

# Housing Affordability

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## HOUSING AFFORDABILITY STRESS: A LITERATURE SURVEY AND SOME EVIDENCE FROM MALAYSIA

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### Abstract

Housing affordability stress has become an economic challenge to households in several countries, including Malaysia. Housing quality is the fundamental factors that affecting the wellbeing of the households. However, the rise in house price has squeezed the purchasing power of households in housing ownership and significantly diminishing the quality of life. The extensive gap between house prices and household's affordability and therefore some households forced to rent poor-quality housing and neighbourhood, thus lead to housing stress and weakening a household's well-being. In addition, housing needs to be equipped basic standard, providing enable access to employment and community services that is available at a cost which does not cause substantial hardship to the occupants. Thus, the aim of this paper is to explore the theoretical review of housing stress and empirical literature. There are associations between the housing stress measure on affordability and wellbeing, including financial stress, health and neighbourhood quality. Further, governments need to adopt more effective housing policies if they are to meet the needs of the households.

Keywords: (Housing, Affordability, Stress, Wellbeing)

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### 1.0 INTRODUCTION

Housing stress is widely used to quantify housing affordability [1]. However, does housing stress accurately reflect housing affordability and the impact of housing consumption decisions on household wellbeing? Rising in housing costs and prices can lead to an increased interest in concepts such as housing affordability and housing stress [2]. Housing affordability stress relates to the failure to own a house which is influenced by macro and micro factors. Housing is globally accepted as a basic necessity and pre-requisite for man's living, which provides shelter, refuge, security, comfort, and dignity [3&4].

Housing affordability stress is commonly measured through the 30/40 rule. Households earning in bottom 40 percent of income and paying more than 30 percent of their gross household income in mortgage and rent payments faced housing stress. The 30/40 rule is only a rule of thumb that does not reflect actual individual and household experiences of housing and financial stress. Housing affordability, however, is an important determinant of financial stress. Despite being an imperfect measure of housing stress, the 30/40 rule predicts reasonably the likelihood of household compromises and rent difficulties.

The general housing affordability price in Malaysia is less than RM150,000 per unit, especially for the Bumiputera and medium income group [5]. However, the affordability level is depended on the household expenditures ratio on income earned. Housing affordability can also be viewed in three ways: purchase affordability, repayment affordability and income affordability [6-11].

Providing a comfortable and affordable housing is one of the objectives of the country's social development. The government is committed to helping the society to secure their own house [12]. According to the Social Welfare Malaysia (2013), to ensure the welfare of the people to living in comfortable circumstances, then the government should provide adequate houses, good quality, and affordable houses to fulfill the needs of low and middle-income groups which also known as B40 and M40. Although the Malaysian Housing Policy (2010) has been designed to fulfill the housing needs of the B40 and M40 income groups, however the supply seem to be inadequate due to the high demand for affordable houses while the developers preferred to build high-end houses to reap huge profits without considering the ability of households that indirectly put pressure on households to own their own home [13].

Hence, the inadequate supply of affordable houses to cater the needs created the housing affordability stress among the B40 and M40 income groups to buy a house due to the mismatch between household income earning and house price. The lack of affordable housing affects both the rental and homeownership in housing market and difficulty in acquiring affordable housing affects low-income household [14]. This is because house prices in the market over pacing household income where the purchase price offered is beyond household income affordability and hence affected household ability to purchase and to secure financing. As a result, demand for housing especially affordable houses dropped. The dropped in demand has created overhang in the housing market due to many houses are unsold because of the prices offered are beyond household income affordability. Moreover, the increase in living costs also contributed to the housing affordability stress.

In fulfilling the individual's ability to finance housing, various factors need to be considered such as the ability to buy, income affordability and ability to repay the mortgage [15]. House prices will determine whether an individual is able and willing to pay a price set

by the seller or not. Prices also referred to the amount of money paid by an individual to obtain housing ownership rights. Changes in house prices give impact directly and indirectly on the demand for credit by households and their ability to repay debt [11].

The institution of the family has an important role in enhancing the ability of households to tap opportunities and meet the challenges of the current economic changes. The problem of low income and financial problems will drag household to stress. The question arise what are the key factors that influence housing stress and household wellbeing?

## 2.0 MASLOW'S THEORY OF NEEDS

In 1943, Psychologist Abraham Maslow suggested five different types of human needs, the first set of need is the physiological needs such as food and shelter [16], followed by security needs, and the need for love and be accepted. Fourthly, the esteem needs, such as the need to be respected and recognised. While the highest level of the hierarchy is the need for self-fulfillment and realize one's potential. The hierarchy suggests that the needs at lower level of the pyramid must be met before moving to the next higher level; for example, a starving person will seek food before self-actualization.

Maslow's hierarchy of needs is a description of the needs that motivate human behaviour. Figure 1 exhibited the general needs in Maslow's hierarchy. The stress theories may describe a particular phenomenon, explain the relationship between or among phenomena, or predict how one phenomenon affects another. According to Maslow theory, standard human needs can be achieved through adequate housing's access. Housing is a basic human need that Maslow explained in the hierarchy of needs as a first important level of need similar to food and drink; therefore, it is at the centre of wellbeing [17]. In addition, Maslow's theory also points to the importance of adequate housing for safety and positive development at the second level of need to elevate 'self-actualization' [18-19].

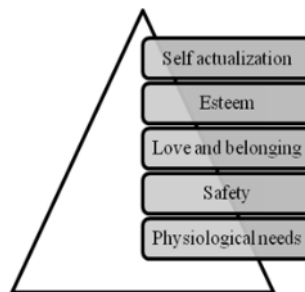


Figure 1. Maslow's hierarchy [19]

There is significant evidence of growing needs for affordable housing. Given that the demand for affordable housing far exceeds supply has put pressure on house prices. The rise in house price has squeezed the purchasing power of households which exacerbate the financial stress. A movement into housing pressures is associated with an increase of 40 to 50 per cent of housing cost burden to enjoy better quality housing or locations and achieving better neighborhood and socioeconomic environments.

The increases in housing costs limiting the ability of households to afford other basic needs. Housing finance is one of the important mechanisms that need to be considered to meet the housing needs. The problem of housing financing is not only threatening the lower income group, but also the middle income group. Government has launched and implemented initiatives and strategies to aid the households own a house. However, the decreases in purchasing power and difficulties of securing financing facilities led to the fact that households could not afford to purchase a house at their eligible price [10&15]

## 3.0 HOUSING STRESS

Housing stress describes a situation where the cost of housing either as rental or as a mortgage is highly relative to household income, and reflecting of inadequate housing for a proportion of the population. Households in housing stress are more likely to report that they are 'just getting on', 'poor' or 'very poor'. Housing stress does not affect outright owners, public housing tenants and many in subsidized housing pay less than 30 percent of their income for rent or loan, but affecting the buyer of private renters, and owner purchasers [1]. Housing stress defined as 'a generic term to denote the negative impacts for households with insufficient income to secure adequate housing. It can also refer to other actors such as over-crowding and insecurity' [20].

Due to payment constraints, households are forced to accept their housing options, despite compromising the quality of neighborhoods with adverse effects on overall well-being. When low-income households, which is the bottom 40 percent of households used about one-third of their income for housing cost, they will experience housing stress.

There has been a relatively little awareness given to another side of housing equation, which are the risks associated with home ownership, although government policies have focused primarily on preserving and protecting of household income level.

Financial housing stress is defined as spending more than 30 percent disposable income for housing costs. Households are usually depicted in 'housing stress' if they pay more than 30 percent of their income for housing costs. As high-income households have no

problem spending more of their income for housing, they are often excluded from this type of analysis. Therefore, the 30/40 ratio is often used as a benchmark, and for households that fall in the bottom 40 percent have to spend more than 30 percent of their income on housing, they are considered to be in housing stress. Thus, more confusing when gross and disposable income is used by researchers when referring to housing pressures.

#### 4.0 DIMENSION OF HOUSING STRESS

Many developed countries have experienced a decline in family institutions resulting from higher living standards (Housing Affordability Inquiry, 2012). In fact, the family has an important role in enhancing the ability of households to cope with the challenges of the current economic changes in order to improve household wellbeing [10&12].

Housing stress is described as 'consisting of two types: physical and emotional' [21]. Emotional housing stress factors include overcrowding, lack of control, housing tenure, housing costs and residential instability; meanwhile, physical housing stress factors include substandard housing, housing quality and housing characteristics. The definition of housing stress is much broader than simply the financial implications highlighted using the 30:40 rules.

##### *Housing affordability*

The definition of housing affordability is subjective, and believes housing affordability as the relationship between housing and human- for some people, all housing is affordable though the house is expensive, but for others, no housing is affordable unless it is free [22]. Nonetheless, the housing affordability problem is resulted from the increases in house price that outpaced household income growth [23].

Reduction in rental and house prices, direct housing subsidies to households, and large-scale of new housing supply can improve housing affordability. This policy must address existing housing barriers and evaluating the supply needed to deliver affordable housing for low and medium income groups.

The increase in house prices also led to the increase of upfront payment and mortgages repayment [15]. Many have subsequently lost their chances of getting approved for financing because the household was unable to comply with the lending institution's requirements [8]. Table 1 shows the mismatch between household income and house price. Furthermore, income affordability is measured ratio of house price to median annual household income. Meanwhile, Table 2 shows an amount of housing repayment after deducting the expenses in Malaysian context.

In general, most of the immediate concerns are the related burden of housing costs that were placed on housing budgets and the constraints of affordability by different household. For example, a lack of affordable housing means that many households do not have access to adequate, appropriate and secure housing at a cost they can afford. Housing affordability issues arise when household incomes are insufficient income or paying more than 30 percent of their income in housing costs may dragging them into housing stress [23].

Housing affordability has been referred to by a number of researchers in many different ways, and housing affordability is a condition when people have the potential to save certain portion of their income to buy a house [24], as well as to pay other expenses during their employment period [8].

**Table 1. The mismatch between income and house price [8]**

Type of house	Price range	Monthly household income level (maximum)
Affordable housing	RM300,001 – RM400,000	RM10,000
Affordable housing	RM200,001 – RM300,000	RM8,000
Affordable housing	RM200,000 and below	RM6,000
Medium low cost	RM72,500 and below	RM3,500
Low cost	RM42,000 and below	RM2,500

**Table 2. Housing repayment after deducting the expenses [10&12]**

	Median income(MYR)	B40(MYR)	M40(MYR)	U20(MYR)
Average income	6,141	2,537	5,662	14,305
Nett income	5,128	2,244	4,781	10,581
Monthly expenses	3,578	2,027	3,629	6,899
Basic need	2,340	1,398	2,361	4,374
-Food	676	538	728	905



-Utility and shelter	855	477	793	1,742
-Health	57	31	57	127
-Transportation	522	253	548	1,099
-Communication	190	84	196	400
-Education	39	16	39	102
-Others expenses	1,238	629	1,268	2,525
Savings (10% nett income)	513	224	478	1,058
<i>Assuming no relationship and other debt</i>	356,803	49,923	265,100	847,795
<i>The maximum house price affordable</i>				
<i>The assumption of 10% net income is kept and there is no other debt</i>	238,743	0	155,034	604,169
<i>Maximum affordable house price</i>				

## 5.0 CONCLUSION

Housing affordability stress provides a meaningful measure of various elements of household wellbeing and can be concluded that housing stress does indeed have a constructive impact on household wellbeing. Housing affordability encompasses the positive and negative financial and non-financial outcomes of the household's decision and any evaluation of affordability must include more than cost-income ratios. Households may experience negative housing-related outcomes if the household reducing the cost of housing, such as poor-quality housing and neighborhoods. Housing quality is the fundamental factors that affecting the wellbeing of the households. However, the rise in house price has squeezed the purchasing power of households in housing ownership and significantly diminishing the quality of life. The extensive gap between house prices and household's affordability and therefore some households forced to rent poor-quality housing and neighbourhood, thus lead into housing stress and weakening a household's well-being. Further investigation for the evaluation of housing stress dimensions is needed to provide adequate exploration so that additional reliability evidence and validity can be achieved.

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