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Supply-Demand Mismatch Factors in The Housing Market

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Abstract

Housing mismatch becomes vital issues to studies; it happens due to inequality of housing demand and supply in the property market. The aim of this study is to explore the factors that cause imbalance distribution of housing due to the increasing need for housing and to propose suggestion to manage the demand-supply gap. Therefore, actions ought to be made by the respective parties to correct this issue with a specific end goal to mitigate the shortage in supply of affordable housing. Also, the result will be compiled through a creation of literature review matrix and theoretical frameworks.

Key-word: - Supply demand; mismatch; affordable housing; income; sustainability

1. Introduction

The meaning of affordable housing generally encompasses on a "households should pay no more than 30% of their income for housing, including utilities" (Jzen & Chim, 2016). Meanwhile, Bank Negara Malaysia said in year 2018 the maximum affordable house price in Malaysia is estimated to be at RM282,000 (Begum, 2018). In more depth meaning of affordable house, according to National House Buyers Association classifies "affordable properties" as those costing between RM150,000 and RM300,000, and with at least two bedrooms, a built-up area of at least 800 sq ft, excluding the balcony (Surendran, 2016).

Causes of demand-supply gap of affordable housing are mismatch of developers on the needs, which can be a mismatch in design and location of properties are repulsive to the buyers, causing low demands for the subject property (Karim et al., 2017); mismatch between the prices of new launches and households' affordability (Mahalingam, 2017); housing price and the regulatory set up by the government, and the private institution doesn't meet the need of demand (Saleh et al., 2016) and unfavourable government policies (Jzen & Chim, 2016).

The term of housing mismatch is gathering in the full range of context including the measurement level of wealth, employment of societies, behaviours and regulatory. Moreover, introducing the factor that contribute to housing mismatch, it indirectly can help communities to understand the core of sustainable development issue and the relationship between them. By recognizing the factors, it is the appropriate channel of scaling evolution and also can be as the useful measurement to raise awareness of the critical issues among public in concern of their quality of life and policy-makers.

The aim of this paper is to review on the factors that contributed to the existence of housing mismatch and to define the contribution aspect to the existence of housing mismatch in suburban areas, especially in Malaysia. The primary task of this paper is to compile the various conditions and issues that related to housing inequality and to develop its conceptual framework model of housing mismatch through literature review gathered.

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2. Literature Review

To understand about the supply-demand mismatch factors in the housing market which have resulted in a failure of the market to provide an adequate supply of affordable housing in Malaysia, literature review matrix had been established. The matrix includes name of author with publication year, affordable housing definition, factors of supply-demand mismatch in Malaysia and recommendation to tackle the issues.

Table 1:- Literature Review Matrix Based on Literature Review Study

No.	Author (publication year)	Affordable Housing Definition	Factors of Supply-Demand Mismatch in Malaysia	Recommendation
1	K. Begum (2018)	1. Maximum affordable house price in Malaysia = RM 282,000	1. Housing lack of connectivity from centres of employment and sufficient living space. 2. Developer not putting the right product in the right location with the right pricing to match market demand 3. High Loan rejection 4. Income growth that is not catching up with house prices and the cost of living 5. Houses with prices between RM300,000 and RM500,000 should not be categorised under affordable housing for households earning the median income	1. Establishing an integrated housing database and an efficiently managed applicant registry for the planning and allocation of affordable housing 2. Centralisation of affordable housing initiatives. 3. Reducing the cost barrier to affordable housing. 4. Rehabilitating household balance sheets by enhancing financial literacy. 5. Improving the rental market by strengthening the legal framework
2	Ranjit Singh (2018)		1. Lack of data causes developers to build in locations that do not generate demand as projected during the planning stage. 2. Loan rejection 3. Unreleased Bumi quota	1. Proposed to the government to set up a federal body to regulate the creation of affordable housing in the right locations to ensure its supply meets demands. 2. Considered affordable housing differed from state to state.

3	Eugene Mahalingam (2017)		1. Mismatch between the prices of new launches and households' affordability.	1. Start using new technologies. 2. Develop a strong rental market by enacting the Residential Tenancy Act and establish a Tenancy Tribunal to safeguard the rights of both tenants and landlords. 3. Establish a single entity for affordable housing to accelerate the rebalancing of supply towards the affordable range. 4. Development of new projects should be in decent locations with good transport connectivity.
4	Mike Geh (2016)		1. Developer mindset to build premium homes. 2. Majority of the current projects are aimed at an older population	1. Change mindset from build premium homes to deliver quality affordable housing for the youths
5	Supriya Surendran (2016)	The HBA classifies "affordable properties" as those costing between RM150,000 and RM300,000, and with at least two bedrooms, a built-up area of at least 800 sq ft, excluding the balcony.	1. In the eyes of the developers, 'affordable properties' are properties that cost up to RM500,000 for 'first-time house buyers' and up to RM1 million for 'second-time house buyers' or 'upgraders'. 2. PR1MA has, along the way, lost its focus and is now partnering with private developers to offer "lifestyle living	
6	Alyssa Chan Poh Jzen & Benny Lee Hai Chim (2016)	Affordable housing generally encompasses on a "households should pay no more than 30% of their income for housing, including utilities"	1. Price level or geographical location 2. Unfavourable government policies 3. Loan availability problem 4. Developers' strategy of profit maximisation. 5. Considerably high property taxes, high stamp duty and increasing Real Property Gain Tax. 6. High land cost. 7. High construction material costs. 8. Sudden increase in demand, but supply on the other hand is inelastic in nature	1. Government should review current policies and implementation of new housing programmes. 2. Need of an integrated database on housing to ensure that the housing supply matches the needs according to the location, price and target group. 3. Consider more construction under the Industrialised Building System (IBS).
7	Fara Aisyah (2018)		1. Developers having to build and sell properties with specified quota for Bumiputeras.	1. All states to implement the automatic release mechanism for unsold Bumiputera lots to mitigate the rise in the number of unsold properties.

8	Ahmad Fawwaz Ahmad Saleh, Ting Kien Hwa, Rohayu Majid (2016)	1. Affordability gap - Mismatch between the type of housing unit offered and the unit desired by low and middle-income people 2. Housing price and the regulatory set up by the government, and the private institution doesn't meet the need of demand. 3. Geographical spatial location	
9	Nurul Sahfikar A. Karim, Nurul Hana Adi Maimun, Noorsidi Aizuddin Mat Noor, Nurul Syakima Mohd Yusoff, Mohd Shahril Abdul Rahman (2017)	1. Economic factor contributed to housing oversupply. 2. Weaknesses in the local authority's planning practices. 3. Ignoring the buyers demand. 4. Incomplete preparation of feasibility studies by developers. 5. Speculation or price intervention and manipulation by developers. 6. Property investors' involvement in the price and rent increase. 7. A mismatch in design and location of properties are repulsive to the buyers, causing low demands for the subject property. 8. Overpricedproperties coupled with stringent financing conditions posed difficulties in home purchase.	1. Planners and policy makers should address the house price problem in detail to allow house purchase by the buyers. 2. Financial institutions should find other alternatives to increase the eligibility of borrowing and property purchase. 3. Developers should prioritise a good location in developing houses.

2.1 Design and Location

Housing in Malaysia heavily depends on design and locations. In searching suitability of land for its development and looked at where there was an acute need for a particular type of housing or affordable houses and either the locations can fulfil the need of locals' people in the areas is open up to questions. By delivering the bad development or unsuitable areas with the wrong local neighbourhoods' profile in that development area, it may result in oversupply or over the demand of housing development.

Housing oversupply also might have been caused by weaknesses in the local authority's planning practices. This problem is apparent during development planning and control (Karim et al., 2017). Focusing too much on planning and technical land needs without considering the real demand and current market conditions compounded unsold and excess supply of housing. This worsen when developer incomplete their feasibility study yet still continues doing the project. As results, developer not putting the right product in the right location with the right pricing to match market demand.

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Rising unsold housing also were largely due to non-strategic locations of affordable housings projects, causing buyers to shy away and worsening the glut situation. The locations are not ideal which will make people travel far to their workplaces.

2.2 Affordability Gap

The growing supply-demand imbalances in the local property market, especially within housing segments, could pose severe risks to the wider economy. Bank Negara says the large number of unsold properties is due to the mismatch between the prices of new launches and households' affordability. According to Bank Negara Malaysia in its Annual Report 2016, half of Malaysian households earned a monthly income of RM4,585 and below in 2014, which suggests houses priced up to RM165,060 are considered affordable to them. However, only 21% of new housing launches in Malaysia were priced below RM250,000 in 2014, while developers are attracted to build higher-end properties priced above half a million (Surendran, 2016). National House Buyers Association (HBA) classifies "affordable properties" as those costing between RM150,000 and RM300,000, and with at least two bedrooms, a built-up area of at least 800 sq ft, excluding the balcony. Unfortunately, in the eyes of the developers, 'affordable properties' are properties that cost up to RM500,000 for 'first-time house buyers' and up to RM1 million for 'second-time house buyers' or 'upgraders'. This is why there are so few properties costing between RM150,000 and RM300,000, and the vast majority of new launches are in the range of RM500,000. When there are properties priced below RM500,000, most of these are one-room studio apartments with built-up [areas] of less than 600 sq ft (shoebox units) which are not suitable for family living.

Secondly, the mismatch was exacerbated by the slower increase in median household incomes (compounded annual growth rate (CAGR) 2012 to 2016: 9.6%) relative to median house prices (15.6%) (Mahalingam, 2017). Bank Negara says these factors have resulted in median house prices in Malaysia being five times annual median household income in 2016, rendering house prices "seriously unaffordable" in Malaysia. Such a wide disparity between the supply and demand of affordable homes has worsened the imbalances in the housing market.

Yet with all these data about mismatch between the housing price and median household incomes, the increase in construction and development costs have prevented developers from lowering the prices of various properties despite the excessive building, glut of selected properties and disjointed reality between demand and supply. Speculation or price intervention and manipulation by developers was also identified to contribute to housing oversupply. Developers took advantage on the soaring demands for medium cost houses by increasing house prices significantly in order to reap large profits. This situation is worsened with property investors' involvement in the price and rent increase.

2.3 Regulatory

Existences of housing dispersion happened in the situation of housing price and the regulatory set up by the government, and the private institution doesn't meet the need of demand. Thus, it automatically affects the quality of life among local neighbourhoods. The issues raised in a market are the high price of housing development, the bureaucratic procedures with policies and legalities. In the meantime, the majority of people from middle-income group stuck in the range of middle group requirement, they are not qualified to buy low and medium houses.

Both government and private institution had set up their own regulatory and requirement by discriminated demographic profiles in neighbourhoods' areas. For the government, this can be observed through qualification of housing scheme offered by them. Such as the conditions to archived in by own PRIMA houses and to get My First Home Scheme. However, the government seems doesn't enough knowledge to restructure the applicable requirement to meets people needs (Saleh et al., 2016). Government is a lack of giving financial resources and unable to attempt their housing challenge on their own. While, for a private institution, they have their owned code of conduct for approved financing home loan for an individual. Policies, procedures and incentive related to housing supply are all reasons why new housing supply is unresponsive to market condition (Saleh et al., 2016).

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Concerns for loan repayments by financial institutions led to strict housing loan lending conditions for the borrowers. Strict lending conditions posed difficulty for buyers especially the low-income earners to secure housing loans and thus contribute to the accumulation of housing stocks.

3.0 Theoretical Framework

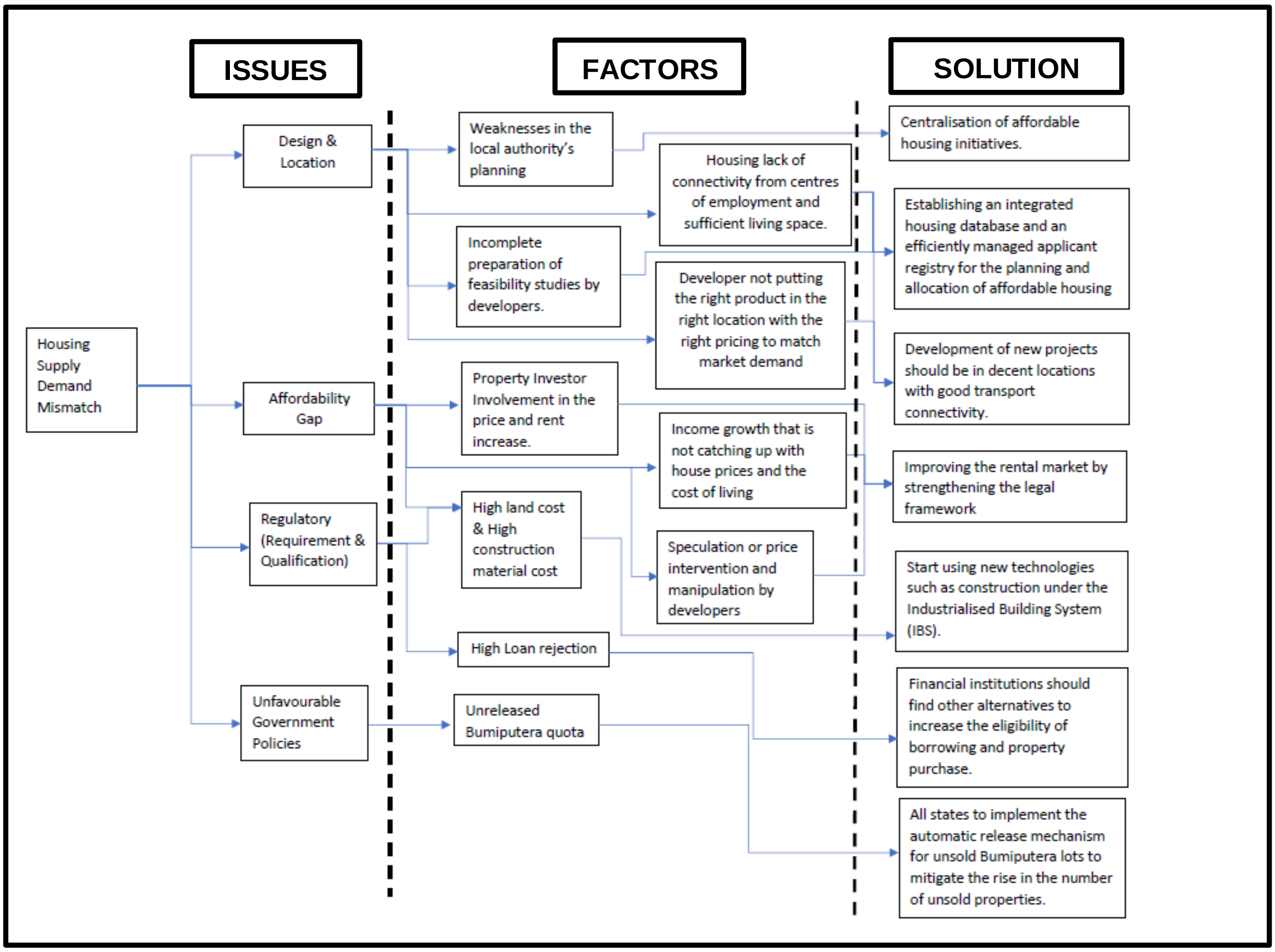

Figure 1. Theoretical Framework Based on Literature Review Study

As can be seen in the figure, the issues of mismatch come with four major issues. Such as design and location, affordability gap, regulatory and unfavourable government policies. This figure has been explicitly showing the relationship between main issues, factors of the issues and recommended solution to avoid supply-demand mismatch. For instance, design and location issue due to the factor of weaknesses in the local authority's planning and incomplete preparation of feasibility studies by developers can be solve with establish an integrated housing database and ad efficiently managed applicant registry for the planning and allocation of affordable housing. Hence, by providing this aspect, overall clear picture on the issues can be seen and proper mitigation plan to reduce the mismatch can be well planned.

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4.0 Results & Discussion

Based on the review above, a disparity between housing demand and supply are ones of the mechanism that can bring into chaos in certain areas. This studies purposely to compile all supply-demand mismatch factors in the housing market which have resulted in a failure of the market to provide an adequate supply of affordable housing in Malaysia. As stated above, various factors lead supply-demand mismatch in the housing market. Bank Negara has proposed a five-pronged strategy to effectively bridge the affordable housing gap in Malaysia; centralisation of affordable housing initiatives, establishing an integrated housing database and an efficiently managed applicant registry for the planning and allocation of affordable housing, reducing the cost barrier to affordable housing, rehabilitating household balance sheets by enhancing financial literacy and improving the rental market by strengthening the legal framework.

Meanwhile, Real Estate and Housing Developers Association (REHDA) has proposed to the government to set up a federal body to regulate the creation of affordable housing in the right locations to ensure its supply meets demands. REHDA members were committed to support the government's initiatives to provide sufficient affordable housing, but added that they needed financial measures in place to do. Khazanah research director Dr Suraya Ismail urge developer to start using new technologies, so they can embark on building affordable homes (Mahalingam, 2017). Developer can consider more construction under the Industrialised Building System (IBS) as currently being promoted by the Construction Industry Development Board (CIDB) and the Government to expand the skills of developers and also a rise in the technology of construction. The IBS can provide better planning and scheduling on constructing not only low-cost housing but also medium cost housing. IBS provides the benefits of high-quality finished products and minimal wastages due to factory-controlled prefabrication environment; faster completion due to the IBS components replacing in-situ construction; reduce unskilled workers and fewer site workers; neater, cleaner and safer sites due to reductions of construction debris, site workers and materials. Both CIDB and the Government should promote and gives incentives to developers that are willing to implement on these technologies and method of construction.

Based on these findings, the industry needs to correct the imbalance in its stock delivery practices. There is a mindset now to build premium homes but this mindset needs to change to deliver quality affordable housing for the youths instead. Developers should face the reality that a youthful Malaysia cannot afford houses priced above RM300,000. On the other hand, contributed to the escalating house prices was because the developers were constantly competing to sell higher-priced houses to gain higher profits. Planners and policy makers should address the house price problem in detail to allow house purchase by the buyers and thus reduce the housing oversupply in Malaysia. In addition, financial institutions should find other alternatives to increase the eligibility of borrowing and property purchase which will eventually help in reducing unsold properties.

Last but not least, homes need to be in well-organized either it is in suitable to be live with or not. This significant can be achieved through responsible stakeholders in overcome the vital issues that can bring the economy of the country in categories of worse. The housing development that do not meet the minimum standard and satisfaction will result in discomfort and eventually can create stress among the societies. For Affordable Housing to be successful, it also must be "sustainable" and not just for show. Hence, the keys for Sustainable Affordable Housing to be "successful" are; design the project to be green from the start, include all members of the development team in the planning process, support public policies for green building, factor green into affordability, rehabilitate existing buildings, consider the availability of green products and promote education for all involved (Myerson, 2007).

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5.0 Conclusion

In conclusion, this paper examines and analyse the problems that contributed to supply-demand mismatch in the housing market in Malaysia. This finding result perhaps should be as the potential roles in facilitating local community, government, and private institution to overcome the issues of housing mismatch, especially in their local areas. Thus, it directly will create sustainability in the quality of life. In general, having a satisfaction houses are one of the most valuable aspects of people lives, and it is a significant element of characters to meet their need and wants. It is imperative to meet their common needs. Such as, in the offering reasonable price that can support them to buy a house or meet the requirement of government when applying the national affordable homes. By understanding the component and attributes in housing mismatch, it will create awareness among stakeholders.

In order to formulate new policies and strategies, there is a need of an integrated database on housing to ensure that the housing supply matches the needs according to the location, price and target group as there is currently a limited data available to allow each state to adequately plan for the housing needs of the population and allow house buyers to make informed purchasing decisions. In order to accomplish this, data must be updated based on demand factors such as demographic patterns and assessment of household incomes, and supply factors like assessment of land suitability with current land use and providing land for housing purpose, existing and incoming housing stock. It is pertinent for government and private sector developers to take initiative to provide housing with innovative design with reasonably good quality finishes at affordable prices for the basic shelter of an average working class.

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