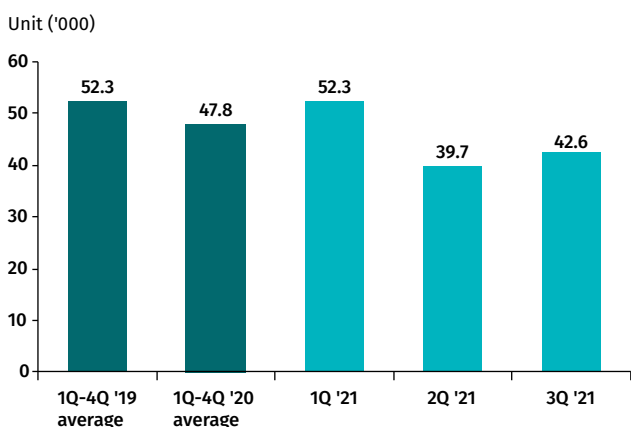


## Developments in the Residential Property Market

The continuation of tighter containment measures from the second quarter of 2021 continued to weigh down housing market activity in the third quarter of 2021. Consequently, while transaction volume increased marginally in the third quarter of 2021, it remained below the quarterly average volume of transactions recorded in recent periods (Chart 1.17). However, market activity is expected to improve in the fourth quarter of 2021 driven by the resumption of economic activities. Correspondingly, higher loan applications were recorded across all price segments in the second half of 2021 (Chart 1.18). The significant increase in loan applications in the final two months of 2021 coincided with the Home Ownership Campaign that ended on 31 December 2021. Improving employment prospects and the low interest rate environment further supported housing demand. Demand for housing was largely driven by owner-occupiers, with 57.3% (1H 2021: 55.8%) of approved housing loans in the second half of 2021 granted to owner-occupiers.

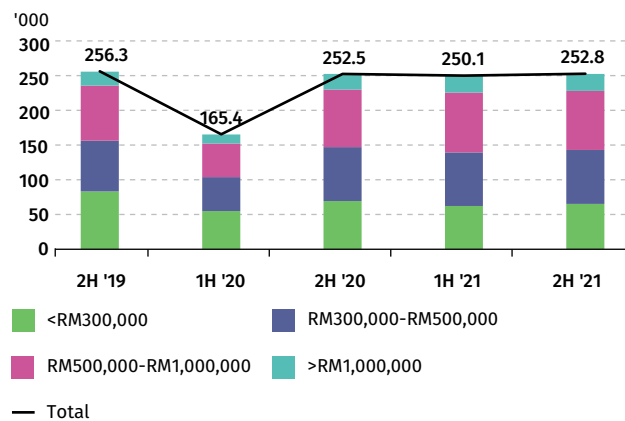
Despite some improvements in market activity, the number of unsold houses remained elevated at 180,702 (2Q 2021: 181,463) units.<sup>44</sup> Disruptions caused by the pandemic partly contributed to the slower clearance of unsold housing stock despite ongoing home purchase incentives. More broadly, the elevated number of unsold houses reflects pre-existing affordability issues in the housing market, which has worsened since the onset of the pandemic as consumer incomes were affected (Diagram 1.1). In this regard, supply adjustments have continued with more new housing launches shifting towards lower- and mid-price market segments. The share of property launches priced at RM500,000 and below increased significantly in the third quarter of 2021 (3Q 2021: 88.1%; 1H 2021: 67.7%; 2015-2019 average: 65.9%). This should help to cap a further significant increase in unsold housing stock. Nonetheless, the bulk of new launches remain beyond the affordable price segment, with only 35.6% of new launches since 2015 priced below RM300,000, indicating further room for price and supply adjustments to improve overall housing affordability.

**Chart 1.17: Property Market – Housing Transaction Volume**



Source: National Property Information Centre (NAPIC)

**Chart 1.18: Property Market – Volume of Housing Loan Applications by Price Segment**



Source: Bank Negara Malaysia

<sup>44</sup> Of this, 31.4% are overhang units while the remainder (68.6%) are units under construction. Unsold houses are mainly priced above RM300,000 (75.4% of total unsold houses) and high-rise properties, in particular, serviced apartments (36.5% of total unsold houses).

Diagram 1.1: Housing (Un)affordability in Malaysia

## What is affordable housing?

A house is considered affordable<sup>1</sup> if:

$$\frac{\text{House Price}}{\text{Annual Income}} \leq 3 \text{ times}$$

Rating	House Price-to-Income Ratio
Severely Unaffordable	5.1 & Above
Seriously Unaffordable	4.1 to 5.0
Moderately Unaffordable	3.1 to 4.0
Affordable	3.0 & Below

Based on this metric, house prices in Malaysia are seriously unaffordable

$$\frac{\text{Median House Price (2020): RM295,000}}{\text{Annual Median Income (2020): RM62,508}} = 4.7 \text{ times}$$

(2019: 4.1 times)

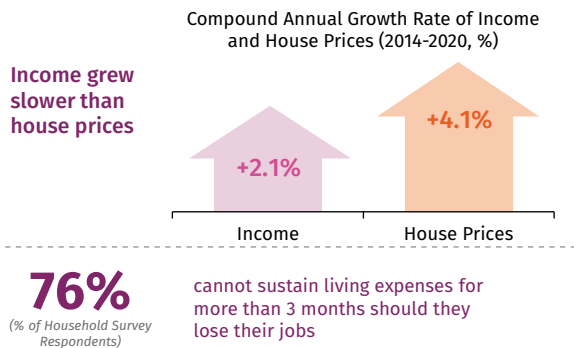
Rating by State
Johor, Perak, Sarawak, Sabah, Kelantan
MALAYSIA, Selangor, Kuala Lumpur, Pulau Pinang, Pahang, Terengganu, Kedah, Negeri Sembilan, Perlis
-
Melaka

## Why do Malaysians find houses seriously unaffordable?

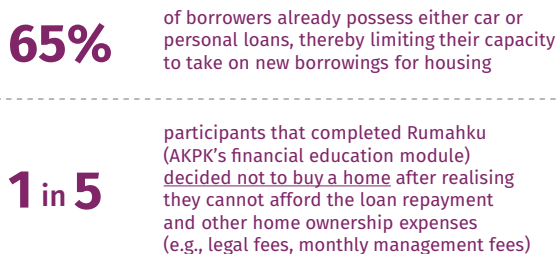
**Demand:** For some, housing affordability is limited by insufficient income and high indebtedness

**Supply:** Mismatch in supply – Market failure to provide enough affordable housing<sup>2</sup>

### 1 Low income or saving buffers



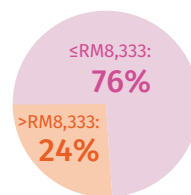
### 2 Prospective borrowers already highly-indebted



A household earning RM100,000/year<sup>3</sup> or RM8,333/month could only afford a house priced up to RM300,000

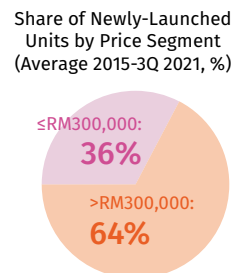
76% of households in Malaysia earn ≤RM8,333...

Share of Households by Monthly Income Group (2019, %)



... but only 36% of newly-launched units are priced ≤RM300,000

Share of Newly-Launched Units by Price Segment (Average 2015-3Q 2021, %)



This has worsened overall housing affordability and increased unsold properties priced >RM300,000 in Malaysia

<sup>1</sup> Based on the Median Multiple approach, as recommended by the World Bank as well as the United Nations (UN). See the box article on 'Demystifying the Affordable Housing Issue in Malaysia' in BNM Annual Report 2016 for more details.

<sup>2</sup> Based on the National Affordable Housing Policy 2019, the maximum price of affordable housing in Malaysia is RM300,000.

<sup>3</sup> Estimated using Median Multiple approach, in which a house is deemed affordable if the house price is not more than 3 times the annual income.

Source: Bank Negara Malaysia, Household Income Estimates and Incidence of Poverty Report, Malaysia (2020) by the Department of Statistics, Malaysia (DOSM), Household Income and Expenditure Survey (2014 and 2019) by DOSM, BNM Survey on Households (2018) and National Property Information Centre