

The Impact of the COVID-19 Pandemic in Pulau Pinang, In the Context of the Housing Industry

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Abstract

The covid-19 pandemic, declared in December, 2019, has brought about not only changes in lifestyles, but also changes in areas such as the construction industry, the service sector, and the business sector among others. This investigation delves into the effects of covid-19, in terms of the housing industry in Pulau Pinang. The qualitative methods employed with this undertaking, were applied for the housing industry at Seberang Perai, Pulau Pinang, which represented the study population. Other than providing recommendations for improving Pulau Pinang's housing industry, we also aim to raise public awareness and address concerns relating to this industry. Generally, this investigation will serve to provide avenues for reducing the negative effects of covid-19, to consequently ensure the growth of the housing industry in Pulau Pinang.

Keywords: Housing industry; COVID-19; Commercial sector, Qualitative method.

1. Introduction

House ownership, which involves a substantial investment, is among the foremost aspirations of a family unit. Usually coinciding with an increase in income, house ownership provides a foundation for future improvements in a family's quality of life. In the context of developing countries, it has been established that the housing industry cannot operate independently. To flourish, it needs to operate hand in hand with other industries.

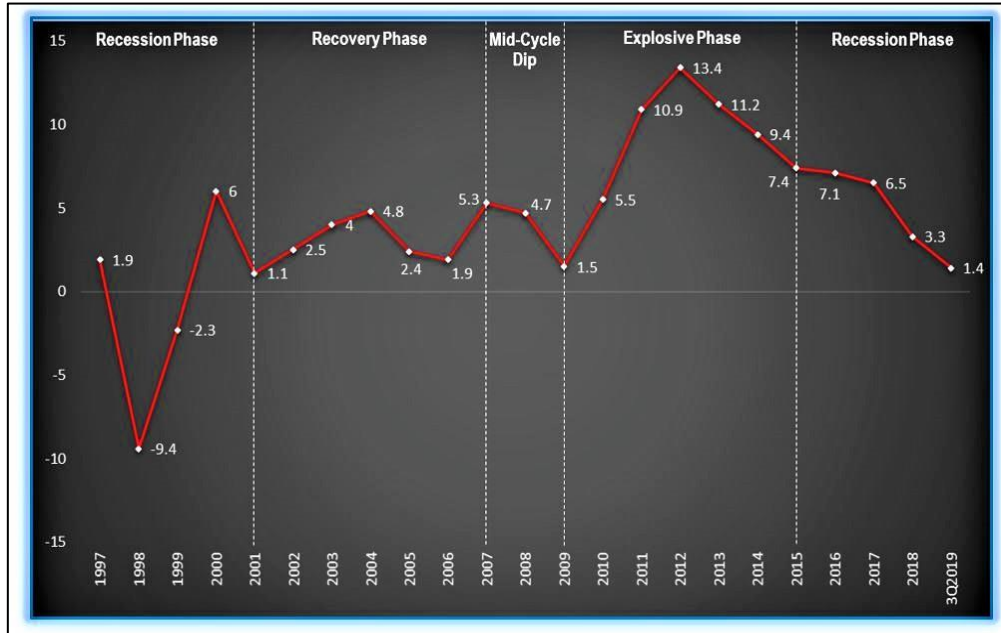
It is undeniable that players, in the housing industry, are currently feeling the effects of the covid-19 pandemic. Due to the escalation in business closures and job terminations, people tend to be more tight-fisted with money, and restrict their spending to necessities. A house purchase, which usually involves a substantial price tag, would impose a significant strain on the finances of a family, especially during these trying and uncertain times. This situation has prompted prospective house buyers to adopt a wait-and-see attitude, which has led to a decline in housing sales, for the second half of 2020.

The dip in housing sales is looked upon as a short-term consequence of the covid-19 pandemic. This is to be expected, as consumers will tend to restrict spending to the daily needs of their families. The long-term effects of Covid-19, however, is a different story altogether, as it involves changes in the lifestyles, work situations and spending habits of consumers. For instance, a prolonged covid-19 pandemic may lead to a switch from business operations in buildings, to online sales operations. This will not only lead to a reduced workforce, but also a decline in the demand for business premises.

2. Information Documented in Relevant Literature

Malaysia's principals of the real estate cycle, stretching 18 years (between 1997 and 2019), can be observed in [Figure 1](#). The country's recovery from the Asian financial crisis of 1997 began in 2001. However, a hiccup in the form of the subprime mortgage crises between 2007 and 2009, temporarily threw a spanner in the works. From that point, the real estate market in Malaysia grew by leaps and bounds. Between 2010 and 2015, property prices rose steeply to arrive at a peak of 13.4% per annum. However, the year 2015 saw the onset of a recession, arising from a variety of issues. These included the wide disparity between house prices and the consumer's purchasing power, completed but unsold houses, a more cautious property buying attitude, and a more stringent property financing approach, due to the weak ringgit against major currencies ([Napic, 2019](#)).

Figure-1. Percentage Change (%) In House Price with Identified Phases of Malaysia’s Property Cycle (Napic, 2019)

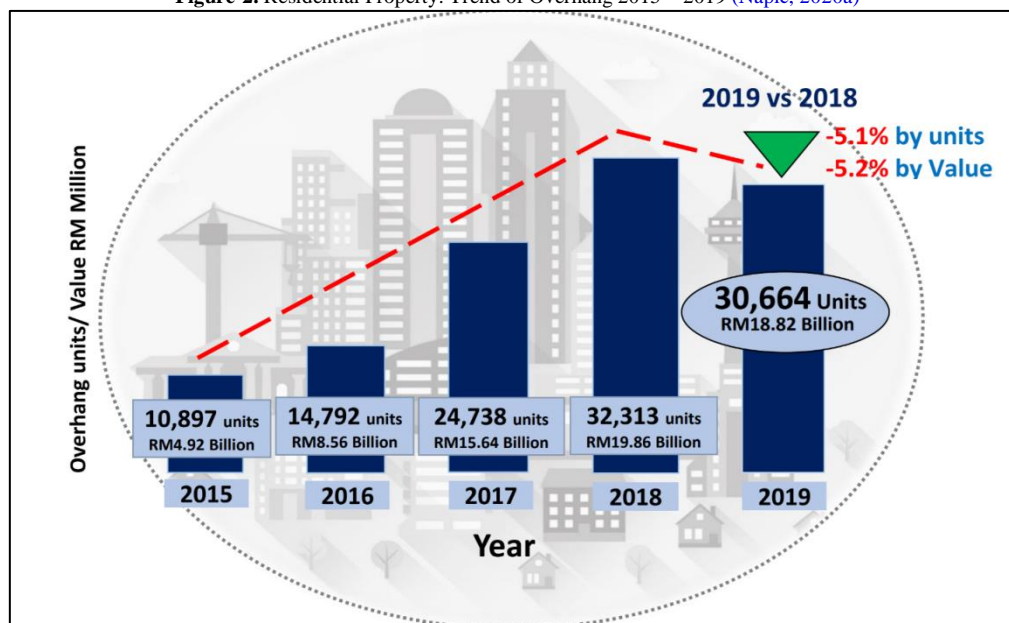


According to the principles of the 18-year real estate market, the recession stage is predetermined to occur in 2019, followed by the recovery stage in 2020. However, the covid-19 situation put paid to this sequence, and rendered the Malaysian real estate market weak for the duration of the year 2020. It is anticipated that any sign of recovery will only become evident in 2021. Based on the property market principles for 18 years, it will be 7 years from 2021, before the real estate market realizes an acceptable level of recovery.

This challenging situation, calls for close cooperation among all factions, to deal with the persistent issue of surplus housing, made worse by the covid-19 episode. To counter this predicament, the government should take steps, to bridge the gap between house prices and the financial capabilities of potential home buyers, by boosting the availability, of more appealing and reasonably priced housing purchase schemes. Financial institutions can play their part by easing the housing loan stipulations, which in turn will render housing loan approvals more attainable. As for the contribution expected of housing developers, they can make it a point to abide by price guidelines decided upon by the government. During this difficult period, profit should take a backseat, when it comes to the sale of affordable housing.

Among the many challenges facing players in the real estate market domain, is oversupply. In Malaysia, the surplus in housing brought about a disproportion between availability and demand. This situation was exacerbated by the onset of the covid-19 pandemic, which rendered the property market weak. The pattern of oversupply in the residential real estate market between 2015 and 2019 is presented in Figure 2. As can be observed, the surplus in the residential real estate market, with regards to housing units amounted to -5.1%, with a value increase of -5.2%. This represents a rise in surplus units from 10,897 to 30,664, with a value of RM4.92 billion and RM19.86 billion respectively. This is a clear indication, that due to various reasons, the number of residential properties, in the real estate market, is growing year by year (Napic, 2020a).

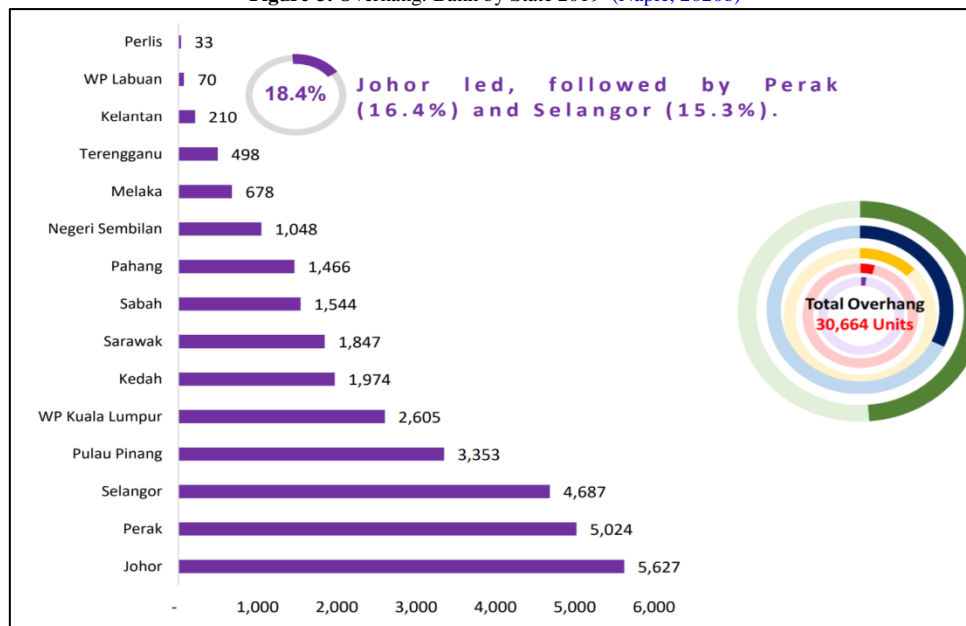
Figure-2. Residential Property: Trend of Overhang 2015 – 2019 (Napic, 2020a)



The overwhelming surplus, in the housing market, can be put down to exceedingly high house prices, which tend to be beyond the means of the average prospective buyer. Other than the stringent conditions attached to applications for housing loans from banks, the prolonged approval period requiring several phases, is another reason, why families are unenthusiastic about purchasing a home. Other contributing factors to the housing surplus include unappealing locations and housing structures. Left unaddressed, the housing supply surplus dilemma will be made worse, by the effects of the ongoing covid-19 pandemic. In the opinion of Yip *et al.* (2020), housing affordability delivers a very slight negative impact of 0.0097 on housing surplus, while economic development and housing cost deliver a slight positive impact of 0.020 and 0.022 respectively. This is in conflict with the general viewpoint, that these two factors are significant determinants, of the housing surplus situation.

As portrayed in Figure 3, the state of Johore heads the surplus property market list with 18.4% representing 5,627 units, followed by Perak with 16.4% representing 5,024 units, and Selangor with 15.3% representing 4,687 units. As for the state of Pulau Pinang, the number of surplus residential units was registered as 3,353 (Napic, 2020b). This housing surplus figure, which is lower than those of Johore, Perak and Selangor, is an indication that the citizens of Pulau Pinang are more positive, when it comes to the purchase of houses. This situation can be attributed to the better affordability among purchasers, as well as the strategic location of the houses, and the good investment returns they portray.

Figure-3. Overhang: Bank by State 2019 (Napic, 2020b)



3. Method Employed

This undertaking opted for the qualitative method to investigate the housing industry of Seberang Perai, Pulau Pinang, which represents the study population. We are of the opinion, that the following proposals, will serve to cushion the impact of the covid-19 pandemic, on the housing industry: (a) the introduction of a rental guarantee programme, (b) the monitoring of supplier charges, (c) the introduction of better loan schemes, (d) the delivery of better financial support for the low-income group, (e) the bringing in of all proceeds from land acquisition, (f) the removal of regulatory barriers, (g) the reassessment of the Standard Form Contracts, (h) the upgrading of the National Housing Policy, (i) the setting up of an integrated housing database and (j) the opening of opportunities for foreign investments.

3.1. Introduction of a Rental Guarantee Programme

In order to maintain the operations of the housing industry, during and immediately after the covid-19 pandemic, developers ought to be given the option of a rental guarantee programme. Such a programme will render the development of housing projects more cost-effective. The federal government should play a role, by stepping in to guarantee loans for developers, keen on the development of affordable housing.

The government can also introduce a ‘rent with the option to buy’ scheme, whereby renters can opt to purchase a house, following a predetermined period.

3.2. The Monitoring of Supplier Charges

Malaysia’s ministry of housing and local government (KPKT) needs to regularly scrutinize the charges, set by the suppliers of building materials. This will serve to make certain, that the housing industry is not victimized by unscrupulous suppliers, out to make unreasonably bloated profits.

Co-living (also known as shared living), and space optimization concepts in housing designs, should be considered by the government, to bring down housing costs, and raise the level of affordability. The local government can play a role by providing financial assistance to those in need, in the form of grants and subsidies.

The operational and maintenance costs, associated to the housing industry, can be brought down through the reduction of construction costs. The development of innovative technologies aimed at reducing construction costs, calls for the liberty to act in response to market indicators. Design specifications put in place by the government, tend to stifle the element of creativity, during efforts to develop new construction methods, which may serve to reduce construction costs. The Construction Industry Development Board (CIDB) describes IBS as a construction approach, which involves the pre-fabrication of construction components at the plant, prior to their installation on the framework, with the least amount of required effort (Fateh *et al.*, 2020). Rahim and Qureshi (2018) reported that the employment of the IBS approach shortened the construction duration, reduced the need for construction materials on-site, and improved the management of construction waste materials. Other approaches aimed at reducing construction costs include the industrialised building system (IBS), the modular system, 3D printing, and internet of things (IoT). Construction costs can also be lowered, if developers can be persuaded through subsidies, to utilize local materials for the development of housing projects.

The realization of an appealing housing scheme is achievable with creativity on the part of the developer. For instance, a developer who conjures up a scheme, facilitating easy access to a transportation system, would promote the attractiveness of his/her housing project, as house-owners would appreciate the anticipated reduction in transportation expenditure. The government can play a part in this situation by ensuring that the transportation system available is both reliable and well-organized. Creative developers are likely to receive the backing of KPKT, during their efforts to improve the performance of the housing industry, following the covid-19 episode.

3.3. Introduction of Better Loan Schemes

Financial agencies can contribute by offering better loan schemes, so that those in the low-income category can afford to purchase a house, when the covid-19 episode is over. Crowdfunding is among the loan schemes that should be considered for this purpose. An American version of crowdfunding is 'Homefundme'. This scheme has proven to be successful for helping purchasers come up with the down payment required for a house. Basically, crowdfunding is the financing of a venture through the accumulation of small sums of money, from a considerable number of individuals. More often than not, this process is conducted online.

In terms of affordable housing, the low-income group and the younger generation, particularly those purchasing their first home, should be given priority. In this context, KPKT should strive to introduce more affordable housing projects along the same lines as "Rumah Selangor ku", for instance. Additionally, to promote house purchase among the low-income group, the lowering of interest rate for housing loans should be considered. Low-income borrowers, facing problems settling their loans, can be assisted through the restructuring and rescheduling of these loans. These steps will not only serve to increase the sale of houses, but also reduce the number of abandoned low cost housing projects.

3.4. Delivery of Better Financial Support for the Low-Income Group

Developers can play their part by focusing more on easing the financial burden of the low-income group, and less on the making of profits.

3.5. Bringing in of all Proceeds from Land Acquisition

In terms of land acquisition, the government is entitled to all proceeds from development, if the land concerned is gazetted for public purposes. As such the implementation of ninety-nine-year-old leases should be maintained, until such time when the government chooses to redeem the land.

3.6. The reducing of Regulatory Barriers

The government should work towards reducing the regulatory barriers, which players in the housing industry have to contend with. These regulatory barriers, which those in the housing industry consider unbeneficial, can be reduced by curbing the direct involvement of government agencies in housing projects. This will also serve to alleviate rigid requirements associated to minimum size and cost. The government needs to consider that requirements deemed unnecessarily stringent, will come in the way of the supply and demand concept.

3.7. The Reassessment of the Standard Form Contracts

The KPKT, together with the Malaysian Institute of Architects (PAM) and the Public Works Department (PWD), should reassess the Standard Form Contracts, and consider tax exemptions for housing developers. This would place them on a better footing, to contribute towards the development of affordable housing, when the covid-19 spell comes to an end.

3.8. The Upgrading of the National Housing Policy

Improvements, to the National Housing Policy, should include the locating of low-cost housing in the city, rather than in deserted rural areas (National Housing Policy, 2011). The government should also reassess the affordable housing policy, to verify that the existence of unsold units is not related, to the price of these units. Furthermore, the government should consider reducing house prices by 10%, so that more families, in the low-income bracket, can afford to purchase a home, when the covid-19 episode comes to an end.

In the context of house prices, the government should formulate a new policy, which places the setting of house prices in the hands of the government, instead of in the hands of the developers, which is the situation currently. This

is to ensure, that the purchasing power of Malaysian citizens, is constantly above that of foreigners. Additionally, a limit should be fixed, for the purchase of houses by foreigners.

3.9. The Setting up of An Integrated Housing Database

KPKT needs to set up an integrated housing database, for the efficient allocation of houses and ownership registration. An integrated housing database, will also serve to keep the government informed, on developments in the affordable housing domain.

3.10. The Opening of Opportunities for Foreign Investments

Foreign investments, in the form of houses for vacations or for retirement, should be considered. However, the doors should only be open to quality investors, and clear conditions should be set, to ensure that both parties benefit from this arrangement.

4. Conclusion

It is our contention, that by taking the abovementioned recommendations into consideration, Malaysia's housing industry will be well-prepared, for the post covid-19 era. Although it may take three long years, before players in Malaysia's housing industry see the light at the end of the tunnel, they can weather the storm created by the covid-19 pandemic, if there is close cooperation among all relevant parties. According to Baker *et al.* (2020), the stringent controls imposed by the United States government on business-related and social activities, profoundly altered the work routines of employees in the service industry. This may represent an explanation for the United States being more affected by the current pandemic, than the previous pandemics of 1918–1919, 1957–1958, and 1968. To avoid a similar situation, any agenda or regulation implemented by the Malaysian government, to counter the impact of covid-19, should take the present circumstances of the people into account, so that their future is not jeopardized.

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