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CHALLENGES AND OWNERSHIP ISSUES FACING BY LOW (B40) AND MEDIUM INCOME GROUP (M40) IN SELANGOR

Mariana Mohamed Osman¹, Farah Eleena Zainudin², Noor Suzilawati Rabe³, Mizan Hitam⁴ & Zakiah Ponrahono⁵

*^{1,2,3}Kulliyyah of Architecture and Environmental Design,
INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA*

*⁴Faculty of Architecture, Planning and Surveying
UNIVERSITI TEKNOLOGI MARA*

*⁵Faculty of Forestry and Environment
UNIVERSITY PUTRA MALAYSIA*

Abstract

A shelter is a necessity based on Maslow's hierarchy of needs and in the present situation, owning a home is quite difficult for low-income earners living in urban area. Currently, it was found that people living in a city mostly prefer to rent rather than buying a house due to the expensive house prices. Access to decent and affordable housing can be consider as fundamental human right and the government have the responsibility to address this human right issue. Thus, the study tries to analyse the perception of community specifically within the B40 and M40 living in Selangor towards the idea of purchasing a house. The study surveyed 500 respondents using stratified random sampling. The study found that the main challenges was the high prices of property, followed by unable to obtained loan and high monlty expenses that lead to them unable to pay for the 10% deposit of the house. In term of affordability level, with level 3 considered as afforabable range, the study found that Petaling and Kuala Langat were severely unaffordable followed by Hulu Langat, Klang, Sepang and Sabak Bernam (Seriously unaffordable) and Hulu Selangor, Kuala Selangor and Gombak were at moderately unaffordable.

Keywords: affordable housing, definition of b40 and m40, obstacles

¹ Associate Professor at International Islamic University Malaysia. Email: mariana@iium.edu.my

INTRODUCTION

This paper discusses on the housing affordability, its issues and challenges faced by household income earners categorized within the Below 40% (B40) and Middle 40% (M40) of household income group living in Selangor. Under the Mid Term Review of the 11th Malaysia Plan (MTR), the middle-class group refers to middle-income households with earnings of between half and double the national median monthly household income. Therefore, by this definition, the middle class in Malaysia are those with a monthly household income of RM2,614 to RM10,456. This is based on the Household Income and Basic Amenities Survey 2016, where the national median monthly household income stood at RM5,228. Thus, the study intends to discover the responses and challenges faced by B40 and M40 in buying housing property. This paper also explores the affordability issues in selected districts in Selangor within the scope of housing policy and the housing price range. Findings from this study is expected to contribute to the body of knowledge in fulfilling the gaps for policy maker in formulating housing policy in the country.

LITERATURE REVIEW

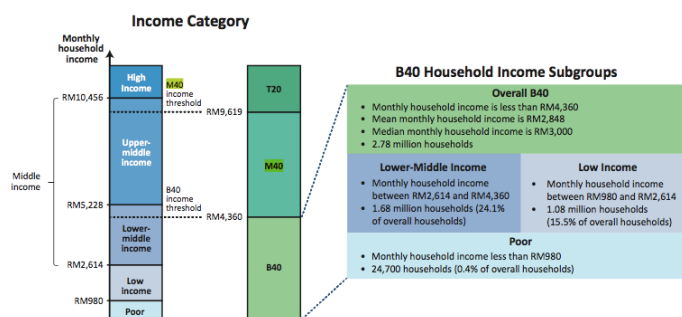
Definition of Housing Affordability

The idea of affordable housing recognizes the needs of households whose incomes insufficient to allow them to access appropriate housing in the market without assistance (O'Neill, 2008). Thus, the term 'affordable housing' describes as a housing that can be accessed by lower income group without experiencing undue financial hardship (O'Neill, 2008). As for the higher income earners with purchasing power, the purchasing affordability is an issue of choice rather than access (Amy Beech, 2014). According to AHURI (2004), "affordability of housing" is the ability of households to meet housing costs, while maintaining the ability to cover other basic living costs. Affordable housing should be defined as what is appropriate in terms of quality and location other than price. In Malaysia, based on *Dasar Perumahan Negara 2018-2025*, people with low income and medium income should be priorities in getting affordable housing units as these houses considered as assisted market or subsidies market where government pump in financial allocation to the construction of these houses. The private sector is also required to built affordable houses as part of planning condition in an approval in planning application process.

M40 and M40 Group of Income

The B40 and M40 group are classification given based on the income level as shown in Figure 1. Based on Figure 1, the B40 group consist of 2.78 million household referred to household with income below RM4,360, mean monthly income of RM2,848 and median income of RM3,000. Based on Figure 1 from the MTR, the household income bracket breaks down the segments further,

classifying the B40 (Bottom 40%) as those with household income of less than RM4,360 per month, M40 (Middle 40%) with household income between RM4,360 and RM9,619 and median income of RM6,275. Additionally, the Top 20% of household income group known as T20 referred to household having income above RM9,619 with median income of RM 13,148. (Malaysian Economic Report, 2015/2016).



Notes: Based on the Household Income and Basic Amenities Survey (HIS & BA) 2016, the national median monthly household income is RM5,228. The middle-class society refers to the middle income households with earnings of between half and double of the national median monthly household income (RM2,614-RM10,456).

Figure 1 Income Category and the B40 household income subgroups, 2016.
 Source: *Khazanah Research Institute Report, 2017*

Nambiar (2014) claimed that there is an improvement on income levels for each income group over the past three years but according to Liang (2016), the increased were more in the number of households in B40 categories as compared to the M40 and T20 groups (Liang, 2016). This clearly showed that household is getting poorer over the years (2012-2016). It is worth noting that the B40, M40 and T20 thresholds change with the country’s gross national income. The B40 group faced the most difficulties when it comes to ownership and buying property (Joseph, 2015; Mariana et.al, 2017). However, the M40 definition for a household of four that earns RM4,360 to RM9,619 per month in Selangor would hardly fall into the “wealthy” category that the middle class is often associated with. Khazanah Research Institute (KRI) (2016), found that a high percentage of the M40 group in the Malaysia showed similar consumption patterns with the top end of the B40 group. It does not take into account, however, the household size nor the cost of living that varies across states and locations. This shows that M40 group are far from the ‘wealthy’ or middle-class households that should represent a significant part of society in the country.

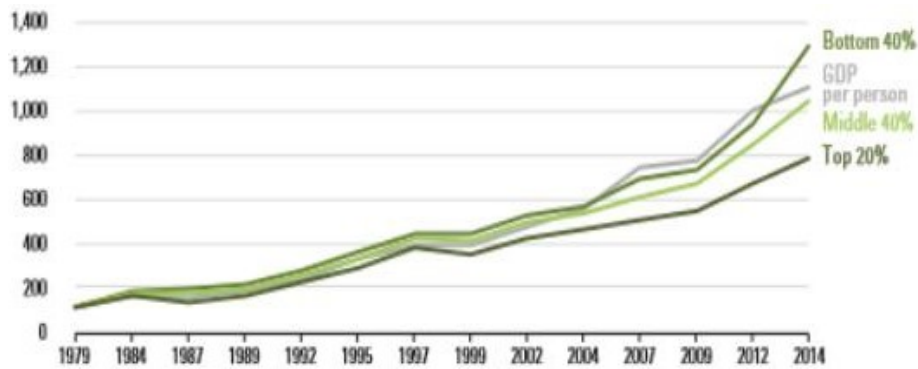


Figure 2 Index of nominal GDP per person and nominal average household income, circa 1979 - 2014

Source: Khazanah Research Institute Report, 2015

Figure 2 indicates the growth of household income level from year 1979 until 2014. Based on the above figure, it clearly shows that the income for the B40 have grown the fastest. Thus, it created a gap on income level and affordability level as the increase in the B40 income level is lower compared to the increase in housing price. According to Bank Negara, the housing affordability issue in Malaysia is largely due to the supply-demand mismatch and slower income growth. (The Star, 2018). Bank Negara Malaysia had issued a statement stating that houses in Malaysia will remain to be seriously unaffordable by the international standards with a median multiple of 5.0 if there is no measure to manage this situation. Bank Negara estimated in 2016 that the maximum affordable house price in Malaysia was RM282,000 but the actual median house price was RM 313,000, which is beyond the means of many households, where the median national household income is only RM 4,228 monthly and affordable housing price (median household income RM4,228 x 12 months x 3) should be within RM154,208.

Income level measurement usually does not take into account the household size nor the cost of living that varies across states and locations. The living wage concept and measurement introduced by Bank Negara Malaysia is a functional approach to defining more accurately the economic realities that Malaysian households face. Bank Negara in its 2018 annual report said the living wage of a couple with two children in the Klang Valley, based on provisional income of 2016, was RM6,500. The living wage is the minimum income of a household so that they can afford an acceptable standard of living. Studies and research have found that countries with a strong and prosperous middle-class report stronger economic growth. This is because a strong middle class helps generate demand for aspirational goods and services besides being an important

element in nurturing small and medium enterprises and spurring the entrepreneurial sector. (Khazanah Research Institute, 2015, 2016).

Selangor Housing Policy

Thrust 1 under National Housing Policy aims at providing adequate housing to meet the needs for the lower income group (B40) that makes up 33.4%, the medium income group (M40) with 42.4% and T20 with 24.2% for the year 2015. The objective of the housing policy in Selangor is to provide each family with a decent home (Suhaida, 2010). The purpose of the Selangor housing policy is to introduce new affordable housing types and to provide comfort to the occupants in terms of size, design and community. The direction of Housing Policy in Selangor is to ensure the housing development that is adequate, decent and affordable without compromising the environmental quality and security.

Table 2 The Direction of Housing Policy in Selangor

Policy 1	The housing supply of various types and costs according to its requirements.
Policy 2	To prepare and supply the affordable homes units with a good quality and sufficient according to its capacity or requirement
Policy 3	To provide a programme called “Affordable home for Rent” is provided to enable the less fortunate to inhabit with a good living comfort
Policy 4	Housing development should be equipped with facilities based with the compliance of standard and guidelines of current planning
Policy 5	The installation of technology and green neighbourhood concept with elements of safe city concept is highly encourage in the new housing development
Policy 6	Squatter resettlement program will continue in line with target of zero Squatters

State Structure Plan of Selangor 2035

In reference to Table 3, the eligibility of the household income for affordable housing in Selangor is within the range income of RM 3,000 to RM 10,000. It shows that the housing policy in Selangor covers the level income group B40, M40 and T20. Despite the assumption, the T20 group still have access to the assisted housing market, where in theory this group should be able to buy property without any government assistance.

Table 3 Details of Housing Policy in Selangor

Type of Houses	Rumah Selangorku Jenis A, Rumah Selangorku Jenis B Rumah Selangorku Jenis C, Rumah Selangorku Jenis D
House Price	RM 42,000 – RM 250,000
Size	700 sft (minimum)
Household Income	RM 3,000 to RM 10,000
Moratorium	5 Years
Development Quota	RST A = 10-20% of the overall development; RST B = 5% (minimum); RST C = 5% (minimum); RST D = 5% (minimum)
Minimum Specification	3 Bedrooms, 2 Toilets

State Structure Plan of Selangor 2035

METHODOLOGY

The data used for this study are from primary and secondary data collection. The primary data collection involved a face to face interview and questionnaire survey. Questionnaire survey form was used to gain more information from the respondents. Questions listed in the survey form were based on findings from various literature review and also policy papers on housing sector. For the secondary data collection, information was obtained from various study reports, articles, internet, newspaper articles, statistics data, bulletins and a variety of other sources.

Sampling Size

Based on Yamane (1973) formulae as shown below, at 95% confidence level, the adequate sample size for the study is 500.

$$n = \frac{N}{1 + N (e)^2}$$

N sample sizes
 N population size
 E acceptable sampling error

Source: Taro Yamane, 1973

Type of Sampling

This study using a non-probability samples method (purposive stratified sample), where respondents were selected based on a set of criteria. The criteria of respondents for the study were Malaysia citizen staying in study areas, married, working (have income) and do not have a property but have the intention to a buy property. These criteria were set as to know the reasons why the respondents still do not own a house even though they have a fix income.

Type of Analysis

The study used as a descriptive analysis to describe and explained the findings of the study. All data were analyse using the Statistical Package for Social Sciences (SPSS) version 23. A graphical analysis was also conducted using a heat map of Selangor to show the level of housing affordability distribution based on districts. The map was produced based on the calculation done using median house price with annual median income gathered from statistic database (Napic and Department of Statistic 2016 data).

FINDINGS AND DISCUSSION

Table 4 Respondents' Profile

	Categories	Percentage (%)
Age	20 and Below	0.6
	21 - 30	45.8
	31 - 40	36

	41 - 50	10.1	
	51 - 60	5.0	
	61 - 70	1.7	
	71 and above	0.8	
Household Income (RM)	1,000 - 3,000	43.0	
	3,001 - 6,000	32.8	
	6,001 - 9,000	14.2	
	9,001 and above	10.0	
Level of Income	B 40	46.2	
	M40	41.4	
	T 20	12.4	
		B 40	M 40
Number of Working Household	0 - 2	52	27.4
	3 - 4	23.6	49.3
	5 and above	24.4	23.3
Number of Household	0 - 2	29.7	23.8
	3 - 4	46.8	33.2
	5 and above	23.5	43

In Table 4, majority of the respondents' aged within 21 to 30 years old (45.8%) followed by age group between 31- 40 years old (36%). In term of the household income, 43% respondents earned between RM 1,000 to RM 3,000 followed by RM 3,001 – RM 6,000 (32.8%), RM6,001-9,000 (14.2%) and above RM9,001 (10%). Based on household income 46.2% of respondents were B40, followed by 41.4% were M40 and the remaining 12.4% were T20. Interim of working household, 52% of B40 group had 2 persons working in a household, while for M40, 49.3% had 3-4 persons working in a household. 46.8% from B40 groups claimed to have 3-4 households while the highest number of households for M40 were 5 and more with 43%.

In the questionnaire survey, respondents were asked to rank the issues they encountered when trying to purchase a property. The ranks were between 1 to 5 where, 1 indicated the most significant factor while 5 shows the least significant factor. Result of survey is shown in Table 5 below.

Table 5 Ranking on the difficulties faces by B 40 and M40 in Buying Properties

Reasons for Not Buying Property	B40		M40	
	Mean	Rank	Mean	Rank
House Price is Expensive	1.6	1	1.9	2
Other Commitments Towards Bank Loan	3.46	4	3.42	3
High Monthly Expenses	2.64	3	1.67	1
Not Eligible for housing Loans	2.54	2	3.57	4
Blacklisted for Applying Loan	4.76	5	4.45	5

Based on Table 5, the results show different reasons between B40 and M40 groups on the difficulties they faced in purchasing a properties. In B40 group, the most difficulties faced by the respondents to purchase a house was the high house price (mean = 1.6), while for M40 respondents, the main difficulties

identified were high monthly expenses. Based on table 4, almost half of the M40 respondents were having 5 and more households saiz which can be the reason of high montly commitment. Next, the second highest rank of difficulties faced by B40 respondents in buying a house was related to their eligibility to obtain housing loan (mean = 2.54), while for the M40 groups, the second reasons were high housing price with mean 1.9. The third problem identified by B40 respondents was their high monthly expenses with mean 2.64 while for M40 respondents, their other bank commitment with mean 3.42 ranked as third reasons. Respondents from the M40 group also claimed that they delayed in purchasing a house due to having other loan commitments such as car loan or personal loan (mean = 3.42). As shown in Table 4, 46.8% of B40 respondents stated that they had more than 5 household numbers which explained their high monthly expenses that further reduced their disposal income and eligibility to get loan. In Selangor, Rumah Selangorku housing units are being sold at RM42,000 which is considered quite low, but when asked during the interview, many respondents stated that the difficulties in getting housing loan due to their low income has led to them unable to purchase these houses.

Table 6 House price expected by the buyers

Districts	Median House Price Expected by B 40 (RM)	Median House Price Expected by M 40 (RM)	Affordable Maximum Median House Price Based on Housing Affordability Index Ratio of 3.0 (RM)
Petaling	200,000	210,000	258,660
Kuala Langat	110,000	160,000	164,016
Hulu Langat	120,000	200,000	234,252
Klang	200,000	200,000	197,568
Sepang	200,000	280,000	259,848
Sabak Bernam	200,000	190,000	121,356
Gombak	200,000	200,000	239,040
Hulu Selangor	160,000	200,000	159,840
Kuala Selangor	200,000	250,000	154,908

Source: Author's calculation based on Household Income Survey (2014) and NAPIC (2014)

Table 6 indicates the house price expected by the respondents and also the affordable house price calculated based on median household income data from Department of Statistic for all districts in Selangor. As shown in the Table 6, the proposed house price based on the median multiple 3 in all districts were higher except Sabak Bernam, Hulu Selangor and Kuala Selangor. This means that the respondents expected prices were lower than the multiple median 3 calculated based on actual housing market. In a nutshell, both of group B40 and M 40 in the district of Sabak Bernam, Hulu Selangor and Kuala Selangor have higher possibility to purchase a property if the housing prices is within the median multiple 3.



Figure 2 Heat Map of Selangor Based on Median Income 2014
 Source: Author's calculation based on Household Income Survey (2014) and NAPIC (2014)

Figure 2 illustrates the distribution of the level of housing affordability in the state of Selangor. The level of affordability has been calculated by divided median house price with the annual median income. The data was from National Household income survey 2016 conducted by Department of Statistic and Napic data 2016. Based on the heat map, none of the districts in Selangor were at affordable level. The map show Petaling and Kuala Langat were at severely unaffordable level followed by Hulu Langat, Klang, Sepang and Sabak Bernam which were at seriously unaffordable. Lastly, Hulu Selangor, Kuala Selangor and Gombak were considered as moderately unaffordable. Based on this heat map, it can be concluded that the B40 and M40 group will be having to purchase a property in major urban districts of Petaling, Kuala Langat, followed by districts

of Hulu Langat, Klang, Sepang and Sabak Bernam due to the severity of the affordability within these districts.

CONCLUSION AND RECOMMENDATION

In conclusion, there were several factors that caused difficulties to the B40 and M40 group to purchase a property. Based on the study, the main reason of B40 and M40 in the state of Selangor were unable to purchase a house were due to the high prices followed by high monthly expenditure, unable to get housing loan and other financial commitment. Furthermore, the study found that the house price in urban districts were higher compared to the rural districts. Thus, the study recommended that the state government of Selangor to identify affordable housing price ranges to be based on locality and household income level. As the national household income survey is conducted every two years, this income data can be used as an indicator to set the affordable housing prices at districts level. It is also recommended that the government to monitor and encourage housing developer too built more affordable housing units by giving some financial and tax exemption incentives. The price of assisted or affordable housing prices should be based on the income of the people within the district and should not be set at RM250,000 throughout the state. The current eligibility criteria which allowed household with income of RM10,000 monthly (T20 group) to purchase affordable housing should be revised because T20 group should be buying should be able to buy property without any government assistance.

In conclusion, Selangor state government need to relook at their housing policy in order to manage the overall housing supply effectively. An overall study on the local housing supply, the current housing condition and the household income conditions need to be conducted yearly or once every 2 years so that real issue of housing affordability can be addressed efficiently.

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