agreement.**

## **COMMERCIAL PROPERTY GLUT**

**Ladies and gentlemen,**

**12. The same goes for commercial property. Currently, shopping malls and office spaces are in excess supply. Newly completed projects have reported more than 70 percent vacancy rates. They are having difficulties attracting tenants even by giving generous initial rental free periods. Especially in the Greater Kuala Lumpur and Klang Valley Region, the numbers of existing and newly completed shopping malls and complexes far outstrip the population size to sustain these retail premises. With 38 million square feet of incoming office space in Klang Valley from 2017 onwards, it will only worsen the situation.**

**13. The current situation is mainly attributed to the impact of widespread use of IT and on-line transaction platforms. The progressive displacement of retail and wholesale businesses across the board, together with accommodative regulations, and relaxed bank financing assessment criteria have immensely contributed to the**

**oversupply of commercial space. For example - while other countries impose penalty tax on vacant properties, DBKL offers vacancy allowance on empty space. Initiatives such as tighter regulations on banks' exposures to commercial property, and allowing REITs to finance the repurposing of under-utilized office space and shopping complexes could be a true game-changer. Bottom line, financing regulation and developers have to be dynamic and accommodative in order to suit the 21<sup>st</sup> century business operation trend.**

## **CONCLUDING REMARKS**

**Ladies and Gentlemen,**

**14. There is indeed much more that needs to be done in the provision of homes to all Malaysians. Engendering a more sustainable approach to housing and property development in Malaysia is not solely the role of government, but one that requires all stakeholders to be involved. This is certainly a complex matter, one that requires greater engagements in times to come. Nevertheless, I firmly believed that through collaboration, we would be able to unfold this intricate matter. On that note, I would like to thank and congratulate ASLI for**

**organizing this summit. I look forward to reviewing the innovative ideas from the various sessions and I wish you an informative summit with open and fruitful discussions.**

**Thank you.**