Towards an Alternative Housing Tenure for Malaysia

1.0 Introduction

Recently, the issue of housing affordability has dominated discussions among Malaysian real estate practitioners and academicians. A significant amount of debate is focused on the inability of Malaysians living in major cities to purchase a house. Traditionally, home ownership is assumed preferred tenure in the country, as reflected by its 85 per cent home ownership rate, whereas pure renting is seen as pouring money down the drain. The state’s support for home ownership has been explicit in the country’s five-yearly economic plan since the 1970s. This focus on enabling home ownership has come at a hefty cost. The promotion of low-income home ownership via the mandatory low-cost housing quota on developers, ease of home finance and speculative investment have been linked to escalating general house prices. It is argued that the home ownership ideology has been largely shaped and enhanced by the state based on political motives and not based on real effective demand. The state-fuelled demand for ownership housing may not be a sustainable policy in the long run. Moreover, literature from various branches of knowledge has reported comparable housing satisfactions between owners and non-owners. This paper aims to examine alternative housing tenures as part of an effective housing strategy for the housing authorities in Malaysia. Using an extensive review of the housing literature, this paper will outline several intermediate tenure typologies which could suit the country’s housing market. The main contribution of this paper is in exploring an alternative tenure that could address problems of non-affordable middle-income housing.

Abstract: Recently, the issue of housing affordability has dominated discussions among Malaysian real estate practitioners and academicians. A significant amount of debate is focused on the inability of Malaysians living in major cities to purchase a house. Traditionally, home ownership is assumed preferred tenure in the country, as reflected by its 85 per cent home ownership rate, whereas pure renting is seen as pouring money down the drain. The state’s support for home ownership has been explicit in the country’s five-yearly economic plan since the 1970s. This focus on enabling home ownership has come at a hefty cost. The promotion of low-income home ownership via the mandatory low-cost housing quota on developers, ease of home finance and speculative investment have been linked to escalating general house prices. It is argued that the home ownership ideology has been largely shaped and enhanced by the state based on political motives and not based on real effective demand. The state-fuelled demand for ownership housing may not be a sustainable policy in the long run. Moreover, literature from various branches of knowledge has reported comparable housing satisfactions between owners and non-owners. This paper aims to examine alternative housing tenures as part of an effective housing strategy for the housing authorities in Malaysia. Using an extensive review of the housing literature, this paper will outline several intermediate tenure typologies which could suit the country’s housing market. The main contribution of this paper is in exploring an alternative tenure that could address problems of non-affordable middle-income housing.
2.0 Literature Review

"Home" and the home ownership fallacy

"Home" conveys different meanings, senses and perceptions in different branches of study, but generally can no longer be represented by the physical dwelling place (Easthope, 2004; Mallett, 2004; Steward, 2003). Beyond shelter, home is also perceived as a status symbol, a personal expression and finally, a working space that involves a process rather than place (Steward, 2000).

With this more sophisticated definition of home, the idea of home ownership should also be re-looked. An often neglected part of home ownership is the idea of owning the legal rights to the space/place (Thaden et al., 2013). This is all too important when it comes to the physical dwelling. Importantly, this leads to a new line of argument that the ownership of home goes beyond possession of tenure. This argument is based on two premises. Firstly, leasehold titles are owned indefinitely, contrary to the argument of security of tenure for home ownership against renting (Thaden et al., 2013). Secondly, it is the length of tenure rather than possession of tenure that influences house buyer perception of tenure security (Imne, 2004).

Diminishing the legal rights of home ownership will in turn have a moderating effect on the main argument for home ownership, i.e. the security of tenure and its associated benefits, as often cited by the government to support owner-occupied policy. Saunders (1990) was a big proponent for home ownership, stating that people have the inherent need to own their place of dwelling. Other authors have supported this argument and have provided various perceived and actual benefits of owning (Dooling, 1999; Kaai, 2008) mentioned how newly industrialised countries such as Singapore and Hong Kong depend on the perceived stability offered by home ownership for their economic development; others mentioned housing as an investment (Forest et al., 1990; Ronald, 2008), better health and psychological well-being in terms of distress incidence (Casney & Boyle, 2004); higher housing satisfaction (Ellingsa & Hoekstra, 2005); life's prospects of children (Green & White, 1997) and better children's behaviour and achievements (Aronson, 2000; Boehm & Schöttmann, 1999; Boyle, 2002; Mohanthy & Paul, 2009). However, recent studies have shown that similar benefits may be derived from home regardless of tenure (Abrah, 2013; Easthope, 2013; Pansel, 2012).

Traditionally, housing tenure may be divided into ownership and renting. At its most basic, renting involves a legal and economic arrangement with a landlord giving the renter rights to occupation and enjoyment for the exchange of rent. Generally, these rights are bounded, i.e. not absolute. In contrast, home ownership is often seen as the possession of unlimited rights over property and is therefore more desirable of the two tenure types. Coming from a legal point of view, Bright & Hopkin (2013) illustrated the fallacy in the perception of security offered by home ownership compared to renting. According to the authors, there is no absolute ownership to the property unless the title is held under a freehold interest. In the case of Malaysia, the National Land Code has provided that land disposal by the State Authority shall be made under leasehold except for very limited circumstances, which are normally in the public interest. This can challenge the impression of tenure security under home ownership in Malaysia.

3.0 The Context

3.1 The Malaysian housing market

The Malaysian housing market is a dichotomy of state/market led economic sectors. On one hand is the multitude of laws, regulations, guidelines and policies that control, shape and determine housing development activities, but on the other is the powerful arm of the market represented by the developers and housebuyers (i.e. both owner-occupiers and speculators). Dooling (1999, 1995) noted that the state-led and government agencies in Malaysia are highly conservative and motivated to support certain policies that help to suppress housing market (Ball, 1983). The state-led and government agencies in Malaysia are highly conservative and motivated to support policies that help to suppress housing market (Ball, 1983).

The above trend in house price increase can be linked to the government's home ownership-friendly policies, typical of approaches by governments in emerging economies that link a robust housing market with domestic, political and social stability (Dooling, 1995). Indeed, most governments are politically motivated to support, or at least refrain from suppressing home ownership (Ball, 1983). The state-led and government agencies in Malaysia are highly conservative and motivated to support certain policies that help to suppress housing market (Ball, 1983).

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3.2 Home ownership pitfalls

The many perceived benefits of home ownership, have resulted in very high home ownership rate in Malaysia. At 85%, this is among the highest home ownership rate in the Asian region (RICS, 2008). This growth of the Malaysian housing sector came as the result of substantial housing demand from a growing population, high urbanisation rate and an expanding economy (Wan Abd Aziz et al., 2010). Another equally important factor is the state support for home ownership since 1970 (Yahaya, 1989). The prolonged drive towards home ownership has increased access costs for middle-income households in the country. During the economic expansion of other tenures, when the converse should increasingly be weighed by policymakers.
4.0 The solutions: Alternative housing tenures

4.1 The case for intermediate tenures

The basics of the tenure spectrum - rental and social housing - are well understood. However, the housing market is highly segmented, and houses are typically divided into mortgageable and non-mortgageable tenures, with different rules and implications for buyers. The government's housing policy has not been able to address the needs of all segments of the population, especially in urban areas where demand for housing is high. This has led to a housing crisis where many people are unable to afford housing, and those who can afford it often end up paying more than they can afford. To address this, the government has introduced intermediate tenures, such as shared ownership and shared equity schemes, to provide more affordable housing options for buyers.

4.2 Intermediate tenures for the middle-income group

There are several types of intermediate tenures in existence, such as shared ownership, shared equity, deed restricted mortgages, cooperative housing and community land trusts. This section aims to synthesise features of intermediate tenures meant for both low and middle income households for the purpose of exploring a viable intermediate tenure for middle-income households in Malaysia.

4.2.1 Shared ownership

Shared ownership is essentially a 'part buy, part rent' scheme, whereby the house buyer only pays for the portion of rent that he can afford and pay a share of the mortgage on the remainder of the share (Thaden et al., 2013). For instance, if a house buyer buys 30% share in the house, he will only pay a subsidised rent on the 70% non-owned portion. The house buyer will have to pay a rental to the landlord to raise the rental to 100% per month. In the UK, the first shared ownership scheme was the Right to Buy introduced in 1980 (Monk & Whitehead, 2011). Shared ownership is an assisted ownership that was initially meant for low-income groups but has recently included middle-income house buyers who increasingly cannot afford the costs of lower ownership mortgages (Easthorpe, 2014). Schemes under this intermediate housing type include New Build Homebuy (for new houses) and Social Housing (Monk & Whitehead, 2011). In the UK, there is heavy reliance on housing associations to run shared ownership housing such as Help to Buy and Shelter England. The main disadvantages of shared ownership are the choice of property being limited to new units and difficulty of disposal if the house buyer is unwilling or unable to staircase to 100% per cent. In the US, lease-purchase programmes involve an agreement between the lease-purchaser and an agency that serves as the primary lender.

<table>
<thead>
<tr>
<th>Table 3: Rationale for intermediate tenures</th>
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<tbody>
<tr>
<td><strong>Beneficiary</strong></td>
</tr>
<tr>
<td>Government</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Society</td>
</tr>
<tr>
<td>Stability of the economy and society.</td>
</tr>
<tr>
<td>Individual</td>
</tr>
<tr>
<td>Enjoyment of rental benefits such as avoidance of ownership costs (repairs and maintenance, mortgage increase due to interest rate inflation, etc.) and flexibility in moving on.</td>
</tr>
</tbody>
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Source: Adapted from Whitehead & Monk (2011)

4.2.2 Shared equity

Shared equity involves an equity mortgage to fund house buyers' purchase which enables this scheme to cover purchases of all types of houses on the market.

Shared equity involves an equity mortgage to fund house buyers' purchase which enables this scheme to cover purchases of all types of houses on the market. Initially, the government introduced a scheme where the house buyer was given a fixed period before the lease purchaser was allowed to purchase the house (Monk & Whitehead, 2004). The deed will determine the resale price by a formula to maintain the affordability of the unit and also the resale period, normally at least 30 years (Monk, 2004). While the covenants in the deeds provide certainty, the restrictions also allow for a longer resale period. 4.2.4 Cooperative Housing

A cooperative is a housing cooperative where an individual owns a share in the cooperative property unit offering a return of profit that ties with the share of the cooperative (Monk & Whitehead, 2011). Co-operatives are owned and managed by the co-op itself and the members of the cooperative. Residents on average own a share in the cooperative property unit offering a return of profit that ties with the share of the cooperative (Monk & Whitehead, 2011). One of the major advantages of co-operatives is that they have more benefits of ownership to the members and the government by enhancing the sense of co-operate ownership and community. In the UK, the 'Homebuy' scheme was introduced in 1960 to provide a 25 per cent zero interest equity mortgage (Monk & Whitehead, 2011). Homebuy was meant for households located higher on the income spectrum for subsequent purchases. Similar to shared ownership, shared equity is also available for those at the higher level of the income spectrum, but cannot afford conventional mortgage ownership.

4.2.3 Deed restricted mortgages

A variation of the shared equity scheme, the main characteristic of deed restricted mortgages is the express contractual obligations provided in the deeds. Deed restricted mortgages limit the resale value, future buyers and need to be monitored by a dedicated organisation, which also needs to prepare and maintain a pool of eligible and trained potential buyers (O'Neill, 2008). The deed will determine the resale price by a formula to maintain the affordability of the unit and also the resale period, normally at least 30 years (Monk, 2004). While the covenants in the deeds provide certainty, the restrictions also allow for a longer resale period.
LEC buildings are normally covered by government subsidies. Since it is intended for LEC to be self-governed, there is a requirement for either the government or community-based organisations to provide shareholder training and leadership development programmes and infrastructure (Parsell, 2012). Besides the usual benefits associated with home ownership, LECs are attractive as they can generate social capital and community participation (Parsell, 2012).

4.2.5 Community Land Trusts

Similar to LECs, Community Land Trusts are collective ownership that is affordable for first-time house buyers. This scheme involves the acquisition of land by CLTs, which then develop the land with affordable housing for the community (Monk & Whitehead, 2011). As a form of shared ownership, house buyers enjoy the benefit of security of tenure, but at the same time are able to spread and financial risk (Parsell, 2012). CLTs operate at local level and are controlled by local communities rather than by governments (Monk & Whitehead, 2011). CLTs depend on charitable funds to fund their creation and operations rather than government subsidies or expenditure (Monk & Whitehead, 2011). The owners who decide to sell their unit are contractually obliged to either sell it to CLT or other income-eligible buyer at below market prices (Imre, 2004).

### Table 4: Selected types of intermediate tenures

<table>
<thead>
<tr>
<th>Type</th>
<th>Target Income group</th>
<th>Specific Institutional requirements</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared ownership</td>
<td>Low to middle</td>
<td>Housing associations, agent or property manager to run the scheme. Government subsidy on non-owned portion.</td>
<td>Flexible ownership portion based on buyer's willingness or affordability. Reliance on government subsidy on non-owned portion.</td>
<td>Limited to new units. Limited buyers if unable to fully self-subsist.</td>
</tr>
<tr>
<td>Shared equity</td>
<td>Low to middle</td>
<td>Government-based equity mortgage fund.</td>
<td>Covers all types of houses.</td>
<td>Reliance on government for mortgage fund.</td>
</tr>
<tr>
<td>Deed restricted mortgages</td>
<td>Middle</td>
<td>Government or community-based organisation to prepare and manage buyer list and train the buyers.</td>
<td>Covers all types of houses.</td>
<td>Limited resale value. Reliance depends on efficient management.</td>
</tr>
<tr>
<td>Cooperatives</td>
<td>Low to middle</td>
<td>Government or community-based organisation to provide shareholder and leadership training.</td>
<td>Can eliminate housing speculation.</td>
<td>Some government initiatives needed for training and subsidies.</td>
</tr>
<tr>
<td>Community Land Trusts</td>
<td>Low to middle</td>
<td>Community or private sector-based organisations to manage and fund their operations.</td>
<td>Need to acquire land, which may be expensive in major cities.</td>
<td></td>
</tr>
</tbody>
</table>

4.3 Towards an intermediate tenure for middle-income housing in Malaysia

In the past, low-income housing has received strong institutional support from the Malaysian government, in terms of various policies, schemes and allocations. Middle-income earners have largely been left at the mercy of the market, with some efforts to assist in home ownership. As was the UK, intermediate housing was introduced in the 1980s in major cities as a supplementary housing type meant for low-income groups. It was a form of a delayed home ownership which offered partial benefits of renting and owning. However, the scheme was not extended for middle-income groups. Whilst the literature has the tendency to put intermediate tenure as a solution for improving housing affordability among low-income groups, the contention here is that intermediate tenure is a possible strategy to enhance housing affordability among the middle-income segment in Malaysia.

Summarised and tabulated in Table 4, the above housing affordability among low-income groups was specific institutional requirements to enable its running. The requirements can be reduced into organisational, financial and management requirements.

4.3.1 Organisational requirements

Institutional support is a requirement for any non-market housing, which also includes intermediate tenure housing. This is evidenced from various countries, for instance, the UK's intermediate housing has greatly depended on housing associations (Monk & Whitehead, 2011), in the case of Malaysia, PR1MA would be a viable vehicle to promote intermediate tenure as one of the solutions for the high access cost to private home ownership. PR1MA's main objective is to provide affordable housing for Malaysians supports the main spirit of this research. However, current PR1MA programmes are focused on providing housing for direct ownership, whereas this research intends to propose an intermediate tenure which is better than renting but does not equate ownership. A closer look at PR1MA's organisational objectives should be undertaken before any recommendations can be made.

The legal and regulatory framework should be ready to accommodate an intermediate housing tenure which brings with it different sets of property rights from outright ownership and renting. The provisions under the Malaysian National Land Code with regard to dealings and restrictions of dealings can enhance the security and prevent abuse of the partial ownership on land of intermediate tenure. In terms of land holding, leasehold titles have not been able to confer absolute ownership rights for housebuyers anyway. However, missed housebuyers have been with their "homeowner" status. Similar NLC provisions should be able to cater for the different bundle of rights carried by intermediate tenure. Additionally, the intermediate tenure should be supported with contractual arrangements which clearly spell out obligations of the landlord and tenant. This is to prevent future disputes and expensive litigation regarding the responsibilities of each party.

4.3.2 Finance requirements

A further consideration for intermediate tenure is finance. For the initial housing deposit, a system modelled on the South Korea's National Housing Preemption Subscription Deposit (NHPSD) is proposed to direct and indirect provision of housing units by PR1MA. Based on the description in Koh (2004), the basic premise of NHPSD is monthly deposit collections that give priority to potential purchasers of public housing. If PR1MA would convert its rental units for intermediate tenure scheme, some portion of the rental could be converted into future deposit for the same unit. Alternately, the rental portion could be deposited in a sinking fund that would yield a lump sum amount for a housing deposit in other housing scheme.

Private home financiers will only participate in such schemes if their interests are covered. It may be hard to convince these financial institutions to give out loans to a scheme which does not accord full ownership to the borrower. For instance, the banks would want to be reassured of their rights in the case of defaults. However, the National Land Code has already provided for purchases of housing units under leasehold titles, which theoretically does not accord absolute ownership to the housebuyers. In fact, the legal rights carried by the intermediate tenure are comparable to that of leasehold.

4.3.3 Management requirements

Collective ownership is not a new concept in Malaysian housing. Strata title properties i.e. apartments, condominiums and townhouses come with common properties (the land on which the buildings are built, common areas and facilities such as swimming pool, gym.) which are jointly owned by the buyers. A plan that could be learned from LECs is that investments should be made in developing social capital and leadership to ensure good governance of the shared ownership scheme. The apathy shown by most occupants of strata properties in Malaysia is normally due to the lack of sense of ownership which could be cultivated by proper reinforcement and training.

5.0 Conclusion

This paper argues that it is political motivations that have created and sustained the high rates of home ownership rather than the lived experience of the actual homeowners. Whilst the beneficial to high and some low-income groups, the owning friendly environment fostered by the government may be associated with affordable housing for middle-income groups and vulnerable housing-leveraged economy. Some demand pressure in the housing market may be eased by offering new types of tenures other than houses for outright purchase and rental.

This paper has provided a case for an alternative housing tenure type to address the middle-income segment that do not want to pay "dead money" but cannot afford to purchase a house. Graves (2004) outlined the recommendations by an expert to ensure a successful intermediate tenure product. A viable intermediate housing scheme should offer a product that offers significant price discount to offset limitations in sale, rental, subdivision of re-sale terms and restrictions to entice house buyers to these products and simple to understand by both house buyers and lenders. An intermediate tenure which
piggyback on PRIMA could provide a solution in the long run in terms of fulfilling some of the tenure needs of middle-income households, providing savings to public expenditure and ensuring economic and social stability to the society.

**Reference**


