

# Ensuring affordability and sustainability

Penang State Executive Councillor for Housing and Town and Country Planning Jagdeep Singh Deo talks about the measures the government is taking so Penang does not become a victim of its own success and popularity

**The Edge: Penang has become an attractive location for a lot of developers in recent years. What are the challenges that have arisen from this rapid pace of property development?**

**Jagdeep Singh Deo:** I think you are correct in saying that Penang has become an attractive location for property investment. I've always said we should not be victims of our success, as a result of being one of the most, if not the most, attractive states to invest in where property is concerned in Malaysia. We have seen, especially in the last four years, an increase in property values.

I think this phenomenon is not peculiar to Penang but is something happening throughout the country, especially in four major areas — the Klang Valley, Johor, Selangor and Penang. But if you look at the statistics, you will see a slowdown in the number of transactions conducted in these four urban areas from the last quarter of 2013 to the first quarter of 2014. I think it's probably the same in the more recent months.

Although there has been a decline in the number of transactions in these four states, it should be noted that the decline in Penang is the least. From what I remember, there was a 16% decline in property prices in Selangor, 10% in Johor, 6% in Wilayah and only 0.3% in Penang. And that is despite Penang having its own double-barrel measures to cool the market and control prices.

Because we are so attractive, we can become victims of our success. That's why I say we must not become victims of our success. And in order to do that, the main challenge would be controlling house prices, controlling the ever-growing hot property market in Penang. So we came up with several measures, introduced last year in the 2014 budget.

One of the main causes of property price hikes is speculative transactions. So, we have a moratorium on low-cost and low-medium-cost housing where you cannot sell from the date of principle purchase for 10 years. As for affordable housing, which is a new species of housing, which was introduced by Penang, there's a five-year moratorium from the date of principle purchase.

We also have limits on purchases by foreigners. In Penang, a foreigner cannot buy a landed home on a property that is less than RM2 million, and cannot buy a stratified property that is less than RM1 million. These caps are for the island. On the mainland, the cap for both is RM1 million. On top of that, we have introduced a further 3% approval fee to be paid to the state, on top of the transaction price.

And the final one is targeted at speculators. We have introduced a bar on selling properties within three years of principle purchase. Of course, this is not applicable to low-cost, low-medium-cost and affordable housing because they have the other moratoriums I have mentioned before.

If you sell your property within that time, you are subject to 2% approval fee even if your papers say you are selling at a loss, because papers can be manipulated. It's not like Real Property Gains Tax, where you only pay if there is a gain. This one is across the board, flat rate 2% on the transaction price if done within three years of principle purchase.

So these are the four main policies to cool the market. We call it the cooling measures — the first prong. The second prong is the most obvious, which is imposing price controls. Because once you impose price controls, you must sell at that price. We impose price controls first on government affordable housing projects, whereby we have a RM400,000 cap on units on the island. There are three types — RM200,000 for those earning RM6,000 and below, RM300,000 for those earning RM8,000 and below, and RM400,000 for those earning RM10,000 and below.

Similarly on the mainland, there is a price cap of RM250,000. There are three types — RM150,000,

RM200,000 and RM250,000. The first and second are for those earning RM6,000 and below, while the third is for those earning RM8,000 and below.

That will be on the 12 projects that we are doing with the government, together with the Penang Development Corp (PDC), in five districts of Penang. We hope to see 22,545 units of affordable housing being built. Work has commenced on two of the projects — in Teluk Kumbar and in Batu Kawan, Bandar Cassia. Bandar Cassia has the lion's share of 22,000 units. I think about 15,000 units will be there because it's a totally new township.

We say the future of Penang is in Seberang Perai. People will probably go there because of the attractions. Ikea is coming, and if you see Ikea and its consequential development in the surrounding areas in KL, that is a testament to what is going to happen in Penang. So we have this activity that is going to generate a lot of income for those residing there. We have international universities coming, which are going to be placed in Batu Kawan — it is going to be an educational hub. All this will make Batu Kawan very attractive. But we have not sidelined the other districts in Penang. Our 12 projects are in all the districts.

So, the first source of housing is the state, where we have 12 projects, 22,545 units. The second is the federal government, which has made a lot of statements. Unfortunately, we haven't seen any developments there yet.

The third source is the private sector. I believe there must be private-public partnership, and I am engaging aggressively with the private sector. We are the first state to come up with guidelines for 100% affordable housing for private developers. It has just been approved by the exco (state executive committee) and the guidelines have just been introduced to private developers where they get incentives for 100% affordable housing projects.

The guidelines will look at things such as which zone can be used (because we have several zones), what charges are going to be imposed (so we give you incentives by reducing the charges and so forth) so that there's more incentive to participate in such projects, and then also viability because those who do 100% affordable housing do not have to do the low-cost and low-medium-cost housing in their projects.

This 30% component is imposed nationally and it is all CSR and cross-subsidised by the rest of the development because you cannot build a low-cost house for RM42,000 or a low-medium-cost house for RM72,500. It's not realistic. The same goes for our affordable housing. If you don't give them incentives, it will not be feasible financially and we will end up with a situation where the private developers say they can't do it.

That is why we came up with the guidelines and incentives. The response has been very positive.

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**How does this relate to the upcoming property summit in Penang?**

The summit is very important. People can come and see me on an ad hoc basis, but it would be better to have a forum with all the players, right down to the house buyer — the developer, the one who builds, right down to the consumer and everything in between, including the state government on top.

So, the state government has decided to participate in this summit. For the first time, you will have an exhibition with a conference — it's not just a normal property exhibition. It is going to be an occasion, a platform for all stakeholders to come together and voice out the issues they want us to address. And how we can better the guidelines, policies or criteria we have, right from the developers to the purchasers of the units. We want to address every issue, globally, in one summit. We intend to do this in the conference part of the summit.

**Is the summit a one-off event or will it be an annual thing?**

We hope it will be the inaugural summit for an annual event.

**Do you already have all the top developers participating?**

The CEO Roundtable, which will be conducted right after the keynote address by the chief minister, will be attended by the top 20 Penang developers. That is just for the CEO Roundtable and there are nearly 30 participants for the conference as well.





**What do you foresee as the outcome of an event like this?**

We foresee suggestions, input being given, for the entire property delivery system. It is very important because when you talk about delivering a unit, it involves so many people, from the developer to the consumer. What are the issues now? What is confronting you that the state can assist with? That is what we want to know.

**You have been emphasising affordability. But with so much development taking place, there is a lot of concern about the environment and the impact on the local citizenry. Is that being looked into?**

Of course. Penang's attraction lies in our state motto — we are cleaner, greener, healthier and safer. Being greener is one aspect. Penang is an island with hills and beautiful greenery. The national limit on development on hills is 150 metres; that means you can build up to 150 metres. In Penang, we are half of that; you cannot build more than 76 metres. We take this very seriously so that we can preserve our greenery. And definitely all developments will have to go through the stringent technical requirements set by the state, whereby we take into consideration the preservation of the environment. That is given utmost priority.

And it's not just about preservation. Now, developers are going towards green buildings. That means the buildings are energy-efficient and built in such a way that they are conducive to the environment. Penang has also introduced green buildings, which is one of the topics in the conference, whereby we have our own rating systems — the Green Building Index (GBI) and the Green Real Estate (Green RE), which is the green rating system of the Real Estate and Housing Developers' Association.

To be GBI-certified, the developer has to go through an exam, and then when you get a certain mark, you get a rating — green, gold, platinum, which is the highest, and so forth. One of the main criteria is energy conservation. One of the main sources of pollution is air conditioning. So they have systems where the air conditioning does not pollute as much or the building is structured in such a way that you don't need too much air conditioning because it is naturally ventilated. All that is part and parcel of the certification process.

Where the state is concerned, once you go through the certifiers and they certify you GBI gold or platinum, you come and show us. The council will then give you incentives. So in that sense, we can encourage them to build more green buildings.

**You are talking about new developments. Is anything going to be done about existing developments that have turned into slums?**

The state government is aware that certain categories, especially the low-income category, with low-cost or low-medium-cost units, the collection rate of management fees is very poor. Some are even less

**Developers are moving towards green buildings that are energy efficient and designed to be conducive to the environment, says Jagdeep**

than 50%. As a result, a lot of work can't be conducted, and they become slums.

Several funds have been set up. The national fund is called Tabung Penyelenggaraan Satu Malaysia (TP1M) where for low-cost housing, they give you 90% of the cost of maintenance work. Say you want to repair a lift, they give you 90% of it, the residents come up with 10%. For low-medium-cost units, it is 70%, and the residents come up with the other 30%.

In Penang, we know that these categories of house owners are facing financial difficulties. So we have established a fund called the Housing Assistance Fund of Penang, Yes! (Happy!), where we provide the 10% and 30% that is supposed to be raised by the residents. But it is subject to the approval of TP1M. That means the federal one must approve first, then we will come up with the balance.

We also have our own Penang fund for the maintenance of these units whereby we will subsidise 80% if they are eligible, while the residents come up with 20% if the TP1M takes too long to approve the projects.

In Singapore, there is a law under the housing board there that if a certain property is 30 years old, it has to be reviewed. And then the property is demolished for a new project. We are considering moving in that direction for some areas that are very old. But of course, we have to study the social impact, financial impact. It has not been done, but there are some things we can look into.

Maybe there are some small pilot projects we can start off with, so that other projects will understand what the benefits are, because they will be getting a better unit than their current unit, which is 30 to 40 years old and is going through so much physical and structural problems that it is no longer viable to maintain it on an ad hoc basis. That is the second stage. We are only at the first stage, where we are trying to revive and rehabilitate buildings.

**Is there anything else on affordable housing that you want to touch on?**

I have talked about price control. We also want to talk about size control because we do not want them to be living in chicken coops. When you talk about affordable housing, it must have the element of quality as well. And it is not just quality in terms of the design and structure of the building but also the lifestyle. We want to have a certain minimum size. So in our guidelines, we came up with the minimum requirement, that is, 750 sq ft for the RM200,000 properties, 850 sq ft for the RM300,000 properties and 900 sq ft for the RM400,000 properties.

**How did the developers react to these guidelines?**

They were quite positive. They have come forward, of course, because they also see the need to cater to this group of first-time house buyers. There is a large number out there. Yes, you can build luxurious units that cost millions of ringgit, and maybe to sell them you will take a longer time. But if you build affordable

housing, you will have the numbers because there are many people out there looking for these units.

**So doesn't this make property development a little tough for developers because they claim they are already facing a lot of margin squeeze?**

They have a choice. We are not forcing them to do it. But we give them good incentives and it becomes very viable. They are exempt for low-cost and low-medium-cost housing. That is the worst thing that hits them in any project. Building these houses and selling them at losing prices is always the one that pinches them. When you build 100% affordable housing, one of the incentives is that you are exempt from that 30% quota. So, a lot of them say the numbers can work. When they do their calculations, it works. It can be financially feasible.

**Do you have any idea how many developers are taking this up?**

Before the guidelines came up on an ad hoc basis, we were already talking about 100% affordable housing, so we moulded the guidelines from the few projects that we had already approved. And the few projects we had already approved is 10,000-odd units, which is half the state government's number.

So after the guidelines came out, even more are coming in on a weekly basis. The developers are interested in affordable housing. So we hope they will at least match our 22,000 units, if not exceed the amount. And then we can see more Penangites able to own their first property.

**Do you have any guidelines to ensure developers take into account all sectors of society, such as the elderly, when they design their units?**

I think in terms of catering to the elderly, clearly there are several projects that are coming up. We call them wellness centres, where you have medical facilities in the building itself and so forth. There are some private developers that are already into that in Penang. But definitely, it is something we want to look at.

**When more residential projects come on stream, they are going to add to the congestion on the island.**

Where traffic is concerned, we have a Penang Traffic Masterplan, whereby we have requested for proposals in an open tender for a RM23 billion project that will encompass several phases and will include all kinds of connectivities, including land, air and sea, because we are an island. Hopefully, this will be something we can address in the future because traffic is a major concern.

**What is the duration for this master plan? When is it scheduled to commence?**

It will be carried out in several phases. I think the request for proposals is closing this month. If I am not mistaken, the state government is going on several trips to look at what is happening abroad. **E**