

WAQF AND AFFORDABLE HOUSES FOR THE MIDDLE-INCOME GROUP (M40) IN MALAYSIA: IDENTIFICATION OF ISSUES AND POSSIBLE RECOMMENDATIONS

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Abstract: This study aims to explore the potentials of waqf in addressing issues and challenges in providing affordable houses to the middle-income group in Malaysia. Various efforts have been made to understand and manage the affordable housing issues which have led to several initiatives focusing on the provision of affordable houses or financial resources to low-income households. However, the gap left unfilled by these initiatives is the middle-income households (M40) who are neither qualified for social housing nor capable to afford houses provided by private sector suppliers. According to Khazanah Research Institute, this issue is more severe in urban areas. Consequently, the housing contribution to the quality of life in urban areas is deteriorating since housing providers are unable to produce house at price which the middle-income households would be able to afford. In this regard, waqf has a high potential to be used to provide affordable housing to the M40. By adopting a meta-analysis on the relevant literature and focus group discussion with few Islamic Religious Council, this study explores the issues in providing affordable houses to the M40 and possible recommendations.

Keywords: Affordable housing, Islamic Religious Council, Middle Income Group (M40), Waqf.

INTRODUCTION

In Malaysia, efforts have been made by the policymakers to understand and manage the affordable housing issues. This effort has led to several initiatives which are focusing on provision of affordable houses or financial resources to low-income households who by nature, are incapacitated to house themselves; however, the gap left unfilled by these initiatives is that of middle-income households who are neither qualified for social housing nor capable to afford houses provided by private sector suppliers (Baqutaya et al., 2016; Khazanah Research Institute, 2015). In addition, Khazanah Research Institute reiterates further that this challenge is severe in urban area; for example, the house ownership of Malaysian as a whole is 72.5% in 2010, while the rate of urban home ownership stood at 69.1%, and home ownership in Kuala Lumpur was 53.5% in the same year. The average house price in Malaysia costs much more

than three times an individual's annual median income. In median income terms, Malaysia houses are considered to be more expensive than houses in the United Kingdom, the United States and Japan (Khazanah Research Institute, 2014). persekitaran.

Malaysian house prices are too high and have outpaced the increase in incomes and inflation (REHDA, 2016). Various studies revealed that houses in Malaysia are 'severely unaffordable' or buyers are 'cost overburden' (KRI, 2015; "Loan criteria will not resolve", 2017; Demographia, 2017, Osman et al., 2017). House is severely unaffordable if the house price to household income ratio exceeds 5.1 (Demographia, 2017). In a study conducted by Osman et al. (2017c), they reported that most households in Malaysia spent more than 30% of their income to own or rent and operate their houses. In Malaysia, the government had continuously support the social housing scheme. Until now, Malaysia has made immense contributions toward provision of affordable housing, especially to the low-income households. Table 1 demonstrates a few Malaysian affordable housing schemes provided by various agencies. Each scheme is meant for certain target group and with certain eligibility to buy the house. In the early of 2019, Government initiate special fund in assisting the home buyer. The Fund for Affordable Homes with RM1 billion allocation for two years to facilitate home ownership for B40 households.

From the observation, most of these initiatives focused on providing affordable houses to B40 group. Although there are schemes for middle-income group to buy affordable home, the M40 group finds that the schemes are not affordable enough for them. There is a significant price gap between lower-income and middle-income group in terms of eligibility to buy affordable houses. The middle-income group is eligible to purchase affordable houses from the schemes for the houses priced between RM300,000 to RM400,000. Therefore, unfilled by most of these initiatives, the middle-income households (M40) are neither qualified for social housing nor capable to afford houses provided by private sector suppliers. The report on the issue of house affordability by BNM in 2017 clear highlights that house in Malaysia remained unaffordable to many households in 2016 due to the failure in the market to produce a sufficient quantity of affordable housing for the masses. Statement by Bank Negara Malaysia's Financial Surveillance Department in 2019, unsold properties in Malaysia was not affordable with Johor recording the highest number of unsold houses followed by Selangor, Kuala Lumpur, Perak and Pulau Pinang (Bernama 2019).

Table 1. Malaysian Affordable Housing Schemes

No.	Affordable Schemes	Range of Price (RM)	Range of Income (RM)	Type of houses offered (sq. ft.)		
1	PR1MA	100,000-400,000	2,500-15,000	Terrace 850-1,850	Apartment 600-1,200	
2	PPA1M	150,000-300,000	8,000 and below	Type 1 1,000	Type2 1,200	Type 3 1,500
3	RMM Pulau Pinang	72,500-400,000	10,000 and below	Low-med cost 700-800	Med cost 800-1,000	
4	RMM- SPNB	50,000-300,000	10,000 and below	Low-med cost 750	Med cost ≥800	

5	RUMAWIP	52,000-300,000	10,000 and below	Low-med cost 700	Low-Med cost 650-800	Med cost 650-800
6	HDC-RMM Sarawak	50,400-100,000	2,500 and below	Type A 650-700	Type B 850	Type D 1,000-1,200
7	Rumah Selangorku	100,000-250,000	8,000 and below	Type B 750	Type C 800-1,080	Type D 1,000-1,200
8	MyHOME	50,000-170,000	3,000-6,000	MyHome 1 800	MyHome 2 850	
9	DPR Johor	80,000-220,000	6,000 and below	RKJ Package B 850	RMM Johor 1,000	

Sumber: Khazanah Research Institute (2015)

The paper will focus on the issues and challenges in providing affordable houses to the middle- income group in Malaysia by emphasis on factors that lead to house unaffordable. This study addresses the issues and challenges faces by various stakeholders such Government, Financial Institution, developer and house buyers. This study also discusses the various alternative measures to curb on the issue of unaffordable especially from Islamic Religious Council (IRC) as initiator of waqf affordable house.

There are several factors that influence house pricing in Malaysia. These factors are divided into two: demand factors, and supply factors. The demand factors among others are: growing population; urbanization; households' income; available means of financing housing; and personal preferences. The supply factors on the other hand are: cost of construction; land cost, land use, and planning policy. Alternatively, waqf can be used in this case to provide affordable housing to the Malaysian households. The existing and ongoing waqf affordable house project in Malaysia for example Waqf Seetee Aisah Phase 1 and Phase 2 in Pulau Pinang, Waqf Teluk Chengai project in Kedah, and several proposed waqf affordable house project in Selangor are useful for this study to understand the issues and challenges face by IRC in each phases of the project's development. It shows that such idea is practical enough and the development of housing scheme with various innovative waqf financing model should be explored. As such, this research proposes to use waqf model as part of the alternative solution in addressing affordable housing issues face by Malaysian households.

The following section discusses the methodology of the research, followed by results discussion. The final section concludes the paper.

METHODS

The study is conducted using meta-analysis and focus group discussion (FGD) with Islamic Religious Council (IRC) of several states in Malaysia. The meta-analysis consist of systematic reviews. The sources of reviews can be from the massive expansion of research output on affordable house, both in peer-reviewed publications, and unpublished e.g. conference proceedings, thesis, forum's papers and etc. The reports from few agency in Malaysia such as from Real Estate and Housing Developers' Association (REHDA), Bank Negara Malaysia (BNM), National Property Information Centre (NAPIC), Khazanah Institute, Jabatan Wakaf, Zakat dan Haji (JAWHAR), and UDA Waqf are among the sources for this systematic reviews. The study reviewed the information from all these reliable sources and evaluate some relevant

statistics prepared by these agencies. The highest quality reviews should have input from experts, therefore the study proceeds with the FGD and interviews. A clear, specific and answerable question is essential to a successful review. This study gathers all the information that suitable and related to the research question to ensure we obtain all relevant information for our studies. The data and information that the study collected are analyzed in order to recommend the practical solution in developing affordable house especially the scheme based on waqf model.

Focus Group Discussion (FGD) were conducted with the objective to understand the current development of waqf affordable house in Malaysia. The important aspects are the issues and challenges face by Islamic Religious Council (IRC) Malaysia in developing the waqf affordable house project. A few IRC are invited to the Focus Group Discussion which was held on 18 February 2019 at Lanai Kijang, Bank Negara Malaysia (Appendix 1). The study focuses on a few IRC such as IRC of Wilayah Persekutuan, SIRC of Pulau Pinang, SIRC of Selangor, and SIRC of Johor. These SIRC are selected to represent the states with higher prospects to use the waqf affordable housing model to curb the issues of affordable house. Among the activities in the FGD are briefing on the objectives of the FGD and the direction of the research by the project leader, the briefing by each SIRC on their waqf land's project, issues and challenges faced by them (Appendix 2). The briefing by SIRC of Pulau Pinang on few of their waqf affordable house project alert us on the huge prospect of the projects in assisting government in addressing the issues of affordable house.

RESULTS

There are several factors that influence house demand and price in Malaysia which leads to the issue of affordability. As mentioned before, growing population; urbanization; households' income; available means of financing housing; and personal preferences are factors that lead to the demand for house. House buyer personal preference among others are location, size of the house, design, amenities, infrastructure and etc. Meanwhile, the supply factors are: cost of construction; cost of the land, the land usage, and planning policy (Khazanah Research Institute, 2015). From house buyer perspective, their main concern is the affordability of the house, that is the price, meanwhile for the developers their concern is on the costs, i.e. the land cost and cost of construction, two main factors that influence their profit margin.

The world's population is growing extremely rapidly and is expected to increase to 9.9 billion by 2050. Similarly, the Malaysia's population in 2020 is estimated at 32.7 million with an annual growth rate of 0.4 per cent (Department of Statistics, 2020). The growing population especially in the working-age adult group has caused the increase in the demand for houses which consequently resulted in the increase in price of houses (Karantonis, 2008; Tan, 2008). Another factor that influences the house price is the availability of home financing to finance the purchase of the house (Khazanah Research Institute, 2015). In reality, very few households can afford to pay cash for the house. Therefore, house buyers usually seek home financing to finance the purchase of their house. Various home financing packages offered by financial institutions to house buyers. In addition, various government intervention policies are already in place to support home ownership and make the purchase affordable to many. However, these interventions do not make the price more affordable to middle and lower-income groups buyers but in fact it increases the household debts. Most of the new development houses are relatively

expensive and unaffordable for middle income group and to buy the house. In addition, the sub-sale houses are also expensive as sellers take into consideration their financing cost in setting the price. As a result, middle-income house buyers are facing difficulties in obtaining home financing as house price to household income ratio exceeds 5.1 (Demographia, 2017). BNM Press Report (2017) reports that BNM ensures that the financing terms and condition for the purchase of affordable house are all areas of regulations and monitored by BNM meticulously. BNM Press Report (2017) highlights about media reports on calls to review housing loan criteria for potential buyers of affordable houses.

Moreover, personal preferences and taxation are also other factors that have contributed to skyrocket in house prices in Malaysia. For instance, some households are willing to pay premium for prime locations or city of preference. More, the effect of tax exemption, such as Real Property Gains Tax (RPGT) which was in place in Malaysia between 2007 and 2010, has also been noticed. This exemption has encouraged speculative demand for houses and eventually contributed to the acceleration in house prices in Malaysia. Although, cooling measures was introduced in 2010 by the Malaysian government in order to curb the speculative activities in housing market, the price of the house is still unaffordable.

Moving to the supply factors that influence house pricing in Malaysia, the cost of construction is one of the major factors that influence the house price. Khazanah Research Institute (2015) reports that the construction costs have been falling in Kuala Lumpur, Melaka, Negeri Sembilan, Selangor, Pulau Pinang, Kedah, Perlis, Sabah, and Sarawak. However, lower construction costs have little or no effect on the house price to make it more affordable even in the above-mentioned states. Developers are unable to produce house at price which the middle-income households could afford (Hong, 2013). Although house prices in Malaysia is deeply dependent on location, where some states have more affordable houses; for instance, Melaka has median multiple of 3.0x – as compared to the house prices in other states, such as Kuala Lumpur (5.4x) and Pulau Pinang (5.2x), the house prices are still considered unaffordable (Khazanah Research Institute, 2015). Due to the acute supply-demand mismatch, Malaysia residential properties level of total unsold, records at a decade-high of 146,4977 units as at second quarter of 2017. Approximately 82% of unsold units were priced more than RM250,000 as recorded at second quarter of 2017 (BNM 4th. Quarterly Bulletin, 2017). Other than location, land cost and land use, another factor that reflect house pricing are housing planning policy in Malaysia.

With regards to planning policy, the government of Malaysia has instigated several measures and action plans on providing affordable houses such as MyHome and PRiMA for the citizen in the Eleventh Malaysia Plan (2016-2020). The scheme like MyHome were introduced to first time home buyers who are eligible to obtain 100% home financing from financial institutions. Due to global financial crisis, land mitigation and global environmental issue, the country is facing the design innovation and policy evolution (Lim, 2016 and Malaysia Productivity Corporation, 2010). Thus, the Malaysia government has adopted creative design approach for affordable houses. This approach has been used in several countries such as Hong Kong where it adopts the housing block design in order to accommodate the increasing demand for affordable houses and considered the approach of reutilizing old buildings and adapting it into an affordable house unit (Kee (2014). In Malaysia, Real Estate & Housing Developers' Association (REHDA) Malaysia, plays its role as a key partner in the nation's socio-economic

building by taking up initiatives to propose actions and measures in supporting the affordable home schemes. As a result of their efforts, a significant number of affordable houses with innovation have been constructed and occupied since 2010.

BNM has proposed several policies related to affordable homes in its 4th Quarterly Bulletin, 2017. The policy includes establishing a single entity to lead affordable housing initiatives and establishing an integrated database to match demand and supply of the affordable houses. Affordable housing single entity initiative is expected to assist in consolidating many government agencies that involve in providing affordable houses. At the moment, there are more than 20 government agencies at national and state-level involve in providing the affordable houses nationwide. The consolidation will improve efficiency in planning, implementation and execution. Among the agencies are Syarikat Perumahan Negara Berhad (SPNB), Perumahan Penjawat Awam 1Malaysia (PPA1M), Kementerian Kesejahteraan Bandar, Perumahan, dan Kerajaan Tempatan (KPKT).

Islamic Religious Council as a new player in providing affordable housing will get benefits through this initiative. Currently IRC of Pulau Pinang, Kedah and Selangor are among the IRCs that actively develop and promote waqf affordable housing. In the initial stage, these agencies faced various issues and challenges in developing the waqf land for housing purposes. Among the issues are related to utilization of waqf land. There are quite a number of waqf land under the category of general waqf (waqf Aam) that are suitable for housing development where it can generate huge revenue from lease activities that can be channeled back to mawquf alaih. However, there are various process involved such as identifying the suitable waqf land for housing project, the feasibility study, changing the category of land use, identifying the means of financing, identifying qualified developer, getting approval from relevant authorities (including Fatwa committee), preparing legal documentation, and etc. With the dedication and committed IRC's officers the waqf affordable housing project become reality.

Nevertheless, there are many more challenges face by IRCs in the developing waqf affordable houses. Among others is delayed in the redevelopment of some of the waqf land due to lack of cooperation from the existing tenants who occupied the waqf land to move out to give way for the development despite being promised to be reallocated (Bernama, 2019). Shamsiah (2019) cited the same reason in the delay of the redevelopment of Singapore waqf land, Telok Indah Properties in 1991. The issue was sorted out after the tenants were given compensation and promised to be reallocated. IRC of Singapore (MUIS) is among the pioneers in developing waqf houses and commercial building. MUIS experienced various challenges in the process and currently becomes the reference point in developing large scale waqf project especially for residential and commercial purposes. Additionally, the achievement of various waqf housing projects in IRC Pulau Pinang through their dedicated officers who managed to sort out various issues pertaining to the waqf affordable house projects should be compliment. These open a wider option for other IRCs to proceed with the similar affordable housing projects with less hassle as the challenges have been addressed with proper solutions.

The Fatwa Committee plays a vital role in issuing fatwa to protect the waqf asset which must be respect by all. Similar to Singapore experienced, Fatwa committee of Pulau Pinang issued various ruling pertaining to the waqf affordable housing project in Pulau Pinang in 2006, 2007 and 2011. The development of waqf Seetee Aisah Phase 1 witnessed a good cooperation between IRC and other relevant agencies in resolving the issues of developing waqf land as

residential and commercial lot. Among the issues are the usage of waqf land where Fatwa Committee provides several ruling such as: SIRC may lease the land for 99 years to lessee or buyer of usufruct, land will return to SIRC who act as lessor after the expiry of the lease term, the extension of lease may be executed after the expiry of lease term, land cannot be sold, pledged and surrendered, remaining land owned by SIRC as trustee (Uda Waqf, 2019). These fatwas provide a clear direction to all parties involved in developing waqf affordable housing or any commercial development involving waqf assets. The house buyer must be notified that they only lease the waqf asset and buying the usufruct of the assets for certain duration. With a clear notification of ownership right, the issue on sub sale and second-generation ownership are also possible as it is similar to the practice of house under leasehold status.

In Waqf Seetee Aisah Phase 1 development, another agency that involved in making the waqf affordable housing possible are State Local Authority. It is a customary practice that a small part of the land for development must be surrendered to local authority and any agencies that involved indirectly in the project such as Indah Water Konsortium (IWK) for water supply and sewage treatment and Tenaga Nasional Berhad (TNB) for power station. If the land is a waqf land, the rule pertaining to waqf land says that it cannot be surrendered to the local authority as in a normal practice. However, the local authorities and other relevant agencies were not aware or informed of the condition, thus caused delay in the approval on the Development Planning and Building Plan. To overcome this issue Pulau Pinang Fatwa Committee issued an official letter explaining about the status of waqf land and its condition based on the fiqh rule of *mawquf alaihi* that forbid the transfer of waqf land to other party and the land must remain as it is and cannot be inherited, sold, hibah and pledged. Among the settlements achieved as a result of this action, Uda Waqf Sdn Bhd reports that in Waqf Seetee Aisah project land allocated for road shall not be surrendered to JKR / City Council (PBT); Sewerage Treatment Plant shall not be surrendered to IWK; Green Area, retention pond, drainage and multipurpose hall shall not be surrendered to City Council; TNB Sub Station shall not be surrendered to TNB.

Another issue in developing the waqf affordable house in Malaysia in the initial stage was to get the banks that can offer end financing to house buyers. The Al Rajhi Bank was the first bank that agreed to offer house financing to Waqf Seetee Aisah Phase 1 house buyer, followed by the local bank, Bank Islam Malaysia Berhad. The waqf asset cannot be sold, pledged and surrendered. This is the basic rule in waqf that must be adhered. The IRC lease the house project to the buyer for a certain duration. Banks that offer end financing assist the buyer in-terms of the upfront lease payment in lump sum amount to IRC. Eventhough, the house cannot be use or charge as collateral by the bank but the charge will be on the lease. With this approach several local banks in Malaysia offer the end financing to house buyer and now the government staff also can get house financing from the Lembaga Pembiayaan Perumahan Sektor Awam (LPPSA) .

CONCLUSION

The issue of affordable housing in Malaysia is alarming and affected many parties such as government, house buyers, developers and financial institution. Demand factors such as growing population, urbanization, households' income, available means of financing housing and personal preferences are among the factors that contribute to the hike in house price. While

the supply factors such as cost of construction, land cost, land use and planning policy are the factors that government are seriously monitoring to ensure the price is affordable to house buyers especially the M40 group. The government initiates many policies to reduce the issues of unaffordability such as through supplying more affordable houses through various scheme, and collaborating with financial institution in giving 100 percent home financing for first time house buyer. In addition, various efforts are taken to address the factors that lead to hike in house price. Many government agencies also play their role in assisting the housing unaffordability issues by providing the reliable data. Among the example on the seriousness of government to tackle the issue are through the launching various affordable housing schemes. Other than that, the government has conducted various studies on housing affordability to get recent data on this issue for example through NAPIC's data and BNM's report. The reports really address the shortage of affordable houses and the high house prices relative to income.

The study also concludes that the oversupply of houses faced by housing developers can be overcome through intensify efforts to reduce costs and accelerate the supply of affordable houses in Malaysia by working together with relevant authorities and stakeholders. Other than house developers, various government agencies also involve in supplying the affordable house. The supply of affordable houses through various government agencies will be consolidated by BNM through integrated database to make sure better matching between demand and supply. The IRC is among the government agency that involves in supplying affordable house. The IRC of Pulau Pinang supply the affordable housing project on waqf land despite of facing various challenges in the initial stage. Among the main challenges are to obtain fund for the project development and end financing to home buyers. The obstacles that they managed to overcome open a wider opportunity for other IRC to develop affordable housing project on waqf land or waqf based affordable houses. The ultimate goal is to supply cheaper and more affordable house without increasing households' debt burden. The house affordability among middle income households can be resolved, if every parties clear on the root cause of the matter.

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