RESPONSIVENESS OF THE MALAYSIAN PLANNING SYSTEM
IN MANAGING HOUSING SUPPLY*

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Abstract

The land use planning mechanisms particularly through development plans and development control are recognised as a tool in determining the current and future housing needs, formulation of the housing policies, allocation the amount of land and identification of suitable locations for housing development. The planning mechanisms also play important roles to facilitate and control the housing production process. In relation to the management of housing supply, besides faulty market systems, there is an argument that irresponsiveness of the current planning practice also contributes to the issue of oversupply. The existing planning system which focuses on meeting housing needs, neglects the element of effective demand in housing forecasting. Inefficient development approval process by the Local Planning Authority in ‘filtering’ and assessing the new housing development application may also contribute to issue of oversupply. Against this background, this paper will highlight the current issues of housing supply in Malaysia and clarify the roles of planning and market system as well as its relationship in the process of housing supply. This paper will also discuss on the nature of the planning system in fulfilling the population requirement for housing and the importance of the market mechanisms in the operation of the housing planning.

Keywords: Land Use Planning, Housing Development, Housing Supply.

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1.0 INTRODUCTION

The planning system and its land use control mechanisms play an important role in controlling and managing the housing development to achieve sustainable, efficiency and responsiveness of housing supply. In Malaysia, the land use planning system particularly through the development plans and development control is recognised as a tool to determine the current and future housing needs, formulation of the housing policies, allocation of the amount of land and determine location suitability for housing development. The planning mechanisms also play significant roles in facilitating and controlling the housing production process. Generally the role of land use planning in housing sector is not only to fulfill the fundamentals of housing as a basic human need by ensuring adequate housing but also to recognise housing as an important economic sector by providing and encouraging an efficient housing market.

In relation to the management of housing supply, the market forces should be operated to achieve an equilibrium between demand and supply. But in reality the housing market system often fails to provide a balanced situation between housing demand and supply. Imperfection of

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the market system and unethical speculation by housing developers are amongst the factors contributing to the market failure, resulting in an overhang and oversupply of housing. In some acute cases, the mismatch of housing demand and supply resulted in abandoned housing problem (Ho, 1992). Besides faulty market systems, there is an argument that irresponsiveness of the current planning practice also contributes to the above issue. Generally the weaknesses of the planning system can be seen through the planning practice which focuses on housing needs, neglects the element of effective demand, particularly in housing forecasting process. Further to that, inefficient development control process by the Local Planning Authority in ‘filtering’ and assessing the new housing development applications may also contribute to oversupply of housing and subsequently exacerbated the problems in the housing market.

Against this background, this paper will highlights the current issues of unsold, overhang and oversupply of housing as experienced in the Malaysian housing sector and followed by clarification of the roles of the planning and the market system as well as its relationship in the housing supply process. This paper will also discuss the nature of the planning system in fulfilling the housing development goals and the importance of the market mechanisms in the operation of the housing planning. Further to those, this paper will clarify the Malaysian housing development programme and the planning legislative framework and discuss to what extent the current planning practice responsive in managing housing supply.

2.0 CURRENT ISSUES OF HOUSING DEVELOPMENT IN MALAYSIA

One of the main issues which is regularly being discussed and debated in the Malaysian housing industry is on the unsold, overhang and oversupply of housing units throughout the country. The National Economic Action Council (NEAC)(1999) has identified that one of the reasons why the economy of the country suffered badly during the 1997 economic recession was due to overhang and oversupply in the property market, inclusive of the housing property.

2.1 Issues of Unsold, Overhang and Oversupply of Housing

Official figures published by the National Property Information Centre (NAPIC) from year 2000 to 2005 clearly proved that the issue of overhang of the housing property continuously exist in the Malaysian housing property market. A total of 51,348 housing units overhang in the year 2000 with a total worth of RM 6.6 Billion remained as an issue until 2005. The latest figure in 2005 also shows that there are 19,577 units or 20.45 % from the total 95,714 units launched, was in the category of overhang with a total worth of RM 2.63 Billion. The overhang figure in 2005 slightly increased from 15,558 units (18.9 %) in 2004 and 9,300 units (13.3 %) in 2003 which are worth RM1.34 Billion and RM1.87 Billion respectively. Further to the overhang issues, figures on the total unsold housing comprising of completed, under construction and unconstructed which are already launched for sales are also in a disturbing situation. Data in 2005 showed that 102,430 units which represent 32.58 % from 314,441 units launched was in the unsold category. The total unsold units in 2005 also indicated an increase compared to the previous figures in 2004 and 2003.
Besides the critical figures of overhang and unsold of housing property, data on surplus of housing supply as published in the National Physical Planning (NPP) Report (2002) also highlighted the overall issues in housing development in Malaysia. The figure which only covers Peninsular Malaysia indicates that out of a total of 5,338,000 units of housing supply (including of existing and committed housing units) in 2000, basically required only 3,941,000 units to fulfil the households housing need at that year. This figure indicated that around 1,396,000 housing units which was approved by the planning authorities are actually an oversupply. The issue of oversupply also exists in a year 2005. By comparing with a total supply figure in 2000, its still indicated a surplus in housing supply at 755,000 units.

2.2 Government and Private Sectors Response to the Issues

The critical issues of overhang, unsold and oversupply of housing have sparked lively discussions and debates. From the Federal Government perspective, since 1999 NEAC has identified that the process of speculative demand and supply by the private developers and loopholes in the planning as well as land approval systems are the major factors which contribute to the issue of overhang and oversupply (The Government of Malaysia, 1999). Further to that the Ministry of Housing and Local Government also clarified that besides the influence of open market and market force in housing market, this problem originated from the weaknesses in the planning approval system by the local authorities where housing applications were being permitted without taking into due consideration the actual demand (Peter Chin, 2003). In similar tone, the Federal Town and Country Planning Department (2005) also identified that failure in complying the housing planning policy, guidelines and other determinations as contained in the development plans particularly by the local planning authorities contribute to the issue of overhang and oversupply. At the State level, the Chief Minister of Johor (2004) identified that the housing approval process at the local authorities which is conventionally focus on the technical planning and land requirements without taking an equal consideration of the actual demand and the current market condition was exacerbated the issue of overhang and oversupply of housing.

Besides views from the government, property players also have their own perception on these issues. For property market analyst, Mohd. Talhar (2005) noticed that the critical figures are not only the high rate of overhang and unsold property but also the high rate of unoccupied current housing stock. To overcome this issue, he proposed that the developers should be more aware of the stronger relevance of use and occupation in the assessment of actual demand before making an investment. For the approving authorities, he also suggested that the authority should manage the supply of land for housing use by defining target population and specific occupation and introducing the priority scheduling of housing development areas. However the housing developers have a different views on this issue. According to Chang (2005), generally developers are aware of the current situation of overhang, unsold, oversupply and low sales performance in the housing market but as businessmen they have to pursue to build houses, even though facing the investment’s risk of low sales. He also clarified that in attracting the housing buyers, most developers are seeking a niche market by creating better environment and enhancing the aspects of security in their housing project. They will also be working hard in promoting and marketing their scheme and trying to out beat their competitors.
3.0 PLANNING SYSTEM AND HOUSING SUPPLY

Fundamentally housing planning policies aim to achieve the social, physical and economic goals by providing housing to meet the population's need (Golland & Gillen, 2004), encouraging sustainable housing growth (Golland & Blake, 2004) and ensuring efficiency in the system of housing delivery and its production process (Einsiedel, 1997; Chan, 1997). In discussing the responsiveness of the land use planning in managing the housing supply, it is important to firstly understand the roles as well as the relationship between planning and the market system in the process of housing supply. Further to that, the nature of the planning system in housing development and the importance of certain market mechanisms to be incorporated in the housing planning process should also be examined.

3.1 Role of Planning and the Market System in Housing Supply Process

The planning system through its land use planning mechanisms and the market system as operated in the housing development and production process are among the elements which exist in the system and the structure of housing supply (Bramley, 1995; Golland, 1998). By looking at the relationship between planning and the market system in the process of housing supply, Einsiedel (1997) argued that although the determination of housing supply is shaped by the market forces, the planning system also has its role especially in governing the new housing production. He further clarified that both the demand and supply in housing market are affected by the regulatory, institutional process and policies set by the planning system. In relation to this argument, Bramley (2003) identifies that housing supply as determined at the planning stage is clearly of central importance to the operation of housing markets. While Rydin (1993) argues that the interaction between the housing markets and the land use planning activities will determine the extent to which the housing policy goals can be successfully met. The above statement and findings from the relevant literature by Einsiedel (1997), Short et al. (1986) and Bramley (1995, 2003), clearly showed that there are close interaction between the planning and the market system with the structure, operation and outcomes of housing supply.

In relation to the role of housing market, theoretically in laisser-faire economy, the market forces should be operated to achieve an equilibrium by interplay between demand and supply in the housing market where price becomes a determinant factor (Adams, 1994; Einsiedel, 1997). However in practice the market system often fails to provide a balanced situation between demand and supply (Bramley, 2004). Imperfection of the housing market which is distorted by external influences such as unethical speculation by housing developers has contributed to the market failure (Adams, 1994). As a result of imperfections and failure, housing markets are in a perpetual state of disequilibrium. A balance is never achieved between supply and demand. Such markets move from shortages to overprovision and back to shortage (Adams, 1994). In the situation of imperfection and failure of the housing market, Rydin (1993) stressed that it is rational and justify for the land use planning to rectify the failure.

In terms of the role of land use planning in housing supply process, Short et al. (1986) generally viewed land use planning as a system of negotiation which results in a set of rules
governing access to land and to housing before surrender it to the market operation. One of the main tasks faced by the land use planning system in housing supply process is to allocate sufficient land for future housing development and then responding to planning application for such development (Rydin, 1993). Although the operation of the market system governs most part of the housing production process as argued by Einsiedel (1997), the role of planning in housing development process can and should be seen in a broader perspective. It begins with the estimation of housing needs, formulation of housing policies and allocation of land and housing supply to cater requirements for future housing supply. In housing production process, the planning mechanism also play its role by assessing and controlling the new housing production which will produce new supply. In discussing the planning roles, the debates on how effective and responsive are the land use planning system play its role in managing the housing supply is always arise. Pearce (1992) raised several questions, i.e. how effective is the planning system in achieving its goal? To what extent it’s successful and to what degree is its failure? Hull (1997) also questioned on how effective are the roles that the land use planning system has in deciding the amount and location of new houses.

3.2 The Changes of the Nature of Planning System in Housing Development

In operating the activities of forecasting, formulation of housing policies, allocating of land for future housing supply in the development plans and the activities of assessing and controlling new housing supply at the development control process, it is becomes a nature of the planning system to fulfil the objective of meeting housing needs (Ratcliffe, 1981; Golland & Gillen, 2004). Housing needs in this context is defined as the quantity of housing that is required to provide adequate housing to the population without taking into consideration individual household’s ability to pay (Chander, 1976; Ratcliffe, 1981; Noraini, 1993; Golland & Gillen, 2004). Generally the housing planning goals are considered as fulfilled, if the planning decision ensures an adequate and continuous supply of housing (Pearce, 1992).

The nature of the planning system which focuses on meeting housing needs has raised several arguments. Nicol (2002) clarified that by only looking on meeting housing needs it is insufficient to achieve a more integrated and responsive housing supply. He suggests that housing planning strategy should fulfil both objectives of meeting housing needs and housing demand as required by the population. Housing demand is usually associated with the requirement of individual households over and above the basic or minimum level of provision or “need” (Golland & Gillen (2004), supported by the household willingness to pay for housing (Noraini, 1993). By considering the ability to pay which actually back up by the purchasing power of each household, it reflects the situation of actual demand for housing which is technically defined as effective demand (Chander, 1976; Golland & Gillen, 2004). Determination of housing demand is also associated with the housing choice as required by the population (Golland & Gillen, 2004). As explained by Golland & Gillen, demand for choice can be distinguished by housing tenure (e.g. social-rented sector or private-rented sector), dwelling type and form of housing and the choice of method of new homes to be developed.

In order to ensure the local housing requirement is adequately met, Golland & Gillen (2004) stressed that the housing planning process should recognise that housing requirement are not
only driven by population trends but also by the affordability of the population. Golland and Gillen also clarified that in estimating the overall need for housing, it is necessary to take account of household income, their ability to pay, their preference in terms of prices and location and their choice in terms of tenure, types, form and method of housing to be developed. By recognising the importance of these elements, there is a significant change in the formulation of housing policies. As experienced in United Kingdom since early 1980s, the role of government in housing provision has changed from previously focused on meeting broad housing needs to one which is focusing and addressing the specific demands of households including in the housing planning process (Golland & Gillen, 2004).

3.3 The Importance of Market Criteria in the Housing Planning Process

Besides factors related to effective demand and housing choice in estimating future housing requirement, the market criteria should also be considered as a significant factor to be incorporated in the housing planning process. As discussed by Bramley (1995), in the context of housing the market criteria comprise elements related to the conditions of local housing market and the expected buyers preference in terms of price, location and type of housing. The importance of this factor has attracted supports from the relevant literature. Hull (1997) argued that the process of forward planning and production of housing still suffers from lack of reliable information on the market indicators and current flow between the housing markets and levels of investment in the housing stock. Related to that, Hull also stresses that apart from playing a role in assessing and meeting of housing need and demand, the process of forward planning and housing development approval should critically looks at the importance of the market criteria in the process of housing production especially on the aspect of marketable location. This statement is in line with the view by Pearce (1992) who clarified that although the planning goals in meeting an adequate housing need is considered as has been fulfilled, any planning decision in supplying new houses also has to respond to the situation of current market demand.

The importance of considering the housing market criteria in the planning process was also addressed by Bramley (1995), who suggested that land use planning system should have a greater degree of awareness of the market by incorporating policies and procedures in a way that sensitive to the needs of the market. According to Nicol (2002) it is the responsibility of a local authority to have an adequate understanding of the housing market before making any decision in releasing new housing supply. While Golland & Gillen (2004) clarified that it is necessary for the housing planning process to understand a consumer’s ‘taste’ in the housing market. Further to the above argument, Healey (1992) stressed that in achieving the housing development goals, three approaches should be applied by the land use planning system, i.e. following the market, managing the market and creating the market.

4.0 MALAYSIAN PLANNING SYSTEM AND THE MANAGEMENT OF HOUSING SUPPLY

The government of Malaysia recognises housing as a basic human need and an important component of the urban economy. This has led to the formulation of policies and programmes aimed at ensuring that all Malaysians have an access to adequate shelter and related housing facilities. In Malaysia, housing development programmes are carried out by both the public and
the private sector. The public sector concentrates mainly on low-cost housing programmes while the private sector (housing developers), apart from complying on the 30 percent low cost housing unit, concentrates on medium and high-cost housing programmes. The Malaysian government has also formulated a housing policy which aims to strengthen the involvement of private sector in housing production and delivery especially in housing schemes development (Asiah, 1999).

4.1 Planning Legislative Framework Related to Housing Supply

Besides the involvement of central government, the current housing development mechanism also provide a statutory power to the state and local authorities to formulate certain policy related to housing and land use planning. Generally the formulation of housing policy comes through the preparation of structure plan which cover the whole area of each state. The broad policies in the structure plan will be detailed in the local plans. With regard to housing supply, the local plan will determine the total land supply, quantity and location suitability for new housing development. Subsequently, document of structure and local plans will be used as a basis of development control. Thus before granting any planning approval (planning permission) for housing development application, the Local Planning Authority should ensure that it confirms to the provision of the local plan. The above process and procedures in preparing the development plans (structure and local plans) and the controlling of the development through development control has been enacted in the Town and Country Planning Act, 1976 (Act 172). After obtaining planning permission, a housing development application also has to go through the land approval process (especially for conversion and sub-division of land) by the State Authority as enacted in the Malaysian National Land Code, 1965 (Act 56). At this stage planning permission given under the Act of 172 (planning act) will be used as a basis for consideration to any land development approval by the State Authority.

4.2 The Responsiveness of Current Planning Practice in Managing Housing Supply

In theory the above legislative procedures shows that the current planning mechanism is significant and capable enough to plan and control the housing development in the country, especially in meeting housing needs and balancing the supply of housing with the actual demand. But in reality, loop-holes and weaknesses in the current planning practice identified contributes to the issue of overhang and oversupply of housing. This statement basically describes that irresponsiveness has occurred in the Malaysian planning system with regards to the management of housing supply. With reference to the functions of development plans and development control, several questions arise on the extent to which these planning mechanisms response to the management of housing supply. First, how responsive are the development plans in forecasting land and housing amount, determining housing types and allocating suitable location for future housing supply? Second, to what extent the development control process by the Local Planning Authorities comply with the provision of development plans and how effective is the process in assessing and controlling the housing supply? Third, is the planning system responsive and have an ability to manage the housing supply in meeting the housing needs which balance with the housing demand?

To answer the above questions, detail exploration should be done by assessing each activities in the preparation of development plans and at the development control process which
is partly under the responsibility of local planning authority. At the stage of preparing the development plans (i.e. structure and local plans), the extent to which it response to fulfilling the housing needs and actual demand can be assessed begins from the activities of estimation of future housing requirement, formulation of housing and land use planning policies to allocation of land and housing units supply in terms of location, types and determination of right timing for development. Further to that, it also can be evaluated at the housing development control stage by the local planning authority relating to the supply and demand assessment, control and the planning approval for new housing production.

In relation to the importance of the market mechanisms, although there are awareness at the federal and state level to consider an element of actual demand and local market condition in housing planning process, it has yet to be applied by the local planning authority in the process of housing development approval. Currently the focus is still on the technical planning and land requirement such as compliance to the land use zoning as determined in the local plans, planning and other technical guide-lines and comply with the land titles conditions. Generally the Malaysian local planning authorities neglect the elements of effective demand, housing choice and the market criteria in the housing planning process.

5.0 CONCLUSION

The preceding discussion clearly shows that the unsold, overhang and oversupply of housing are in the critical situation in Malaysia. To overcome this issues, it requires a profound understanding of numerous internal and external factors and their inter-relationship. Besides looking at the imperfection and failure of the operation of housing market which is commonly argued contributes to that issue, identification of weaknesses in the land use planning system as clarified by the NEAC, the Ministry of Housing and Local Government and by the Department of Town and Country Planning should also need to be explored in detail.

With consideration that there is a close interaction between the planning and the market systems in the process of housing supply, any effort to strengthen the housing planning process should give due attention to this relationship. Further to that, the fundamentals nature of the planning system which conventionally merely focuses on meeting the housing needs should also be changed. In this context, the current development plans and development control activities should not only recognised that the housing requirements are driven by the population trend but also influenced by the market mechanisms. To enable a more efficient and responsive housing supply process, elements such as an effective demand (population's affordability and household willingness to pay for housing), the housing choice (choice by housing tenure, dwelling type, form of housing and method of new homes to be developed) and the market criteria (conditions of local housing market and buyers preference in terms of price, location, type of housing, etc) should be incorporated in the overall housing planning process, particularly in the preparation of development plans and at the stage of development control by the Local Planning Authority.
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