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Business Partnership in Meeting Housing Needs of the Urban Poor

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Abstract

The last decade has witnessed a shift in housing policy as embraced by the Malaysian Government. The role in meeting the housing needs of the urban poor is no longer seen as the key role of the state. Rather, the market has been perceived to reach its maturity to take the lead in meeting this social need. This phenomenon has lead to the establishment of the collaborative measures between both parties to undertake the new task. One of the significant approaches is embarking on the business partnership mode to meet the housing needs of this disadvantage group. This paper seeks to examine the operation of this approach in the institutional contexts in meeting the overall national housing objective.

Introduction

Home ownership reflects the human desire for sense of security and symbol of status and power. In the developed countries such as Britain, Australia and America, home-ownership has long been the aspiration of their people. Saunders (1990) claimed that in the United Kingdom, for example, home ownership provides a sense of autonomy and contributed to ontological security. On the other hand, in Australia and America, home ownership is the ‘Great Dream’ of everyone (Kemeny, 1981; Rohe et al, 2002). In context of the developing countries such as in the Southeast Asia, home ownership also prevailed as topmost dream in their live. A study shows that more than 70% ranked home ownership as their first choice in the list of things they aspire in their life (Lee, 1997). As such, a home ownership issue is always at ‘the centre stage’ agenda of the state in formulating their policies. Home ownership has even been presented as an agent of social transformation, intrinsically associated with democracy itself (Malpass and Muric, 1999; Hays, 1994; Saunders 1990).

The mainstream economic theories argued that home ownership as supply-led problems that demand a greater government intervention. Home ownership for the urban poor has been a long-standing concern by government in both developed and developing countries. It is claimed that industrialisation and urbanisation have contributed to acute housing demand amongst the lower and middle-income group (Millington, 2000). As the consequent, greater government attention is required to overcome the problem arises (see for example, Drakakis-Smith 1987, Booth et al., 1986, Forest et al., 1990).

In Malaysia, the government has focused the concept of home-owning democracy for the urban poor since 1971. Low cost home ownership programme has been an important mechanism for delivering a variety of government objectives significantly with the introduction of New Economic Plan (NEP). NEP that addressed this issue has two main objectives; to eradicate poverty and to restructure the society such that economic function and race would no longer coincide (see Trezzini 2001, Agus 1997, Wegelin 1978).

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This is the turning point whereby government has moved from a free capitalist economy to one involving more state participation and control in the property market with a firm objective to secure housing for the low-income group. The state continued to take this key role in meeting the housing needs of this group until the shift in housing policy in 1980s. The Fourth Malaysia Plan witnessed a flip in the traditional role of the state as the main provider to the market. Underlying this perceived practical reason lays a strongly held belief that the state need to withdraw from direct involvement in providing housing for the poor but, instead function to ensure proper incentives and appropriate control is provided to facilitate the market to operate efficiently and only interfere to ensure fairness and transparency in favour of disadvantage group (UNCHS, 1991).

The u-turn policy in the role of the state from provider to facilitator in low cost housing has resulted in fiery debate. This has prompted numerous researches particularly in the issue of successfullness and problems of this policy shift. Doubts have arisen on capability and commitment of private sectors with the responsibility to provide housing needs for urban poor (see Lai, 1998; Morshidi et al, 1999). Indeed initially, the response from the market is encouraging. Nevertheless, this does not last long. It has been argued that the downturn economic situation contributed to this far short from satisfying response that effect the target and objective of the state (Morshidi et al, 1999). More and more backlog in meeting the housing needs of this low-income people seems to prevail. Hence, the state moved on to a new dimension in this social obligation responsibility. Rather than the market is solely held responsible to meet this housing needs of the disadvantage group, the state form a business partnership with the market. A new era witnessing a joint effort by both the state and the market now predominate the housing policy in this country.

This paper seeks to examine the above business partnership issue in the local authority context. It seeks to address the process and implementation of low cost housing policy in Kuala Lumpur. In understanding this issue, it is worthwhile to first comprehend the overall national housing policy, which indirectly governs the policy at the local authority level. In Malaysia context, the local authority is also the local planning authority.

The National Low-cost Housing Policy in Malaysia

The commitment by the Malaysian government to provide adequate and affordable shelter for its nation was obviously reflected in the government’s annual budget and the nation Five Yearly Development plans. The government considers housing as a component of the social and community services and thus, subscribe strongly to the belief that economic development must involved and accrued to all citizens, including particularly the poor. Benefits of development will be extended to all segments of society through the provision of adequate, affordable and quality houses for all income group with emphasis on the development of low and lower medium cost houses.

The role of the state as the key housing provider for these people is significant. Unlike in other developing countries such as India and Thailand (Muhammad, 2002) where the non-governmental organisation (NGO) or community-based organisation (CBO) play an important role in low-cost housing, their role is almost non-existence in Malaysia. Hence, the strong role of the state has result in more control in providing housing for the urban poor. Low cost housing in Malaysia context refers to the houses with selling prices fixed by the government as range from RM25,000 to RM42,000 per unit depending on the location of the development. The price guideline introduced by the state to replace the original price which was fixed at ceiling price at RM25,000 regardless of the location is to improve the
quality of low cost houses (Morshidi et al., 1999). These prices have been argued as an indicative of the financial capabilities of prospective buyers within the low-income group. The target group is stipulated as those household earning an income of between RM750 to RM1,500 per month (MHLG, 1998). The state has also specified that effective from June 1998 each low cost housing unit must have a minimum built-up area of between 48 to 60 square metres accommodating minimum three bedrooms, a living and dining area, a kitchen and separate bathroom and w.c. (MHLG, 1999). It is perceived that this concept is able to accommodate an average household of five members.

Emphasis on providing the low cost housings instigate after independence in 1957 under the then Malaya Plan. The low cost housing has then been given the highest priority in every Malaysia Plan since the introduction NEP (Agus et al., 2002). During this infancy stage, the state took a leading role in providing housing for the low-income people. A radical flip in this role begins in 1980s that coincide with the Fourth Malaysia Plan (1981 -1985). The strong economic cycle in this era has led to the market being perceived as has reached its maturity and ready to take this responsibility. To realise this, the state introduced a two-prong strategy. The first one being a direct intervention in the form of public low-cost housing programmes implemented by the state governments with loans provided by the central government, and second the indirect measures in the form of planning conditions stipulated in planning approval of private housing projects. Effective from 1981, the policy requiring private housing developers to build at least 30% low-cost housing in their housing schemes were implemented (Salleh, 1997). This approach is to ensure that the market plays its role in the provision of affordable houses for the urban poor and at the same time supplements the efforts of the state. The local authority which is also the local planning authority were thus, given this key responsibility to implement the ambitious state goal in shifting the role of providing housing for the low-income people to the market.

However, the phenomenon of rising costs of labour, material and land especially in the larger urban areas where land is very expensive has complicated the issue of the provision of low cost houses. The provision of low cost houses can no longer be commercially carried out by the market even with the practise of cross-subsidy (Morshidi et al.,1999). This has led to returning active involvement by the state itself in the provision of low cost housing. Corrective measures to address this problem have resulted in business-partnership venture development by the state and the market. The state participates in the development by providing the land for the development and assists the market as a joint venture partner in technical and administrative aspects. On the other hand, the market provides the financing, implement and delivers the units. This form of business partnership is argued by Mokhtar (1993) as a move to solve the housing problem for the low-income people.

Consequently, in the mid 1990s which coincided with the Seventh Malaysia Plan, a perceived more transparent and accountable system known as an Open Registration System to register eligible buyers in the low and low medium categories is introduced by the state (Yahya, 1997). By employing this computerised system, the allocation of low-cost houses in both public and private developments is expected to be more efficient and fair. The Eighth Malaysia Plan (2001 -2005) continues to give priority to the provision of adequate, affordable and quality houses for the low-income people. Emphasis continued to be given to low cost houses as reflected in the development allocation budget for low cost housing which were increased from RM1,208 million in Seventh Malaysia Plan to RM1,980 million (Malaysian Government, 2001).
Given this economic and social policy framework, to what extent the local authority as the implementation agent for the state plays its role in realising the business partnership with the market.

The low cost housing policy in local authority context

Kuala Lumpur has always received special attention from the central government in devising and implementing the housing policy. City Hall of Kuala Lumpur has long been a key provider in meeting the housing need of the low-income people in this capital city of Malaysia. Most significant is the concept of new towns initiated in 1970s with the thrust on low and medium-cost housing units aimed to solve the problem of squatters. The steady economic growth between 1980s until 2000 has sustained the city becomes a focal point for urban settlement. Migration from rural to urban area has required greater intervention by state to resolve the issue on housing for the urban poor. A wide range of policies was formulated in an effort to provide a decent shelter to all citizens of Kuala Lumpur. Housing in the context of Kuala Lumpur goes beyond the simply need for shelter. It is a need for a decent home, not merely a physical shell but engulfs a complete range of utilities and services such as water, sewerage, drainage, power, telephone etc. and complete with social infrastructure in terms of education, health and religion (DBKL, 1984; DBKL 2000).

The first structure plan commissioned and published by the City Hall of Kuala Lumpur (CHKL) in 1984, acknowledged the shortage of housing for the urban poor. Nevertheless, the progress of implementation on public housing projects by CHKL is below planned targets. It was also acknowledged that even though effort has been made by the state to tackle the issue, the need for a comprehensive housing policy and programme is still crucial.

Our research revealed that there were ten policies on housing in Kuala Lumpur. Out of this, four policies addressed the low cost housing. First, the authority pledge to develop and maintain a comprehensive and co-ordinated housing development programme aimed at balancing housing supply and demand. Second, private developers have to provide 30% low-cost housing units in their proposed residential development. In cases where provision of low-cost housing units exceeds 30%, the Authority shall provide the necessary incentives and assistance to the developers. This policy is viewed as adopting the strategy formulated by the national government during the Fourth Malaysia Plan (1981 -1985) and parallel to the enabling approach endorsed by the United Nation General Assembly in 1987.

Third, the authority shall determine the types of low cost houses to be built by the private sector depending on the localized topography and other conditions. In this context, the authority identified seven types of low cost houses. Either this involved cluster-link double storey houses, compact double or three-storey houses, single-storey terrace house which is similar to the traditional terrace house but a smaller built-up area, quadrant double storey house the cluster terrace house, 5-storey walk-up flats or the high-rise flats.

Finally, in respect of sales and transfers of low cost houses built by the market, the Housing Management Department of City Hall were given the responsibility to monitor this task until the formation of the Federal Territory Housing Agency/Board. It is observed that this department has come up with numerous internal policies pertaining to eligibility to purchase the low cost housing provided by both public and private sectors. Nine key sub-policies have been outlined. First, eligible purchasers who were interested to purchase the low cost housing must be citizens of Malaysia; secondly the applicant must be married or divorced or widowed; thirdly, total household income must not exceed RM2,000 per month; fourth, they
must first register their interests through Open Registration System. This system introduced under the Seventh Malaysia Plan is aimed to increase transparency and accountability. The City Hall of Kuala Lumpur will decide the names of successful candidates based on list of registration, the latter is produced based on computer marking system. The fifth policy mentioned that the applicant must lived or worked in Federal Territory of Kuala Lumpur. They must not own any land or house within 35 kilometres from Kuala Lumpur city centre and must be eligible to obtain housing loan from either government or financial institutions. Priority will be given to existing public housing tenant and finally ‘bumiputra’ units can only be transferred to ‘bumiputra’. (The term ‘bumiputra’ politically referred to the Malay ethnic and other indigenous group who were the ‘son of soil’ of the country). Transaction to second buyer can only take place after ten years of ownership of the first buyer. This is endorsed on the title document of the property.

This first structure plan has been reviewed after 15 years and the new structure plan (DBKL, 2000) claimed that the strategy formulated in the previous structure plan has for most part, been successfully implemented. Nevertheless, in line with the new mission to achieve the world-class city status, the focus is now on improving the quality of life rather than the provision of low and medium income housing. There are 22 new policies formulated in respect of housing. Yet, none specifically mentioned about low cost provision for home ownership. Likewise, only one policy addressed the need of low cost housing but the policy now changed from home ownership to the urban poor to providing low cost housing for rental at subsidised rates. Moreover, another policy even proposed that the low cost housing quota system for private housing be adjusted. It is presumed that the on going and planned programmes will cover the provision of low cost housing by this year 2005, thus the 30 per cent low cost quota will be revised to 10 per cent low cost and 20 per cent low medium cost. Low medium cost housing is defined as the unit selling at RM43,000 to RM85,000 per unit.

The process and implementation of low cost housing policy: Business-partnership venture experience

Having considered the overall aims of the state low cost housing policy, looking at the means they have chosen in order to achieve these objectives, and relate the local authority housing policy to the overall national housing objective, this paper now proceed to examine the process and implementation of the business partnership between the state and the market. Qualitative interviews were conducted with the former Deputy Director of Joint venture and privatisation unit, City Hall of Kuala Lumpur to gain useful information with respect to this issue.

The Joint venture and Privatisation Section was formed in 1991 with the aim to undertake all City Hall of Kuala Lumpur’s privatisation programmes particularly involving the land development projects. The section now, formed part of Economic Planning and Social Facilities Department.

The process of providing home ownership to the urban poor begins with site identification for constructing the low cost housing. It is perhaps pertinent to note that, this section is not responsible for the development of low cost housing solely. The general development usually comprises mixed development, which allows the business partner to cross-subsidise the profit to construct the low cost housing. In most cases, the market instigates the business partnership rather than the state itself. The market proactively identifies and proposes the relevant site to construct the project which comprise low cost housing as one of the project’s components to the state.
To determine the site for the construction of low cost housing, a site visit will be held after the proposal by the market is received. In some cases, political members representing the respective parliamentary seat do get involved in making the decision as to whether the proposed is acceptable or not. If the committee members (including the respective political member) do not accept the proposed site, the market has to re-allocate the site to an acceptable site agreed by the Mayor of Kuala Lumpur. Ironically, the political interference is viewed as positive by the state. Their involvements were perceived as capable to minimise the lengthy negotiation process particularly when squatters were involved and hence expedite the development schedule.

A concept layout for the proposed development must be submitted for the approval of the committee at Joint venture and Privatisation section's level before a formal plan application is submitted to the Town Planning Committee. The committee consists of representatives from a range of departments within CHKL. It includes the Planning and Building Control Department, Valuation and Property Management Department, Legal Affairs Department, Master Planning Department, The Procurement and Quantity Surveying Department as well as the Public Works Department. Representative from these departments sit as committee members will forward their views and comments during the meetings with the Deputy Director of Joint venture and Privatisation section who act as the chairperson. Thus, a collateral decision based on this meeting is endorsed and adopted. However, the committee only act an advisor in respect of the proposed layout. The Town Planning Committee chaired by the Lord Mayor makes the final decision.

This section formulated their own policy in respect of the percentage of low cost housing unit developed by their business partner. This research revealed that the standard percentage of 30% as adopted by the City Hall of Kuala Lumpur is adopted as the minimum requirement by this section. Therefore, in most of the business partnership development schemes cases the percentage is higher than the requirement. It is also a policy that the number of low cost units to be constructed not only should be adequate enough to relocate the squatters involved in the respective development site, but could re-house squatters involved in other federal government projects if required.

In respect of construction schedule of the development schemes, in general this section determine the timing for each phases taking into account the cash flow of the project as a whole. The cross subsidising nature is given into consideration, but priority is still given to low cost housing which normally will be implemented as part of the phase one or be a total phase one depending on the project cash flow. The schedule formed part of the joint venture agreement. The completion date of the construction of low cost housing is state in the agreement. Should the business partner failed to meet the schedule without valid reasons a penalty will be imposed. The penalty clause is clearly stipulated in the agreement. The Liquidated Ascertained Damage (LAD) is spelt out in the agreement. However, the business partner can request for extension of time if the delay is caused beyond their control.

In the case where squatters occupy the site for the proposed joint venture development, the business partner is given the task to relocate them with City Hall of Kuala Lumpur act only to assist their partner. Nevertheless, relevant notice and order to evacuate in accordance to Squatters Clearance Act will be issued by the Enforcement Directorate Department. In Malaysia context, squatters were not given any compensation if the sites they illegally occupied were required for any development. Under the National Land Code 1965, the term "land" is given a wider meaning, beyond what is understood in common parlance. It refers not only to the land surface itself and all substances forming that surface but also the subsoil
and all substances therein, all things attached to or permanently fastened to anything attached to the earth either on or below surface and land covered by water (Salleh, 1995). Thus, any houses erected illegally will be considered as part of the land and belongs to the person whose name is registered in the title document. By virtue of these, squatters were then denied any compensation even though they incurred cost in building the house. However, on humanitarian ground, in most cases that involved squatters, the business partner is held responsible for any cost incurred to compensate or subsidised the squatters only in respect of removable costs or renting of alternative housing prior to the completion of low cost housing. It should be noted that any cost incurred will be reflected as project cost, in which indirectly borne by parties in this form of business partnership.

Marketing wise, usually these low cost housing require only minimum effort. The low cost housing units from this business venture are open to public who are interested and eligible to purchase. The prospective purchaser must first register their interests with Housing Management Department via the Open Registration System. Ironically, priority is given to squatters involved on project site regardless of their income status. A key low cost housing policy in this respect stated that as far as squatters are concerned, they will still be guaranteed a unit of low cost housing even if they do not fulfil the criteria as low cost housing purchasers. It is the objective of City Hall of Kuala Lumpur to fully eradicate squatters by year 2005, thus priority is given to relocate the squatters irregardless whether they are eligible or not.

In determining the eligible purchasers of low cost housing units under the business-partnership development arrangement, the officer from this section sits as one of the committee members. He will make the decision on the eligible purchasers. At this stage, it is observed that there were cases where politicians do interfere with the decision-making. However, their involvement do not contravene with the City Hall of Kuala Lumpur’s policy on low cost housing as a whole. Generally, it involve about 5 - 10% of the total units provided. They usually request for the benefit of their voters but as far as City Hall of Kuala Lumpur is concerned, as long as the prospective buyers fulfil the conditions stipulated by the Housing Management Department, they will be given consideration to own a low cost house. In some cases, even the business partner sometimes does get involved at this level too. Nevertheless, in general consideration is given if they request for their own staff members or even to their own siblings and relatives who were eligible to be considered for purchasing the units.

In allocating the units to the prospective buyers, the Joint venture and privatisation section has formulated their internal policy. The policy mentioned that opportunity to enter home ownership would not only be given to squatters involved in the project sites but will also be extended to those involved with other City Hall of Kuala Lumpur’s project as well as the federal government’s project. The balance of the units to be constructed will then be made available to public who register with Housing Management Department through Open Registration System.

Further field interviews with occupants of low cost housing delivered through this business partnership approach were then undertake. These interviews present opportunity to examine the extent of successfullness of the policy implemented from the purchasers perspectives. A total 200 face-to-face interviews were achieved with 200 households of low cost units at Pantai Dalam development, a business partnership development between the Mayor of City Hall of Kuala Lumpur with Syarikat Kemajuan Perumahan Negara Sdn Bhd (SKPN). The joint venture agreement was signed on 4th January 1990 involving a total land area of
approximately 90.09 acres. The land is located in area known as Kampong Kerinchi Pantai, about 5 kilometres due south of Kuala Lumpur city centre. From this business partnership arrangement, the City Hall of Kuala Lumpur obtained a total unit of 1,140 low cost housing units to re-house the urban poor.

Interestingly, the study revealed that only two third of the household interviewed were owner occupied whilst the balance were rented out (see figure 1). The reason behind this phenomenon is perhaps due to the squatters’ issue in which, on the one hand the urgent need to be evacuated to make way for the project but on the other hand, they do not totally fulfil the requirements stipulated by the authority. To some extent, the squatters’ eradication policy (Zero squatters by year 2005) is found to benefit the squatters in obtaining a low cost unit regardless of their income status. Squatters in most of the cases obtained support from the politician to ensure a low cost house be allocated to them before agreeing to move from the development site. In some cases, they do not want to be divorced from their previous neighbours or former voting area, thus due consideration is given to them to purchase the low cost units provided in the development. In addition, due to strategic location of the development, the investment opportunity to let out the units is lucrative. This study found that rental of low cost units if rented out to multi-tenants can easily doubled than the borrowing amount paid to serve the housing loans. This is perceived as a good source of investment that lured the purchasers to move out rather than occupying their own houses.

Figure 1: Tenure status of low-cost housing in studied area (N=200).

![Pie Chart](image)

**Owner occupied**  **Renting**

37%  63%

Conclusion and Recommendations

A home-owning society is no doubt likely to be one where people are quietly proud of their achievements and fiercely jealous of their right and privileges. It is one where people will fight tenaciously to defend what they have, but where, if they do not feel threatened, they will join in collective life, thereby sustaining rather than undermining the vitality of civil society (Saunders, 1990). The findings suggest that low cost home ownership policy implemented through the business partnership approach has indeed assisted the disadvantage people to buy earlier than they would otherwise have been able to. Yet, the findings raised a few implications from the aspect of policy process and implementation in context of business partnership development.

The business partnership between the market and the state as evidenced by the case study has provided the state with the means to better manipulate the housing sector to offset the backlog
in providing housing to the low-income people. This alternative approach proved to be successful to assist the urban poor to enter home ownership compared to the traditional approach whereby only one party take the lead in this social obligation role. Behind this is the existent of a strong institutional capacity developed by the state, which is an essential ingredient to realise this business partnership approach.

Yet, weakness at the last stage of implementation where squatters involved on project sites were given the opportunity to purchase without adhering to the eligibility policy outlined by the organisation itself, has indeed posed a significant challenge to the state. No doubt, a range of policies has been designed to meet the housing needs of the low-income people but this range of policies has result in overlapping and difficulties at the implementation level. The prominent one is the policy pertaining to Zero squatters by year 2005 that overlapped with the eligibility policy. In fact, in this case study of business partnership approach, the opportunity to purchase is not only given to squatters involved on the business partnership development site but also extended to those involved on other CHKL projects and even on other Federal Government projects. To a certain degree, this paper argued that the priority given to squatters to purchase the low cost housing has indeed created confusion in the whole issue of low cost housing distribution. There are squatters who are not eligible for a low cost house but were still allocated a unit in order to make way for the proposed development. This has led to a failure to reach a total success in providing home ownership to the urban poor. Therefore, the finding suggests that there is a need for further research to address this issue.

Notes

1 about US$11,000 or € 9,000
2 the exchange rate of local currency to US$1 is about RM3.819 and to €1 is about RM4.656

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