



INSTITUT MASA
DEPAN MALAYSIA

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Malaysia's Housing (Un)Affordability

POLICY AND RESEARCH DIVISION
INSTITUT MASA DEPAN MALAYSIA
7 JULY 2023

Malaysia's Housing (Un)Affordability
Dated 7 July 2023

Theme:

Malaysia's Housing (Un)Affordability

Introduction:

Housing affordability is defined by Bank Negara Malaysia (BNM) as "...housing which is sufficient in quality and location, and is not so costly that it prevents its occupants from satisfying other basic living needs."¹ Additionally, BNM and the World Bank classify **a house as affordable if the price does not exceed 3 times the buyer's annual income**².

Based on this, the 2020 data by the Central Bank showed that **house costs in Malaysia went up to 4.72 times the annual median income** - with the median house price at RM295,000 and the median annual household income at RM62,508. Thus, house prices in Malaysia fall under the category of "seriously unaffordable"³.

However, despite the availability of housing financing, housing remains out of reach for many Malaysian households. In BNM's Quarterly Bulletin publication during Q42017, a box article titled 'Affordable Housing: Challenges and the Way Forward' focuses on drawing out for public discussion several policy propositions as a way forward in addressing this challenge.

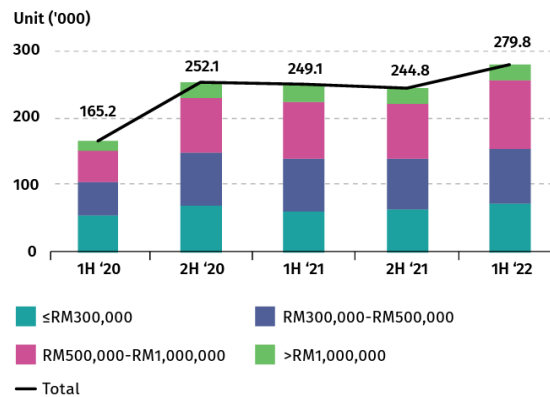
¹ [Affordable Housing: Challenges and the Way Forward](#)

² [Key Developments in the Second Half of 2021](#)

³ [The State of the Nation: Solving housing \(un\)affordability issue good for households and the economy](#)

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Chart 1.19: Property Market – Volume of Housing Loan Applications by Price Segment



Source: Bank Negara Malaysia

According to Bank Negara Malaysia (BNM), in 2022, the share of newly launched residential properties priced at RM500,000 and below trended lower at 65.4% (2021: 67.3%; 2020: 72.5%), despite strong demand from households (Chart 1.19)⁴.

Based on the National Affordable Housing Policy, **the maximum price of affordable housing in Malaysia is RM300,000**⁵. To make things worse, the rising cost of housing, coupled with stagnant income growth, has made it difficult for a large segment of the population to afford suitable housing, with several other factors contributing to the housing affordability challenge in Malaysia.

Firstly, rapid urbanisation and population growth have increased demand for housing in cities, leading to higher prices. Additionally, the scarcity of land in urban areas has driven up land prices, further exacerbating the problem. Speculation and investment-driven demand have also contributed to the rising cost of housing.

In the context of Malaysia's housing affordability, most buyers are affected by rooted issues, which have been mentioned by many researchers as follows:

- a) Demand and supply gap; and
- b) Slower income growth.

⁴ [BNM Financial Stability Review - First Half 2022](#)

⁵ [National Affordable Housing Policy](#)

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1.0 Malaysia's Housing Affordability																
Elaboration	<p>In their 2H2021 Financial Stability Review (2H2021 FSR), BNM found that Malaysia's housing unaffordability was due to a mismatch in demand (insufficient income and high indebtedness) and supply (market failed to provide enough affordable housing).</p> <p>Across states, the price-to-income ratio is highest in Johor, Perak, Sarawak, Sabah and Kelantan, as seen below.</p> <div style="border: 1px solid #ccc; padding: 10px; margin: 10px 0;"> <p>A house is considered affordable¹ if:</p> <div style="display: flex; align-items: center; justify-content: center; margin-bottom: 10px;"> <div style="text-align: center;"> $\frac{\text{House Price}}{\text{Annual Income}} \leq 3 \text{ times}$ </div> </div> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="background-color: #455a64; color: white;">Rating</th> <th style="background-color: #455a64; color: white;">House Price-to-Income Ratio</th> </tr> </thead> <tbody> <tr> <td style="background-color: #e57373;">Severely Unaffordable</td> <td style="background-color: #e57373;">5.1 & Above</td> </tr> <tr> <td style="background-color: #ff9f4d;">Seriously Unaffordable</td> <td style="background-color: #ff9f4d;">4.1 to 5.0</td> </tr> <tr> <td style="background-color: #c8e6c9;">Moderately Unaffordable</td> <td style="background-color: #c8e6c9;">3.1 to 4.0</td> </tr> <tr> <td style="background-color: #4db6ac;">Affordable</td> <td style="background-color: #4db6ac;">3.0 & Below</td> </tr> </tbody> </table> <div style="display: flex; align-items: center; justify-content: center; margin: 10px 0;"> ➔ </div> <div style="text-align: right;"> <p>Based on this metric, house prices in Malaysia are seriously unaffordable</p> <div style="display: flex; align-items: center; justify-content: center; margin-bottom: 10px;"> <div style="text-align: center;"> $\frac{\text{Median House Price (2020): RM295,000}}{\text{Annual Median Income (2020): RM62,508}} = 4.7 \text{ times}$ <p style="font-size: 0.8em; margin-top: 5px;">(2019: 4.1 times)</p> </div> </div> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="background-color: #455a64; color: white;">Rating by State</th> </tr> </thead> <tbody> <tr> <td style="background-color: #e57373;">Johor, Perak, Sarawak, Sabah, Kelantan</td> </tr> <tr> <td style="background-color: #ff9f4d;">MALAYSIA, Selangor, Kuala Lumpur, Pulau Pinang, Pahang, Terengganu, Kedah, Negeri Sembilan, Perlis</td> </tr> <tr> <td style="background-color: #c8e6c9;">-</td> </tr> <tr> <td style="background-color: #4db6ac;">Melaka</td> </tr> </tbody> </table> </div> </div>	Rating	House Price-to-Income Ratio	Severely Unaffordable	5.1 & Above	Seriously Unaffordable	4.1 to 5.0	Moderately Unaffordable	3.1 to 4.0	Affordable	3.0 & Below	Rating by State	Johor, Perak, Sarawak, Sabah, Kelantan	MALAYSIA, Selangor, Kuala Lumpur, Pulau Pinang, Pahang, Terengganu, Kedah, Negeri Sembilan, Perlis	-	Melaka
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	<p>Figure 1: Housing Affordability according to price-to-income ratio by States</p>															
	<p>As of the end of 2021, around 58% or about RM797.5 billion of the RM1.38 trillion of debt shouldered by Malaysians is from housing loans⁶.</p>															

⁶ [The State of the Nation: Solving housing \(un\)affordability issue good for households and the economy](#)

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Issues:

1) Demand and Supply Gap

- With the overwhelming global economic uncertainties, many households have adopted a wait-and-see approach to the housing market.
- However, many private developers and owners are unlikely to reduce prices due to the increased cost of living and construction.
- This has created a mismatch between demand and supply, and according to the National Property Information Centre (NAPIC), in 2022, **market demand** for residential property showed a **slight decrease** from the previous year (Figure 2).

New Launches and Sales Performance 2018 – 2022

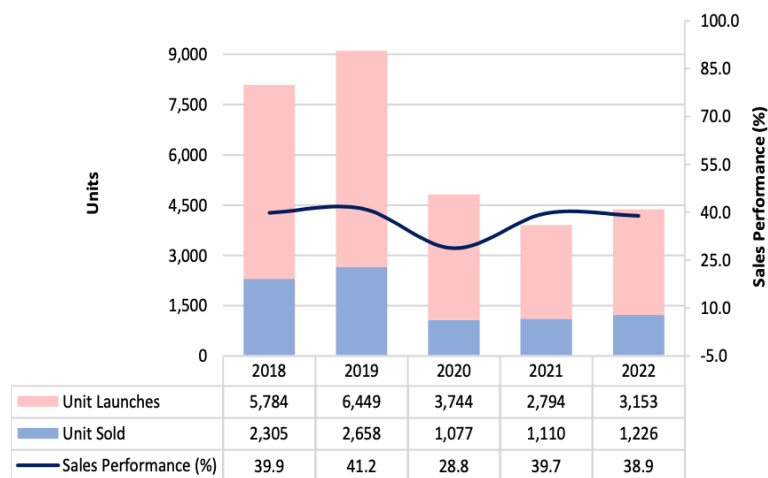


Figure 2: NAPIC Property Market Report 2022

- This is also backed up by the fact that supply overshadows demand, which exacerbates the affordability issue.

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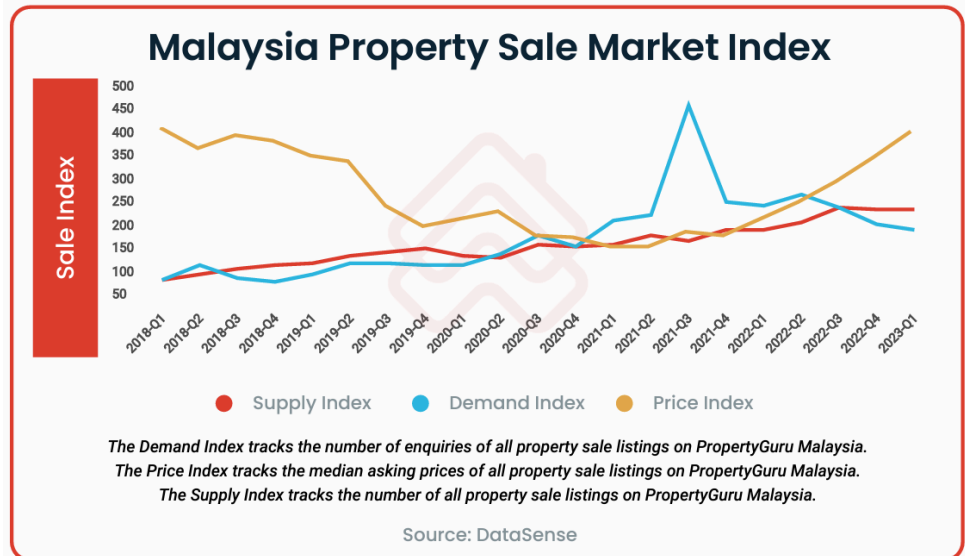


Figure 3: PropertyGuru Malaysia Property Market Report Q2 2023⁷

- Based on Figure 3 above, while the **supply index showed 250.21**, the **demand index stood only at 206.52**, while the price index kept soaring higher.
- This clearly shows that the market still faces challenges in creating affordable housing where the supply is higher than the demand, together with high housing prices.
- Apart from that, **oversupply of unaffordable housing creates a residential overhang situation** where, by price range, those priced at **RM500,001 to RM1.0 million formed 33.6% (9,323 units)** of the total, higher than 30.2% in 2021.
- With **29.3% (8,128 units)**, the price range between **RM300,001 and RM500,000** came in second. A further 23.5% (6,509 units) of the total was made up of affordable residences priced under RM300,000,

⁷ [Malaysia Property Market Outlook 2023](#)

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while 13.6% (3,786 units) of the total was attributed to houses priced above RM1.0 million⁸.

2) Slow Income Growth

- In recent years, Malaysia has encountered difficulties in attaining significant wage growth across multiple sectors of the economy, resulting in a considerable portion of the population struggling to cope with the escalating cost of living.
- According to the Department of Statistics Malaysia (DOSM), **the median monthly household income grew at an average annual rate of 6.6% between 2016 and 2019.**

Exhibit 1: Median Household Gross Income by State, 2016 dan 2019

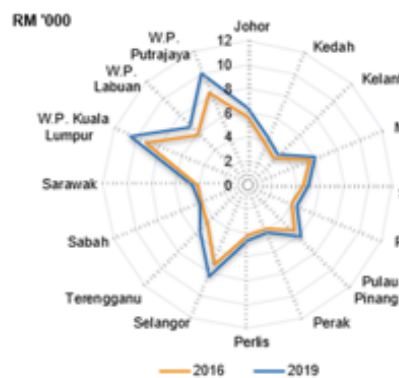


Exhibit 2: Mean Household Gross Income by State, 2016 dan 2019

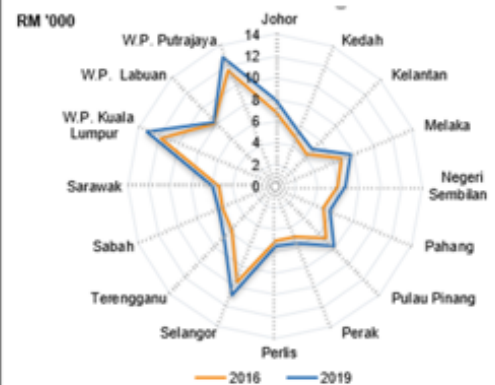


Figure 4: Median and Mean Household Gross Income by State, (2016 and 2019)

- Median household income for urban populations recorded an increase at a rate of 3.8% from RM5,860 in 2016 to RM6,561. Similarly, median household income for rural populations also

⁸ [NAPIC Property Market Report 2022](#)

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increased at a rate of 3.3% over the same period, from RM3,471 to RM3,828.

- Mean household income in urban populations grew by 3.9% per year to RM8,635 while in rural populations, mean household income grew by 0.8% higher than the national level of 4.6% to RM5,004 in 2019.
- Yet, the **overall slow income growth** within a decade as compared to other countries has **affected both urban and rural populations in fulfilling their basic needs.**

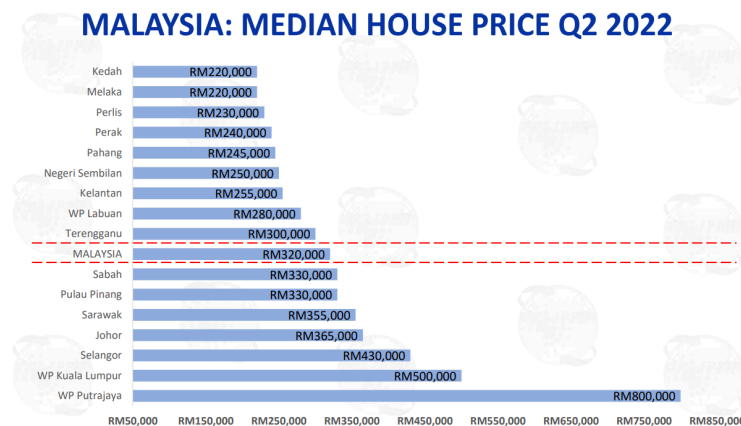


Figure 5: Property Market Price & Rental Indices Q2 2022

- However, based on the Residential Prices Quarterly Update 2022 from NAPIC, it shows that the **median house price for urban areas like Putrajaya (priced at RM800,000), Kuala Lumpur (priced at RM500,000) and Selangor (priced at RM430,000) is above the average median house price across Malaysia, priced at RM320,000.**
- This indicates that household income has not kept up with the increasing cost of living. An alarming revelation from the Employees Provident Fund (EPF)

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reveals that **89% of the working population earns less than RM5,000 per month**⁹.

- Additionally, data from the Ministry of Finance showed that between 1981 and 2019, **personal disposable income experienced slower growth when compared to the rise in the house price index**, which was further aggravated by a significant increase in the inflation rate (See Figure 6)¹⁰.

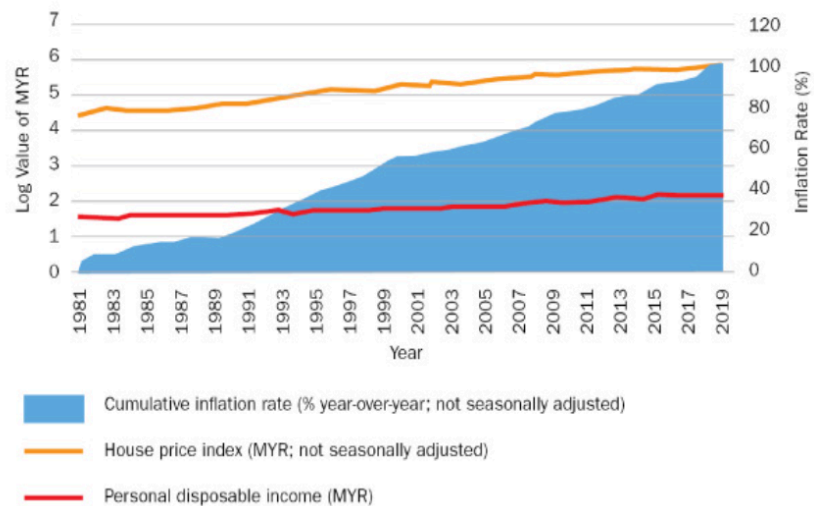


Figure 6: Growth of House price index, personal disposable income & cumulative inflation rate (1981 - 2019)

- In general, **consumers nationwide believe that home prices are beyond the reach of the average Malaysian**. It came as no surprise when BNM, officially stated that housing in Malaysia is collectively deemed “seriously unaffordable”.

⁹ [Housing: \(un\)affordability is key issue](#)

¹⁰ [Housing Prices And Affordability In Malaysia](#)

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	<ul style="list-style-type: none"> - Therefore, efforts to counter the issue of housing un(affordability) should also focus on promoting income growth.
<p>Recommendations</p>	<p>One of the core issues of housing affordability in Malaysia is the demand and supply mismatch. Despite several initiatives by the Malaysian government, they tend to be short-term in nature and have many downfalls in their implementation, such as being limited in supply and problems of eligibility, which exclude deserving individuals from affordable housing programmes.</p> <p>To address the root issue of housing (un)affordability in the long term, the Government must:</p> <ol style="list-style-type: none"> 1) Tackle the supply and demand imbalance in the housing market through the following measures: <ol style="list-style-type: none"> a. Establish an integrated housing database to capture the supply and demand for housing. To successfully adapt the data to the needs of households that the government and housing developers may tap into, it should be collected based on indicators developed in a household survey. b. On the supply side, shortages in a particular price range or location would be made easier with a more accurate inventory of existing housing stock and new planned supply. c. Increase the supply of affordable housing through partnerships between the

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	<p>government and private developers. This can be achieved by providing incentives and facilitating a streamlined approval process for developers who commit to building affordable housing units.</p> <p>d. Encourage collaboration between the public and private sectors to address housing affordability and leverage resources, expertise, and funding to develop affordable housing projects and implement innovative financing mechanisms.</p> <p>2) In addressing the challenges of housing affordability, the perspective of income must be taken into account.</p> <p>a. Enforce the rise of the minimum wage to help improve income levels for low-wage workers, making housing more affordable for them. Regular reviews of the minimum wage should be conducted to ensure it keeps pace with inflation and the rising cost of living.</p> <p>b. Implement policies and initiatives to stimulate income growth across various sectors through the promotion of skill development, supporting entrepreneurship, and attracting higher-value industries to create better-paying job opportunities.</p> <p>c. Enhance existing financial assistance programmes, such as down payment</p>
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	<p>assistance and affordable mortgage schemes, to enable more individuals and families to afford homeownership. This can include measures like longer loan tenures, lower interest rates, and flexible financing options.</p>
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