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# **AFFORDABLE HOUSING: SINGAPORE HOUSING POLICIES ANALYSIS AND ITS IMPLEMENTATION IN MALAYSIA**

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## **ABSTRACT**

*Housing affordability is one of the key variables that can portray the socio-economic stability and development of a nation. Housing affordability is important so that houses provided are at reasonable and affordable prices for all income groups. These have led the Government of Malaysia in formulating policies and programs aim at ensuring Malaysians have the opportunity and chance to obtain an appropriate place to stay. Meanwhile, Singapore is one of the countries being acknowledged for their successful affordable housing ownership through good housing policies implementation. Consequently, the objective of this research is to analyse the existing housing policies in Singapore and highlight the strength of its policies. The findings showed that the strengths of Singapore housing policies are 1)Government controls 85% of the market for housing while developers only control 15%; 2)Government should assist in loan offering and ensuring that buyers pay less in monthly mortgage payment; 3)Only citizens and permanent residents are allowed to buy a house; 4)Citizens or permanent residents should only be allowed to buy a maximum of 2 houses at the same time; 5)Mandatory monthly deduction up to 15% of salary and 10% of salary from employer to finance the purchase of an affordable house. Based on the findings, questionnaire surveys have been developed and distributed to 350*

*respondents to gain their insights regarding the implementation of Singapore housing policies in Malaysia. Majority of the respondents agreed that Malaysia should implement similar policies to increase the percentage of home buyer in affordable housing based on 115 returned responses received.*

**Key words:** Affordable Housing, Malaysia, Singapore, Housing Policies, Homebuyer.

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## 1. INTRODUCTION

### 1.1. Affordable Housing

The idea of affordable housing recognises the needs of households whose incomes are not sufficient to allow them to access appropriate housing in the market without assistance [1]. Henceforth, the term ‘affordable housing’ describes housing that assists lower-income households in obtaining and paying for appropriate housing without experiencing undue financial hardship [2].

Housing affordability expresses the linkage between the wellbeing of individual families and the mechanism of housing provision with income determination [3]. Housing affordability has become a common way of summarising the nature of housing difficulties in many nations. A household is identified to have affordability problems, in most terminology terms, when it has to pay at a higher rate than a certain percentage of income to get adequate and appropriate housing [4].

### 1.2. Affordable Housing in Malaysia

Khazanah Research Institute [5] reported that they use two measures to assess housing affordability in Malaysia - the median multiple and down-market penetration. First, median multiple also known as the house-price-to-income ratio is defined as the ratio of median prices for the housing market to the median gross annual household income. The median multiple is based on the assumption that as housing prices become higher relative to incomes, a smaller proportion of households can afford to buy houses, other factors holding constant. Second, down-market penetration where the ratio of the lowest-priced, unsubsidised, formal housing unit produced by the private sector in significant quantities (no less than 2% of annual housing production) to median annual household income. The down-market penetration ratio on the other hand, is an indicator of housing affordability from the perspective of supply. The ratio focuses on the affordability of the lowest-priced new house provided by the private sector without subsidies.

According to Real Estate and Housing Developers’ Association Malaysia (REHDA), the definition of affordable home prices in the market must be addressed uniformly. It is also pointed out that there are different definitions of affordable homes. The government has a threshold of RM300,000 while some professional associations adopted the RM400,000 threshold. As for REHDA, it is the RM500,000 threshold instead. Several factors contribute to this phenomenon, including the location and cost of land for the project. Also, numerous developers’ avoid developing affordable homes because such projects yield low profits.

### ***1.2.1. Housing Policies in Malaysia***

Various government agencies were directly involved in providing the low-cost housing, for example, economic development agencies such as state economic development agencies and Urban Development Authority. For land settlers, the Ministry of Rural and Regional Development as well as land and regional development agencies such as FELDA, FELCRA, KETENGAH and KEJORA have played a pertinent role in providing low-cost housing. Since 1982, the government has set a ceiling price of low-cost housing at RM25,000 per unit, and only those with a household income of less than RM750 per month were eligible to buy these houses [4]. The enforcement of low-cost housing is carried out in various ways. For instance, the government through the local authority has imposed a 30% quota for low-cost housing to be built by developers in every residential development [6]. Since the Third Malaysia Plan, the housing program's implementation particularly on the low-cost housing projects, has not met its target [7]. The government housing programs for citizens under the Tenth Malaysia Plan (2010-2015) are more holistic as compared to those in the past. Figure 3 shows the progress of various housing programs implemented by different ministries and agencies for different targeted groups during the Tenth Malaysia Plan (2010-2015).

The government is concerned about the housing issues in the country. Therefore, the housing policy was revised and revisited to ensure its relevancy and suitability based on the current issues on house ownership. In 2011, the National Housing Policy (NHP) was launched to provide directions and guidelines as well as a basis for planning and development of the housing sector at the federal, state and local levels. The objective of the NHP is to provide adequate, comfortable, quality and affordable housing in enhancing the wellbeing of citizens. Apart from the NHP, the government's efforts in providing adequate housing are strengthened with the launched of the Eleventh Malaysia Plan (2016-2020). The Eleventh Malaysia Plan outlined specific strategies to continuously and intensively implement housing programs for poor, low, and middle-income groups. These will increase access for the targeted groups to own a house. Skim Perumahan Rakyat 1Malaysia (PR1MA), Skim Perumahan Mampu Milik Swasta (MyHome), MyDeposit Scheme and Youth Housing Scheme (YHS) are among other affordable housing programs initiated by the federal government.

### **1.3. Affordable Housing in Singapore**

Before 1960, the Singapore Improvement Trust had built 20,907 units of public housing flats in the span of 12 years from 1947 to 1959. However, these were not sufficient to house the population of about 1.6 million at that time. The majority of population lived in overcrowded slums and squatter settlements [8]. After 1960, affordable housing also known as public housing is monitored by the Housing and Development Board (HDB), are under impermanent leaseholds. Public housing has remained acceptable to most Singaporeans. Subsequently, some adjustments were made to housing stipends in order for them to keep up with the developing level of wages.

In 2014, the Housing and Development Board (HDB) targets its attention on first-time home buyers, whereby they are only allowed to spend no more than a quarter of their monthly salary to reimburse their lodging advances lease. These directives are in line with the global humanitarian benchmark of 30% to 35%. According to Housing and Development Board Statistics (2015), the citizen populace living in such rent convenience drop from 87% in 1988–1990 to 82% in 2015.

#### ***1.3.1. Housing Policies in Singapore***

The housing policy in Singapore is often cited as a successful example of affordable housing production in Asia [9]. The government developed its housing policies based on three pillars;

first, the establishment of the Housing and Development Board (HDB) in 1960, then, enforce the enactment of the Land Acquisition Act in 1966, and lastly, the expansion of the Central Provident Fund (CPF)'s role in becoming a housing financial institution in 1968. HDB is Singapore's public housing authority and a statutory board under the Ministry of National Development. It was established in 1960, a time that many Singaporeans were living in unhygienic slums and crowded squatter settlements. The mission of HDB is to provide quality and affordable public housing. In addition to the provision of rental housing, HDB also encourages homeownership in Singapore. At present, more than 80% of Singapore's population are living in HDB flats, with 93% of them owning their flats.

The Land Acquisition Act expedited the process of land possession by the government for public purposes. Between 1959 and 1984, the government acquired a total of 43,713 acres (17,690 ha or 177 sq km) of land, which constituted about one-third of the total land area of Singapore back then. The bulk of land, however, was acquired under the Land Acquisition Act after 1967. With an increase in acquired land parcels, the government became the biggest landowner by 1985. At the time, the government owned 76.2% of the land in Singapore as compared to 31% in 1949. The compulsory acquisition of land by the government is effective in keeping the costs of building houses and industrial premises affordable. In 1968, the Singapore government allowed people to use a portion of their Central Provident Fund (CPF) for home purchase, besides the HDB Housing Loan and the CPF Housing Grant. These supports manage to bring home ownership within the reach of most Singaporeans. Over 70% of HDB flat owners now service their monthly mortgage payment from their CPF account without the need for outright cash payments.

In the early years of operations, HDB followed the UK public housing model providing only rental units and offering housing units for sale on a 99-year-old basis under the Home Ownership Scheme for the People's Scheme. HDB home units are for households with revenue not exceeding S\$800 per month and loans are offered so that owners pay less in monthly mortgage payments than they do on rent. In 1968, a new law was introduced to allow withdrawals from funds to finance the purchase of homes sold by HDB. Both employer and employee contribute a certain percentage of the individual employee's monthly salary to the personal and mobile personal account of the fund. At the start of the CPF establishment in 1955, the contribution rate was 10% of monthly salary (5% per employee and employer). But with the new law in 1968, the contribution rate increased and in 1984, it further increased up to 25% of monthly salary. The contribution rate in 2016 is 20% of monthly salary for employees and 17% of monthly salary for employers, up to a monthly salary ceiling of S\$6,000. This key policy innovation is for the government to use CPF as a vehicle for housing financing.

In August 2011, the government increased the household income ceiling for the purchase of new HDB flats from S\$8,000 a month to S\$10,000 a month. These changes enable even more young Singaporean households to enjoy housing subsidies for homeownership—the median household income among all employed households was S\$8,292 in 2014, according to the Department of Statistics. Social interest was also emphasised. In 1989, the government had implemented the Ethnic Integration Policy where racial limits were set for HDB blocks and neighbourhoods. Limits of Chinese, Malay, and Indian / Others neighbourhoods were set at 84%, 22%, and 10% respectively. Block quota is 3% above each neighbourhood boundary [10].

## 2. RESEARCH METHODOLOGY

In addressing the research issues, quantitative approach is employed. Opinions and insights were obtained to facilitate the analysis of housing policies in addressing the issue of

affordable housing and to compare the existing housing policies between Malaysia and Singapore. 350 questionnaires were distributed to Malaysian aged between 21 to 41 years old, who has intentions to buy home for the first time. 115 returned responses were received representing a 32% response rate.

### **3. DATA ANALYSIS**

Data collected from the questionnaire surveys are analysed and interpreted in this section. The surveys consist of two parts. The first part is to assess the current affordable housing policies in Malaysia while the second part looks into the implementation of Singapore's affordable housing policies in Malaysia.

#### **3.1. Current Housing Policies in Malaysia**

For the current housing policies in Malaysia, 73% home buyers agree that PR1MA project assists home buyers in buying their first property. The PR1MA housing project is a government initiative to build affordable homes for first time home buyers, which are then priced 20% lower than the current market value. Similarly, 72% of the respondents stated that MyHome Scheme will encourage a home buyer to buy low-cost house. In order to encourage private developers to build low-cost houses, the government has introduced the MyHome scheme. The scheme is for the low-income group, those aged 18 and above and earning below RM3,000 a month as well as first-time homebuyers.

The third policy implemented in Malaysia to assist home buyer is MyDeposit. MyDeposit sets to ease the burden of home buyer in situation where they are required to pay 10% of the house price as down payment. If the buyer is qualified for this scheme, they need not repay the government the given amount. Hence, 95% of the respondents agreed that it is a good scheme to have in assisting first time home buyers.

For PR1MA projects, 94% of the respondents agreed that the government should build more affordable house, not only PR1MA for public. This is to avoid high home prices. Based on the data from the National Property Information Center (NAPIC), about 30% of the new homes launched in 2015 to 2016 were priced below RM250,000 as compared to 70% in the period of 2008 to 2009. Hence, the government should increase the supply of housing immediately, not only PR1MA for public. This will reduce price manipulation by irresponsible parties.

#### **3.2. Implementation of Singapore Housing Policies in Malaysia**

After analysing several housing policies in Singapore which can be implemented in Malaysia to increase the percentage of the homebuyer and affordable housing, the questionnaires were developed. The questionnaires developed on these policies would be able to provide an insight as to its suitability for implementation in Malaysia besides assisting Malaysian in owning an affordable house.

First, the government should control 85% of the housing market and developers are only allowed to have 15% of the market share. The developer will only build luxurious houses for high income buyer. By doing these, house prices could be controlled and no extreme house prices would take place. The government's goal is to ensure the welfare of people are taken care of, as opposed to the developers, whereby their profit will be their utmost objective. From the surveys, 85% of the respondents agreed that the government should control most of the housing market project to prevent houses from being overpriced.

Second, the government should provide home loan for Malaysians with low interest rate. Currently, only government servants are entitled to this privilege. The difficulty in getting loan is one of the problems faced by homebuyers. According to a study conducted by

REHDA (Real Estate and Housing Developers Association) in 2016, the application for affordable housing loans recorded a refusal of more than 50%. 89% of the respondents agreed that the government should provide assistance in home loans with lower interest rates as compare to the current rates for affordable housing.

Third, the government should allow only Malaysian citizens and permanent residents to buy houses in Malaysia. Currently, the developers are more interested to promote their projects to foreign buyers since they have a higher purchasing power as compared to Malaysians. For example, according to the Valuation and Property Services Department, Johor Bahru showed a drastic increase in demand of more than RM1 million due to foreign buyers in Iskandar Malaysia. Malaysians who could not compete with foreign buyers would end up buying a very small house which cost around RM200,000 still. For this matter, 91% of respondents agreed that government should only allow Malaysian citizens and permanent residents to buy houses in Malaysia.

Forth, Malaysian citizens are only allowed to buy up to 2 units of houses. As we know, one of the real estate businesses is the rental market, some investors owned up to 50 properties for rental purposes. These investors have the financial capacity to buy more properties and rent it with a higher price. This situation causes demand in housing but to a certain group only. The developers will increase their housing price knowing that there are available investors buying up the units to their project. According to the Department of Statistics, Malaysia's total population grew by 1.3% to 32.0 million in 2017. With the population growth rate increasing from year to year, it is unreasonable to own more than 2 units of houses. 75% of the respondents agreed with this policy whereby each citizen or permanent resident is only allowed to own up to 2 units of houses.

Fifth, to have a mandatory contribution from salary up to 15% from the employee and 10% from the employer for house fund. This is an additional contribution on top of the current Employer Provident Fund (EPF). This will help to pay the advance payment when it is necessary. About 75% of the respondents agreed with this suggestion to have a different fund for buying a home, if it is mandatory, the employee will be more disciplined as compare to self-savings.

#### **4. CONCLUSION**

Housing affordability has become the main issue in the housing sector as the house prices and living costs continue to increase especially in urban areas. Factors such as household income, house prices and expenditures of household influenced the affordability levels of house buyers. The continuous increment of house prices has affected the ability of an individual or a person to purchase a house. The problem is more severe among first time home buyers aged between 24 to 35 years old.

Although the government has introduced several schemes for first time home buyers, however, it is still insufficient. This can be observed from the continuous increase in home prices and high living expenses. It hampers the house ownership efforts, making it nearly impossible especially for people living in urban areas. It is hoped that the government would consider the implementation of abovementioned policies in order to increase affordable housing for homeowners.

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