Institutional Challenges for Flexible Pricing Policy: The Case of Kuala Lumpur

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ABSTRACT

The high cost of land resulted in unequal distribution of houses in the city center. A flexible pricing policy was implemented to encourage the private sector to build more houses within the urban areas for the lower income group. This paper will look at the institutional framework of low cost housing delivery system in Malaysia in implementing the policy with Kuala Lumpur as the case study. The institutional framework is assessed through two aspects: 1) A content analysis of the institutions’ roles, responsibilities and scope of work and 2) The planning approval process at the local government level. This is then validated by a semi-structured interview to further establish the parameters. The paper is however limited to identification of institutional parameters for the development of an institutional framework in implementing the flexible policy model. The findings suggested that the institutional framework does not complement the implementation of the policy. There are loopholes in implementing the policy comprehensively. Identification of the institutional parameter is important to contribute towards the development of a new institutional framework.

Keywords: Low cost housing, Institutional framework, Flexible pricing policy, Equal Distribution

1. INTRODUCTION

Kuala Lumpur is a fast growing metropolitan area that is already showing signs of gentrification. This is the process whereby higher income groups move back into the city and forcing out lower income groups (Short, 1996). In the case of the housing situation in Malaysia demand and supply takes center-stage since most housing provision is carried out by the private sector and land is a commodity that can be sold in the free market. In recent years, there is an increase of the high-rise development such as condominium and apartment catering for the higher income group especially in prime city area.

Malaysia practices a mixed-economy where substantial urban land is privately owned and developed for maximum returns. Therefore, to ensure regulated urban development and efficient land use, the government has adopted statutory powers to control urban development and the use of land (Arshad, 2001). This means that the government will not be providing all services and amenities for the public but the private sector plays an important role in providing services and goods to the public. The low cost housing system in Malaysia is unique where they are heavily regulated and are mostly constructed and sold in the open market by developers according to the eligibility list provided by the State Housing Department.

Control mechanism is required to ensure that the private sector will deliver the low cost housing for sale. This involved various interventions either in the forms of policies or guidelines in the planning, construction or financing throughout the housing delivery system. In 1998, the Ministry of Housing and Local Government introduced a flexible pricing policy for low cost housing for sale designed for urban areas where the implementation is left to the State Governments. This policy is designed to be more responsive to the market.

This new flexible pricing policy was applauded by private developers. It was reported in an article in Malay Borneo on 1st July 1998, under the heading - A REALISTIC PRICE:

“...The new three-tier price structure for low-cost houses will at last make their construction much more economically viable. Housing developers have less reason now to shirk from their responsibility in helping the government meet its low-cost housing targets...”
2. Background problem

Flexible pricing is seen as a mechanism to ensure that the private sector contributes to the production of housing for the lower income group who cannot afford open market housing. Although there are other elements of control in the low cost housing delivery system, such as planning controls, planning permission, technical specifications, borrowing controls and other financial initiatives, the price control mechanism has a crucial role to ensure that a balance between the economic benefits for the private sector and social benefits for the lower income group can be achieved. This is because, in a market-oriented scenario, only commodities that offer good return will be produced more. A more flexible price control especially in urban areas could encourage the private sector to build more low cost houses ensuring that a larger population can get access to affordable houses and that national targets can be met.

2.1 CASE STUDY- KUALA LUMPUR

Kuala Lumpur is located in Klang Valley and is the commercial capital of Malaysia. Its function as the administration capital of Malaysia has now been replaced by the new city Putrajaya. The Klang Valley comprises 284,342 hectares or 2.1% of the total area of Peninsular Malaysia, but its population is 16.78% (at 2,948,448) from the total population of Malaysia in 1991 (Klang Valley Perspective Report II 2000-2020).

Klang Valley also produced 23.11% of the Nation’s Gross National Product in the year 1997. The Klang Valley population is expected to increase to 6 million by the year 2020. This increase may create problems such as illegal settlements, traffic congestion, journey to work and the settlement pattern. (Klang Valley Perspective Report II 2000-2020). The increase in population indicates the importance of addressing the need for affordable housing in Kuala Lumpur especially for the lower income group.

Findings from a paper presented by Yaakup, et al in the AGISwlk Stakeholders Workshop series (5-8 Jun 2000) indicate that the classification and the distribution of low cost housing in the Klang Valley shows that the highest distribution is under Shah Alam City Council (MBSA) at 58 areas. It is followed by Kuala Lumpur City Hall (DBKL) at 54 areas; 30 areas for the rest of the Local Authorities and the Klang Municipal Council (MPK) has 6 areas. It is determined that the distribution is mostly concentrated within areas with lower land value. This indicates that the low cost housing provided by the private sector is not equally distributed within the prime areas.

2.2 Flexible Pricing

In 1980’s a controlled price of RM25,000 per unit or USD6,578.95 per unit was imposed by the federal government. This was the bench mark for many years without taking account of the escalating house price, the location and wage inflation over the years especially in major cities. However, in the last 15 years, land cost, cost of materials, labour and borrowing have led to about 30% increase in the price of housing for sale. The higher development cost to build new housing units (particularly because of high land value) has made the low cost selling price of RM25,000 per unit becomes increasingly unaffordable for the private sector/developers. The RM25,000 per unit price is said to be impractical as in the article in the National House Buyer Association, Malaysia (HBA) dated 20th September 2000. In order to assist people in the low and middle income ranges to obtain access to low cost housing for sale, the flexible pricing policy that was introduced by the government in 1998 is implemented in Kuala Lumpur to fill the gap in affordability for lower and middle income groups. The pricing of the low cost housing is as per Table 1:

<table>
<thead>
<tr>
<th>COST PER UNIT (RM)</th>
<th>LOCATION (Land Cost per m²)</th>
<th>INCOME GROUP (RM)</th>
<th>TYPE OF HOUSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>42,000</td>
<td>Cities and major towns (RM45 and above)</td>
<td>1,200 to 1,500</td>
<td>More than 5 storey flats</td>
</tr>
<tr>
<td>35,000</td>
<td>Major towns and fringes (RM15 to RM44)</td>
<td>1,000 to 1,350</td>
<td>Five storey flats</td>
</tr>
<tr>
<td>30,000</td>
<td>Small towns (RM10 to RM14)</td>
<td>850 to 1,200</td>
<td>Terrace and cluster</td>
</tr>
<tr>
<td>25,000</td>
<td>Rural areas (Less than RM10)</td>
<td>750 to 1,000</td>
<td>Terrace and cluster</td>
</tr>
</tbody>
</table>

The flexible pricing policy is practiced by the Kuala Lumpur City Hall (Dewan Bandaraya Kuala Lumpur (DBKL)) specifically the Planning and Building Control Department. The ceiling price of low cost housing for sale in Kuala Lumpur is set at RM42,000 per unit. The price of low cost units will differ depending on their location but will not exceed RM42,000 per unit, although the land prices may exceed RM45 per square meter.
3. LITERATURE REVIEW

A literature on housing policy focusing on the low income housing—inclusive of types and evolution, policy’s significance, policy evolution and the pricing policy—will be looked into in this section. This is to establish a framework of discussion within the context of low cost housing for sale. There are several types of low income housing provided in the developed, developing and third world countries. In lower income countries, the focus is on poverty alleviation hence the provision of basic services and upgrading. However, in richer economies, the objective of low cost housing provision is to avoid social exclusion. This is the case in Malaysia, where pricing control is introduced to ensure more low cost housing is constructed within the urban areas – where the land prices in higher.

3.1 SIGNIFICANCE OF HOUSING POLICY

Policies will enable the actions of government to be judged on the basis of rationality in at least 2 ways: firstly, by providing operational statements about how positive ends can be sought (or negative outcomes to be avoided) and secondly, by affording frameworks for day-to-day administrative actions and programmes (McLoughlin, 1973). Therefore, it is important to identify the institutional parameters in the implemented policy to ensure equal distribution in order to avoid social exclusion and segregated settlement pattern. Government actions need to be carefully directed even in a more prosperous city with more equitable distribution of income and capital assets within its proportion of people who are likely to find satisfactory market solutions (Satterthwaite and Hardoy, 1989). Therefore, we can conclude that the institutional framework must be assessed to see whether there are any issues in implementing the policy.

3.2 POLICY EVOLUTION

The policy in providing low income housing can be divided into 3 stages namely its objectives, the role of government and policy, and lending instrument (World Bank Policy Paper, 1993). Subsequently, we observed an evolution in the way policies provide for low income housing are formulated and implemented. In the 1960’s, public housing and slum clearance programmes were carried out. However, they failed mostly because of the high expenditure involved. In the 1970’s, housing programmes such as sites-and-services, self-help housing, shell housing and core housing projects were launched. Similarly, they also failed to make substantial impact due to problems of cost recovery and affordability. In the 1980’s, policies gradually shifted towards slum upgrading which minimized the problem of cost recovery and affordability. Recently, starting from the 1990’s, a more comprehensive idea of “enabling strategy” is promoted (Foo, 1992).

To summarise, “enabling strategy” is the new way forward and it indicates the concern of cost effectiveness in provision of dwelling units within limited financial and human resources. “Enabling strategy” calls for new arrangements in the responsibilities of the public and private sectors and places the emphasis for the production of housing units on the formal and informal private sectors. Thus, this strategy calls for a more active and significant participation by the private sector in the provision of low income housing to ensure the demand is met.

The public sector is intended to play a supportive role mainly by creating the appropriate regulatory environment and by ensuring the availability of housing finance in order to achieve market efficiency (Foo, 1992). There are seven enabling instruments recommended by the World Bank on “enabling strategy”. One of the instruments is developing an institutional framework (Keivani & Werna, 2001). This is within the context of discussion in this paper that is to identify the institutional parameters in implementing the flexible pricing policy.

3.3 PRICING POLICY

The production and sale of houses respond to the supply and demand of the market. Therefore, the selling price is prone to speculation and manipulation by the private sector to gain the highest profit. Subsequently, this will disadvantage the lower income group or the “target group” in obtaining access to housing. The general definition for “target group” is usually the element of which the group finds itself incapable of entering the formal housing market because of lack of economic resources (Payne, 1984).

There are several types of low cost housing that involve the private sector in the developing world (Drakakis-Smith, 1987). However, this paper emphasises on low cost housing for sale that are provided, developed and constructed by the private sector (or the developer) and sold or rented in the open market. They are produced to fill the gap for households that are too poor to afford houses sold at current private sector prices but ineligible for public housing, so the price or rent is held below normal market price through a variety of control mechanism (Drakakis-Smith, 1980). Therefore, pricing control as practiced in Malaysia is one mechanism to fulfill the needs of households that are trapped in this gap.
In many developing countries there is an unequal distribution of income and without assistance a significant section of the population will be unable to afford the full economic price of decent accommodation. The gap between incomes and house prices is very wide where the cost of housing rose at a much faster rate than the income level (Ha, 1987). In many cases in developing countries, the available housing is not affordable (Yeh, et al., 1979). In this scenario, pricing policy can be one alternative to assist the “target group” obtain access to low cost housing.

When the economic and legislative circumstances have been right, the demand from low-income groups has been sufficient to induce a large-scale response from private developers (Drakakis-Smith, 1980). The role of low cost housing for sale that appears on the open market to meet the demand of the lower income household is becoming increasingly significant especially for the developing world.

Several types of control mechanism are used in the provision of low cost housing for sale or particularly the supply by private sector. Drakakis-Smith (1980) sees a positive role for the formal private market to supply low cost housing for the lower income population. This is dependent on two main factors namely improved credit facilities and lower house price through reduced cost. It can be assumed that state regulation to control the speculative activities could be in the form of direct pricing control on low cost housing for sale.

3. MATERIALS AND METHODS

This paper will look at the implementation of the flexible pricing policy focusing at the institutional framework. The parameters where implementation of the flexible pricing in Kuala Lumpur can be improved will be identified. To identify the parameter, a content analysis of the institutional set up and the planning approval process is carried out. This will be further validated by a semi-structured interview carried out with key informants from public and private agencies involved in the planning approval process.

4. RESULTS AND ANALYSIS

The results and discussions in this paper are limited to the identification of institutional parameters where the flexible pricing policy is implemented. The parameters are institutional set up, non-governmental organisations and developers.

4.1 INSTITUTIONAL SET UP

State/Central Agencies. Two agencies playing a vital role in the delivery of low cost housing for sale at Central and State Government level are the National Housing Department and the Town and Country Planning Department. The functions of the National Housing Department in relation to low cost housing for sale are:

- To carry out strategic planning and formulation of guidelines to implement and organize programmes for public housing and low cost housing for sale
- To organise and process lists of eligible buyers for low cost housing for sale
- To analyse housing need in terms of its numbers and location required for renting to squatters and low income groups

These functions focus on the allocation of units and do not emphasise the policy implementation. Guidelines can only be implemented if the State decides so.

The Town and Country Planning Department has two levels of involvement in the low cost housing for sale delivery system. At the Federal and State levels, the department is involved in the drawing up and approval of development plans (Structure and Local Plans) and the formulation of Planning Standards and General Guidelines on Low Cost Housing. Interviewees in the Town and Country Planning Department pointed out that their departments are mainly responsible for determining:

- Suitable locations for low cost housing (the zoning)
- The quality of living space for low cost housing planning policies e.g. number of bedrooms, minimum floor area, facilities provision and other planning requirements

The department is mainly involved with the physical and technical aspect of low cost housing for sale either through determining the development plans or in the planning approval process but is not concerned with pricing. Pricing is the domain of the National Housing Department which is not involved in formulation of development plans or the implementation of the flexible pricing in the planning approval process.

The Local Authority. The local authority responsible for the development of Kuala Lumpur is Kuala Lumpur City Council or DBKL. The departments directly involved with housing development in DBKL are the Planning and
Building Control Department and the Architecture Department. Planning and Building Control Department’s responsibilities1 include:

- Controlling and ordering the development to create a balanced and sustainable development in Kuala Lumpur.
- Providing planning standards and guidelines to protect the public interest and residents comfort.
- Providing planning advice to Central Government, development agencies and the public.
- Interpreting government’s policies on physical planning.
- Managing development applications to be processed for the Mayor’s approval.

These housing departments are not involved with the delivery of low cost housing for sale but their functions include managing the registration and allocating (selling and renting) of DBKL public housing and privatization projects for low income group which form only about 30% of the low income housing supply in the area.

External Technical Department. The Public Works Department under the Ministry of Works is a key technical department with an important role in the preliminary approval of low cost housing for sale. The department (at Federal and State level - particularly the scope in the R&D Unit) is closely involved in the design, safety and cost of low cost housing units. The role of this department in planning approval process in Kuala Lumpur is not vital since planning applications only go through the Local Authority. According to the interviewee in the Public Works Department in Kuala Lumpur, the main aspect of low cost housing for sale that is improved by the flexible pricing policy is its quality because it is now sold at market rates. This view is understandable given that the department focuses on design aspects.

4.2 Non-government Organisations

Among the main non-government organizations concerned with welfare housing is the National House Buyers Association (HBA), a voluntary non-governmental, non-profit and non-political organization. The working committee consists of volunteers from various professions who seek to promote humanitarian principles and fair and equitable treatment for house buyers in their dealings with housing developers. For developers, there is the Real Estate and Housing Developers’ Association (REHDA). Formerly known as the Housing Developers’ Association (HDA), it is the leading voice of developers in all property categories. As the sole national representative body for property developers, REHDA plays a pivotal role in ensuring that developers’ views are heard by the government. The flexible pricing policy has been hailed by REHDA as a smart move that helps profit margins. HBA considers that the policy will ensure more affordable housing for the public. Regrettfully, the researcher was unable to obtain any responses from respondents in these organizations although their opinion would be very helpful in this research.

4.3 Developers

The respondents agreed that their organizations are not affected by the flexible pricing policy and there is no problem in terms of the implementation. Although the respondents also agreed that there is no problem in terms of the statutory provision, the flexible pricing policy needed a more detailed study as the implementation of the policy in Kuala Lumpur is open to interpretation.

In the Kuala Lumpur Structure Plan Review 1998, lack of coordination between DBKL, the private housing developers and other local authorities in the Kuala Lumpur Metropolitan Region has been identified as a key issue in housing development. We note that housing developments have not been undertaken in a systematic manner (Housing and Squatter Technical Working Paper, 2000).

Coordination is important as the supply of housing is completely within the control of the private sector where most of these companies are small and medium sized. It is also important to ensure that the housing market is not constrained by lack of supply. Possible causes of the issue are also due to the number of local authorities with individual objectives and interests and the absence of a coordinating body to oversee the overall delivery system. Furthermore, the State Housing Department does not have authority over decisions on housing provision.
5. RECOMMENDATIONS AND CONCLUSION

In this concluding section, we would like to recommend how we could overcome the institutional challenges in implementing flexible housing in the country. The institutional parameters identified as hindering the effective implementation of the flexible pricing policy may be caused by the implementing body responsible to monitor a housing development project, the fragmented nature of the institutional setup and the absence of a coordinating body. The provision of low cost housing is incorporated and integrated in the overall housing development through a minimum percentage requirement. However, this can be easily manipulated as only a certain minimum area is required to follow this requirement. There are also instances where the actual construction of the low cost portion can be deferred until much later through the phasing of development. This gives the developer the chance to invest in housing that assures a bigger profit margin. Eventually, this will disrupt the supply of low cost housing in the city. In short, the implementation framework is open for interpretation and easily manipulated to the interest of the main investor in the city – the private sector. We would like to recommend further studies into developing mechanisms and tools to monitor the overall housing development project by the local authorities.

There is not one agency or department that is wholly responsible in overseeing the implementation of the flexible pricing policy. Furthermore, in the overall planning procedure at the local authority’s level, there is no specific requirement for the pricing policy. It should be treated as part of the overall planning procedure and not just “a State/Federal policy that needs to be followed”. This could mean a more proactive involvement of the National Housing Department in the approval process. There is also no precise requirement on the types and pricing of low cost housing as one of the prerequisites to get planning approval. Further studies are recommended to integrate the fragmented institutional entities in order to streamline the low cost housing implementation.

It is the researcher’s opinion that the institutional framework inhibits the coordination of functions, although none of the respondents interviewed identified this as a problem. The institutional setup is highly fragmented and individualistic in the overall low cost housing for sale delivery system process. The statutory complication on the developer’s side shows that there is a lack of coordination and comprehensive overview in implementing the flexible pricing policy. Here, we would like to propose the formation of a centralised coordinating body to oversee the fragmented functions of the multiple authority bodies.

As an overall conclusion, it is clear that the main objective of the implementation of flexible pricing policy is to ensure that more people are eligible to purchase low cost houses and to encourage private developers to build more low cost houses thus promoting social sustainability. However, our study identifies some institutional parameters that hinder the effective implementation of the flexible pricing policy. Among them are different level institutional set up, interests of non-government organizations and interests of housing developers. Nevertheless, despite these shortcomings, flexible pricing does have some advantages especially in protecting the public interest in a market oriented city. Escalating land price increases the probability of low cost houses clustering in areas with lower land value. We support flexible pricing because it would eventually lead to a composition of population with an equal mix socio-economic background.

6. ACKNOWLEDGEMENTS

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7. FOOTNOTES

1) include:

- Controlling and ordering the development to create a balanced and sustainable development in Kuala Lumpur.
- Providing planning standards and guidelines to protect the public interest and residents comfort.
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- Interpreting government’s policies on physical planning.
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4). The flexible pricing policy has been hailed by REHDA as a smart move that helps profit margins. HBA considers that the policy will ensure more affordable housing for the public. Regrettfully, the researcher was unable to obtain any responses from respondents in these organizations although their opinion would be very helpful in this research.

(Footnotes)
1 Available from http://www.kpkt.gov.my/jpn
3 available from http://www.hba.org.my
4 available from http://www.rehda.com

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