When even RM9,000 a month isn’t enough to buy a house

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National House Buyers Association says properties are unsold because of their 'ridiculous' prices, not the banks' lending criteria, adding that banks should not relax their lending criteria.

PETALING JAYA: The National House Buyers Association (HBA) says “ridiculous” prices are the real reason many Malaysians are unable to afford property, to the point where even households earning RM9,000 struggle to buy a home.

In an interview with FMT, the association’s honorary secretary-general Chang Kim Loong dismissed the notion that banks were to blame for unsold properties.

This was after the Real Estate and Housing Developers’ Association (Rehda) cited end-financing issues and loan rejections as the main reasons for unsold properties, with rejection rates as high as 60%.

“If you look at Bank Negara Malaysia’s 2016 annual report, you’ll see that since 2012, the increase in prices of houses has outstripped the rise of income levels,” Chang said.

He said this indicated that average Malaysians just couldn’t afford a home based on their income.

Chang explained the affordability rating concept, the recommended benchmark for the affordability of homes.

This rating, he said, was derived from dividing the price of a house by the borrowers’ annual household income.

“Essentially, according to this benchmark, an affordable house shouldn’t cost more than three times a borrower’s annual household income.

“So if the borrower’s annual household income is, say, RM10,000 per month or RM120,000 per year, then the borrower should only be eyeing properties priced RM360,000 and below.”

Chang said this benchmark had been endorsed by reputable international bodies including the World Bank and the United Nations, as well Bank Negara and local think tanks such as Khazanah Research Institute.

Breaking down the maths

“To give you an example of how unaffordable houses are now, you just have to look at the numbers. Based on figures from the Department of Statistics, you’ll see that the median monthly household income in 2014 in Kuala Lumpur was RM7,705

“Say, on average, this person saw an annual increase of 6% in the monthly household income from 2015 to 2017. This would mean their median monthly household income in 2017 should be RM9,177.”

Chang said if one were to multiply RM9,177 by 12 months and then multiply this by three, a property that would be considered affordable would cost RM330,372. Anything more than this would be realistically unaffordable.

“Some might argue that prices of homes are way more expensive in KL, but the truth is salaries outside of KL are also lower. Using the same formula and statistics, we can count what is affordable in Negeri Sembilan.

“In Negeri Sembilan, the median monthly household income in 2014 was RM4,115. Factoring in the same increase in the median monthly household income in 2017 would make it RM4,900, meaning an affordable home would be in the range of RM176,400.”

Chang said even a home which cost RM294,000 would be unaffordable for a household earning RM4,900 a month.

Are banks the bad guys?

The Association of Banks Malaysia in the past explained that many loan applicants failed to secure loans due to their high debt service ratio, bad credit history, insufficient income, and repayment ability.

Last month, The Sun daily reported Bank Negara Malaysia as saying that access to financing wasn’t the problem with the affordability of houses, and that the loan approval rate of houses for the first five months of 2017 stood at 74%, accounting for some RM40 billion in housing loans.

Chang said the banks were right to only approve loans from those who could afford them, and that relaxing the lending criteria would only encourage housing developers to price their properties higher.

He said according to Khazanah Research Institute, the prices of homes increased three times more per year between 2009 and 2014 than they did annually from 2000 to 2009.

According to some industry experts, the oversupply of properties has resulted in property prices dropping by as much as 30% in recent years, although Chang said they were still beyond the affordability of most.

Relaxing credit criteria has other domino effects

Chang also said if banks were to relax their lending criteria, owners of existing properties, especially those who were part of the property speculators and investors “club”, would also follow developers in increasing their selling prices.

“So, new property prices in prime areas such as Damansara will eventually push up property prices as far as in Semenyih and Seremban.”

Chang added that higher property prices would also lead to higher ancillary costs such as stamp duties, which are normally charged based on a percentage of the property value.

More importantly, Chang said, relaxing lending criteria would lead to banks giving loans to those who weren’t creditworthy.

This, combined with over-priced properties and an economic slowdown, could result in a sub-prime crisis like the one the United States experienced in 2008.

He said Malaysia was already experiencing an economic slowdown due to the drop in oil and commodity prices, while Bank Negara Malaysia’s annual report showed that property prices were beyond the reach of most Malaysians.

“By calling on banks to relax the lending criteria, we could be courting a potential financial disaster, which could cause the collapse of the banking sector. So it’s important, perhaps now more than ever, that banks do not relax their lending criteria.”