MARKET DEMAND ANALYSIS OF AFFORDABLE HOUSING IN KUCHING AND SAMARAHAN DIVISIONS

Donald Anak Henry Nohed

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MARKET DEMAND ANALYSIS OF AFFORDABLE HOUSING IN KUCHING AND SAMARAHAN DIVISIONS

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In fulfilment of the requirement for the Degree of Master of Science (Economics)

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2013
STATEMENT OF ORIGINALLITY

The work described in this Thesis, entitled

“Market Demand Analysis of Affordable Housing in Kuching and Samarahan Divisions”

is to the best of the author’s knowledge that of the author except

where due reference is made.

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Date Submitted

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12020043
ABSTRACT

MARKET DEMAND ANALYSIS OF AFFORDABLE HOUSING IN KUCHING AND SAMARAHAN DIVISIONS

By

Donald Anak Henry Nohed

One of the basic human needs is housing. Therefore, it is pertinent for any country to ensure its’ citizen have adequate access to housing. In Malaysia, one of the major social objectives in its development plan is the provision of affordable housing to all. Based on records available at Housing Development Corporation (HDC), the authority responsible for the development of affordable housing (low cost and low cost plus housing) in Sarawak showed that there was a big short in the supply of affordable housing in Sarawak, especially in Kuching and Samarahan Divisions. It is also observed that many of the aspired affordable housing buyers/ owners had to give up their “dream homes” because of their inability to secure housing loan from the financial institutions or banks even though at HDC level, the house has already been offered to them. Records at HDC indicated that between 20-30% of the aspired affordable house owners had to reject the offer due to financial constraints. Therefore, based on the above mentioned issues, it is important to carefully study and analyse what are the factors that affect housing demand especially with regard to affordable housing in Kuching and Samarahan Divisions.

A theoretical framework was adapted from various sources, particularly the neo classical theory of housing demand. In line with the first objective of the study which is to
analyse market demand in terms of the probability of intention to purchase affordable house
the descriptive statistics were utilised accordingly. In addressing the second objective of
identifying the importance variables that affect different types of housing demand, descriptive
statistics and factors analyses were utilised. Hypotheses testing were performed based on the
new sets of constructs (identified from the factors analyses) by using the Spearman rank
correlation analysis.

The findings showed that the probability of intention to purchase houses were quite
high with the highest recorded for low cost housing, followed by low cost plus, medium cost
low and medium cost terraced houses.

In terms of hypotheses testing, correlation analyses for low cost house showed that
there was significant relationship between the demand and income, loan affordability, house
structural, distance location, security and future value. However, demographical factors were
found to be not significant. As for low cost plus house, significant factors include house
structural and security and quality of life. Other factors such as financial, demographic,
location and social activities were not significant. Hypotheses testing for medium cost low
housing found that significant factors include loan affordability, house price affordability,
house structural, social and services. Factors that were not significant comprise of
demographic, location, quality of life and comfort living. Lastly, as for medium cost terraced,
significant factors consist of loan affordability, house structural, services and security. On the
other hand, demographic, house quality and location were not significant factors.

Some policy recommendations based on the current findings are given in the last
chapter of this thesis.
ABSTRAK

ANALISA KAJIAN PASARAN RUMAH MAMPU MILIK DI BAHAGIAN KUCHING DAN BAHAGIAN SAMARAHAN

Oleh
Donald Anak Henry Nohed

Satu kerangka teori telah diadaptasi dari pelbagai sumber terutamanya berasaskan teori permintaan rumah neo-klasik. Selaras dengan objektif kajian iaitu untuk menganalisa pasaran permintaan rumah dari segi kemungkinan berniat untuk membeli rumah mengikut jenis rumah, statistic deskriptif telah digunakan. Dalam usaha untuk mengenalpasti faktor-faktor penting yang mempengaruhi permintaan rumah, dua jenis analisa telah digunakan iaitu statistic deskriptif dan analisa faktor. Manakala pengujian hipotesis dijalankan ke atas faktor-faktor baru yang diperolehi hasil daripada penganalisaan faktor (factor analysis) dengan menggunakan Analisa Korelasi Spearman.

Hasil kajian mendapati bahawa kemungkinan berniat untuk membeli rumah adalah agak tinggi dimana rumah kos rendah mendapat nilai min tertinggi, diikuti oleh rumah-rumah kos rendah atas, kos sederhana rendah dan kos sederhana teres.

Sesuai dengan hasil penemuan kajian ini, beberapa cadangan polisi telah disertakan di bab terakhir tesis ini.
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I also would like to thank my employer Housing Development Corporation (HDC) and especially the Chief Executive Officer, Encik Wan Mohd Yusop bin Wan Moss for his utmost supports and encouragement for me to pursue this study at UNIMAS. I’m eternally grateful to you, sir! Many thanks also to all my colleagues at HDC for their continued supports. I could not have done this without your supports.

Last but not least, words just cannot describe how grateful I am to have such a wonderful family, my wife and kids, you guys are my Rock. Thank you.
# TABLE OF CONTENTS

LIST OF FIGURES .............................................................................................................. xv
LIST OF TABLES .................................................................................................................. xvi
LIST OF APPENDICES ......................................................................................................... xviii

CHAPTER 1 ............................................................................................................................... 1

INTRODUCTION ..................................................................................................................... 1
1.0. Introduction .................................................................................................................... 1
1.1. Affordable Housing .................................................................................................... 2
1.2. Housing Market in Kuching and Samarahan Divisions ............................................. 4
1.3. Problem Statement .................................................................................................... 8
1.4. Objectives of the Study ............................................................................................ 11
1.5. Significance of the Study ......................................................................................... 11
1.6. Structure of the study .............................................................................................. 12

CHAPTER 2 ............................................................................................................................. 13

LITERATURE REVIEW .......................................................................................................... 13
2.0. Introduction .................................................................................................................. 13
2.1. Theoretical Frameworks .......................................................................................... 14
2.1.1. Housing Demand Equation ................................................................................. 14
2.1.2. Unique Features of Housing .............................................................................. 17
2.1.3. Discrete Choice Approach/ Random Utility ....................................................... 20
2.1.4. The probability of owning a home ..................................................................... 20
2.1.5. Variables in Housing Demand ........................................................................... 21
2.1.5.1. Financial Factors ......................................................................................... 21
2.1.5.2. Demographical Factors .............................................................................. 24
2.1.5.3. Housing Location Factors .......................................................................... 27
2.1.5.4. Housing Neighbourhood Quality ................................................................. 28
2.1.5.5. Housing Structural Attributes .................................................................... 29
2.2. Empirical Findings ................................................................................................... 29
2.2.1. Housing demand study in some developed countries ...................................... 30
2.2.2. Housing demand study in some developing countries .................................... 38
2.2.3. Housing demand study in Malaysia .................................................................. 44
2.2.4. Housing demand study in Sarawak .................................................................. 46
4.9. Findings on the Hypotheses ................................................................. 106
4.9.1. Financial Factors ........................................................................... 106
4.9.2. Demographic Factors .................................................................... 108
4.9.3. House Attributes .......................................................................... 109
4.9.4. House Location (Distance) ............................................................. 110
4.9.5. Neighbourhood Quality ................................................................. 111
4.10. Summary ......................................................................................... 113

CHAPTER 5 ........................................................................................................ 114
DISCUSSION OF FINDINGS ........................................................................... 114
5.0. Introduction ....................................................................................... 114
5.1. Discussion of Findings ...................................................................... 114
5.1.1. Intention to Purchase House According to Types ............................. 115
5.1.2. Top 10 Most Important Factors that Affect Housing Demand .......... 116
5.1.3. Discussion on Hypotheses Testing Results – Financial Factors and Probability of Intention to Purchase According to House Types ................................................................. 118
5.1.4. Discussion on Hypotheses Testing Results – Demographical Factors and Probability of Intention to Purchase According to House Types ................................................................. 120
5.1.5. Discussion on Hypotheses Testing Results – House Attribute Factors and Probability of Intention to Purchase According to House Types ................................................................. 121
5.1.6. Discussion on Hypotheses Testing Results – House Location Factors and Probability of Intention to Purchase According to House Types ................................................................. 121
5.1.7. Discussion on Hypotheses Testing Results – Neighbourhood Quality Factors and Probability of Intention to Purchase According to House Types ................................................................. 122
5.2. Summary ......................................................................................... 123

CHAPTER 6 ........................................................................................................ 125
CONCLUSIONS ............................................................................................ 125
6.0. Introduction ....................................................................................... 125
6.1. Findings ............................................................................................ 125
6.2. Policy Implications ........................................................................... 127
6.2.1. Low Cost Housing ....................................................................... 127
6.2.1.1. Financial Factors (Income and Housing loan mortgage rates) ....... 127
6.2.1.2. House Attribute Factors ........................................................... 128
6.2.1.3. House Location Factors ........................................................... 129
6.2.2. Low Cost Plus Housing ............................................................... 130
6.2.2.1. Financial Factors (Housing loan mortgage rates) ....................... 130
6.2.2.2. House Attribute Factors ........................................................... 131
6.2.2.3. House Neighbourhood Quality ................................................ 131
6.2.3. Medium Cost Low Housing ......................................................... 132
6.2.3.1. Financial Factors (Housing loan mortgage rates) ........................................... 132
6.2.3.2. House Attribute Factors .............................................................................. 133
6.2.3.3. House Neighbourhood Quality .................................................................... 134
6.2.4. Medium Cost Terraced Housing ..................................................................... 134
  6.2.4.1. Financial Factors (Loan affordability) .............................................................. 134
  6.2.4.2. House Attribute Factors .............................................................................. 135
  6.2.4.3. House Neighbourhood Quality .................................................................... 136
6.3. Limitations of the Research ............................................................................... 137
6.4. Future Research .................................................................................................. 139
6.5. Concluding Remarks .......................................................................................... 140

REFERENCES
LIST OF TABLES

<table>
<thead>
<tr>
<th>TABLE</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1.1: The Number of Residential Property Transactions According To Divisions</td>
<td>6</td>
</tr>
<tr>
<td>Table 1.2: The Value (in RM million) of Residential Property Transactions According To Divisions</td>
<td>6</td>
</tr>
<tr>
<td>Table 1.3: Price (in RM’000) Ranges of Residential Property, Jul-Dec 2011 and Jan-June 2012</td>
<td>7</td>
</tr>
<tr>
<td>Table 3.1: Juster Scale</td>
<td>63</td>
</tr>
<tr>
<td>Table 4.1: Respondents’ Profiles According to House Types</td>
<td>71</td>
</tr>
<tr>
<td>Table 4.2: Descriptive Statistics on probability of intention to purchase according to house types</td>
<td>73</td>
</tr>
<tr>
<td>Table 4.3: Descriptive Statistics – Factors Affecting Low Cost Housing Demand</td>
<td>74</td>
</tr>
<tr>
<td>Table 4.4: Rotated Component Matrix for Factors Considered in Low Cost House Purchase Decision in Kuching and Samarahan Divisions</td>
<td>76</td>
</tr>
<tr>
<td>Table 4.5: Normality Test</td>
<td>80</td>
</tr>
<tr>
<td>Table 4.6: Spearman Correlation Analyses – Factors Affecting Housing Demand – Low Cost House</td>
<td>81</td>
</tr>
<tr>
<td>Table 4.7: Rotated Component Matrix for Factors Considered in Low Cost Plus House Purchase Decision in Kuching and Samarahan Divisions</td>
<td>85</td>
</tr>
<tr>
<td>Table 4.8: Test of Normality</td>
<td>89</td>
</tr>
<tr>
<td>Table 4.9: Spearman Correlation Analyses – Factors Affecting Low Cost Plus House</td>
<td>90</td>
</tr>
<tr>
<td>Table 4.10: Descriptive Statistics – Factors Affecting Medium cost low Housing Demand</td>
<td>91</td>
</tr>
<tr>
<td>Table 4.11: Rotated Component Matrix for Factors Considered in Medium cost low House Purchase Decision in Kuching and Samarahan Divisions</td>
<td>93</td>
</tr>
<tr>
<td>Table 4.12: Test of Normality</td>
<td>97</td>
</tr>
<tr>
<td>Table 4.13: Spearman Correlation Analyses – Factors Affecting Housing Demand – Medium Cost Low House</td>
<td>98</td>
</tr>
<tr>
<td>Table 4.14: Descriptive Statistics – Factors Affecting Demand for Medium Cost Terraced House</td>
<td>99</td>
</tr>
<tr>
<td>Table 4.15: Rotated Component Matrix for Factors Considered in Medium Cost Terraced House Purchase Decision in Kuching and Samarahan Divisions</td>
<td>101</td>
</tr>
<tr>
<td>Table 4.16: Test of Normality</td>
<td>104</td>
</tr>
<tr>
<td>Table 4.17: Spearman Correlation Analyses – Factors Affecting Housing Demand – Medium Cost Terraced House</td>
<td>105</td>
</tr>
</tbody>
</table>
Table 4.18: Hypotheses Findings for Financial Factors ($H_1$) ................................................................. 107

Table 4.19: Hypotheses Findings for Demographic Factors ($H_2$) ................................................................. 108

Table 4.20: Hypotheses Findings for House Attributes ($H_3$) ................................................................. 109

Table 4.21: Hypotheses Findings for House Location ($H_4$) ................................................................. 110

Table 4.22: Hypotheses Findings for Neighbourhood Quality ($H_5$) ................................................................. 112

Table 5.1: Probability of intention to purchase house and its verbal equivalent according to house types ............................................................................................................. 116

Table 5.2: Top 10 Most Important Housing Demand Factors According to House Types ............ 118
## LIST OF FIGURES

<table>
<thead>
<tr>
<th>FIGURE</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1: Conceptual Framework</td>
<td>59</td>
</tr>
<tr>
<td>Figure 2: Respondents’ Profiles – Gender</td>
<td>146</td>
</tr>
<tr>
<td>Figure 3: Respondents’ Profiles – Age</td>
<td>147</td>
</tr>
<tr>
<td>Figure 4: Respondents’ Profiles – Race</td>
<td>148</td>
</tr>
<tr>
<td>Figure 5: Respondents’ Profiles – Highest Education Achieved</td>
<td>149</td>
</tr>
<tr>
<td>Figure 6: Respondents’ Profiles – Marital Status</td>
<td>150</td>
</tr>
<tr>
<td>Figure 7: Respondents’ Profiles – Occupation</td>
<td>152</td>
</tr>
<tr>
<td>Figure 8: Respondents’ Profiles – Household monthly income</td>
<td>153</td>
</tr>
<tr>
<td>Figure 9: Respondents’ Profiles – Current House Ownership</td>
<td>155</td>
</tr>
</tbody>
</table>
# LIST OF APPENDICES

<table>
<thead>
<tr>
<th>APPENDIX</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appendix A1: Respondents’ Profiles – Gender</td>
<td>146</td>
</tr>
<tr>
<td>Appendix A2: Respondents’ Profiles – Age</td>
<td>147</td>
</tr>
<tr>
<td>Appendix A3: Respondents’ Profiles – Race</td>
<td>148</td>
</tr>
<tr>
<td>Appendix A4: Respondents’ Profiles – Highest Education Achieved</td>
<td>149</td>
</tr>
<tr>
<td>Appendix A5: Respondents’ Profiles – Marital Status</td>
<td>150</td>
</tr>
<tr>
<td>Appendix A6: Respondents’ Profiles – Occupation</td>
<td>152</td>
</tr>
<tr>
<td>Appendix A7: Respondents’ Profiles – Household monthly income</td>
<td>153</td>
</tr>
<tr>
<td>Appendix A8: Respondents’ Profiles – Current House Ownership</td>
<td>155</td>
</tr>
<tr>
<td>Appendix B1: Pearson Correlation Analysis and Bootstrapping – Low Cost House</td>
<td>156</td>
</tr>
<tr>
<td>Appendix B2: Pearson Correlation Analysis and Bootstrapping – Low Cost Plus House</td>
<td>157</td>
</tr>
<tr>
<td>Appendix B3: Pearson Correlation Analysis and Bootstrapping – Medium cost low House</td>
<td>158</td>
</tr>
<tr>
<td>Appendix B4: Pearson Correlation Analysis and Bootstrapping – Medium Cost Terraced House</td>
<td>159</td>
</tr>
<tr>
<td>Appendix C1: Results of Regression Diagnostics - Low Cost House</td>
<td>160</td>
</tr>
<tr>
<td>Appendix C2: Results of Regression Diagnostics - Low Cost Plus House</td>
<td>161</td>
</tr>
<tr>
<td>Appendix C3: Results of Regression Diagnostics – Medium cost low House</td>
<td>162</td>
</tr>
<tr>
<td>Appendix C4: Results of Regression Diagnostics – Medium Cost Terraced House</td>
<td>163</td>
</tr>
<tr>
<td>Appendix D1: Regression Results between the probability of intention to purchase low cost house and Factors Affecting Housing Demand</td>
<td>166</td>
</tr>
<tr>
<td>Appendix D2: Regression Results between the probability of intention to purchase low cost plus house and Factors Affecting Housing Demand</td>
<td>167</td>
</tr>
<tr>
<td>Appendix D3: Regression Results between the probability of intention to purchase medium cost low house and Factors Affecting Housing Demand</td>
<td>168</td>
</tr>
<tr>
<td>Appendix D4: Regression Results between the probability of intention to purchase medium cost terraced house and Factors Affecting Housing Demand</td>
<td>169</td>
</tr>
</tbody>
</table>
Questionnaires

Appendix E 1: Questionnaires (English)................................................................. 170
Appendix E 2: Questionnaires (Bahasa Malaysia)....................................................... 175
CHAPTER 1
INTRODUCTION

1.0. Introduction

One of the basic human needs is housing. Therefore, it is pertinent for any country to ensure its’ citizen have adequate access to housing. In Malaysia, one of the major social objectives in its development plan is the provision of affordable housing to all. This has led to the formulation of new policies and programmes such as the housing public-private partnerships and the “build then sell” housing delivery system that not only aimed to provide adequate shelter but most importantly to ensure quality housing effectively and efficiently delivered to all Malaysian (Aziz & Kassim, 2011 and Yusof, Shafiei, Yahya & Ridzuan, 2010). The setting-up of various government agencies such as the National Housing Department\(^1\) in the year 1976, Syarikat Perumahan Negara Berhad (SPNB)\(^2\) in the year 1997 and Perumahan Rakyat 1Malaysia Berhad (PRIMA)\(^3\) were seen as indications of how serious the government’s commitment in ensuring the provision of affordable housing achieved its’ target.

In line with the country’s socio-economic progress, demand for housing would continue to grow. Housing demand situation is crucial especially in the urban areas mainly

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1National Housing Department or Jabatan Perumahan Nasional (JPN) is a department under the Ministry of Housing and Local Government.

2Syarikat Perumahan Negara Berhad (SPNB) was established on 21 August 1997 as a wholly owned subsidiary of the Minister Of Finance Incorporated (MOF Inc.) with the objective of providing quality affordable homes for every family in Malaysia. SPNB is responsible in implementing Rumah Mampu Milik (RMM) Programme and the Rumah Mesra Rakyat (RMR) Programme to ensure those in low income groups are able to own comfortable homes.

3Perumahan Rakyat 1Malaysia (PRIMA) Berhad was established under the PRIMA Act 2012 to plan, develop, construct and maintain affordable lifestyle housing for middle-income households in key urban centres. Middle-income is defined as a monthly household (husband and wife) income of between RM2,500 – RM7,500.
due to the influx of rural migrants to major towns as well as the natural population growth. For example, the percentage of urban population in Sarawak had jumped from 15.5% in 1970 to about 48% in 2000 and approximately 53.8% in 2010 (Department of Statistics Malaysia, 2010).

1.1. Affordable Housing

Housing can be considered as affordable if households are able to pay their housing costs (whether for rent or purchase) and at the same time still have enough income to pay for other basic needs such as food, clothing and others. Hence, housing affordability is used normally in assessments of the impact of the cost of housing on consumers and with different meanings and measures. The most general use of the term revolves around consideration of the extent to which housing costs for a given standard of housing impinge upon a household’s ‘income to live on’ or their capacity to meet their total household needs (Hancock, 1993).

In this study, affordable housing referred to homeownership affordability. There have been quite a number of indicators used by the various organisations in measuring the homeownership affordability which includes house price to income ratio, housing mortgage payment to household income ratio and Debt-to-Income Ratio (Debt Service Ratio).

---

4House price to income ratio. It utilises the median house price to median income ratio. It major weaknesses include its failure to include mortgage interest rates, banks’ lending practices such as loan to value ratios, capital gains and amount of taxes and repairs (Phang, 2010). This method is also found to have significantly understated the extent of the income affordability problem for lower income households (Gan and Hill, 2009).

5This normally involved criteria set by the financial institutions in evaluating households’ monthly affordability in paying for their house mortgages. In Malaysia, the minimum requirement by the financial institutions was that a maximum of 30% of gross income should be allocated for monthly payment for house ownership (Hashim, 2010).
In Malaysia, the term affordability has been loosely used by housing developers as a marketing gimmick without any established facts or index as base point (Hashim, 2010). Based on Housing Affordability Index, between 1995 and 2005, housing affordability index in Malaysia had improved by 100% (from 77 to 154) and slightly decreased to 147 in 2006 (9th Malaysia Plan).\(^7\)

Specifically, the affordable housing can be categorised into three major types that include low cost housing, low cost plus housing and medium cost housing (MURNInet).\(^8\) The various housing types are discussed as below:

i. Low cost housing which is mainly developed by government agencies as well as private developers (as part of 30% for low cost of the overall development). This includes the Affordable Housing Project (Rumah Mampu Milik) with selling prices are not more than RM42,000 per unit. However, effective from November 15, 2011, the selling prices of low cost housing in Sarawak had been set at between RM50,400 to RM59,220 per unit according to lot sizes.

---

\(^6\) In the U.S, the total amount of debts must be less than 30-40 percent of households’ monthly gross income (Freddie Mac, n.d). However, in Malaysia, Bank Negara recommends that Malaysians do not exceed a Debt Service Ratio (DSR) of 60%.

\(^7\) Affordability indexes mostly related to the cost of housing to some measure of income. It is calculated as below (extracted from Hashim, 2010):

\[
\text{Monthly payment} = \frac{\text{median house price} \times 0.8 \times (\text{RX12})}{(1-(1/12)-R)^{360}} \quad \text{(1)}
\]

\[
\text{Necessary monthly income} = \frac{\text{monthly payment} \times \text{X 12}}{\text{median family income}} \times \text{X 100} \quad \text{(2)}
\]

\[
\text{Qualifying income} = \frac{\text{Income necessary to qualify for a loan for median house price}}{\text{monthly payment} \times \text{X 4} \times \text{X 12}} \quad \text{(3)}
\]

\[
\text{Housing Affordability Index} = \frac{\text{Median family income} / \text{qualifying income}}{\text{X 100}} \quad \text{(4)}
\]

\(^8\) MURNInet is an acronym for Malaysian Urban-Rural-National Indicators Network on Sustainable Development. It measures and evaluates the sustainability of a town based on urban indicators.
ii. Low cost plus, developed by both the public and private housing developers. Houses are priced at between RM80,000 to RM100,000 per unit depending lot sizes.

iii. Different types of medium cost housing with selling prices of not more than RM300,000 per unit.

Therefore, the focus of this study concentrates on the above mentioned types of housing that includes low cost, low cost plus, medium cost low and medium cost terraced houses.

1.2. Housing Market in Kuching and Samarahan Divisions

The Malaysian real property market had enjoyed remarkable growth since the last few years. In 2011, for example, it achieved double digit growth of 14.3% in volume and 28.3% in value. In addition, the residential sub-sector consisted of about 62.7% of the market activities.

In Sarawak, since 2011, the property market has performed quite encouragingly even though the number showed small increase (National Property Information Centre, 2011). Additionally, in Sarawak, the provision of affordable housing is spearheaded by an agency called Housing Development Corporation (HDC).\(^9\) Targeting the lower income group, HDC being the implementing agency of the Ministry of Housing Sarawak had developed more than

\(^9\)Previously HDC’s affordable housing was called low cost housing. The change in name was to avoid negative connotations such as low products quality, undesirable living environment etc., associated with low cost housing. Affordable houses developed by HDC normally referred to the Single Storey Terraced Houses with selling prices ranged from RM42,000.00 – RM47,000.00 per unit (now revised up to RM50,400-RM59,220). Eligible buyers need to meet certain criterion such as (i) household income within RM650-RM2,500 per month, (ii) married, (iii) hailed and domiciled in Sarawak, and (iv) have not owned any form of real property anywhere.
30,000 units of affordable (consisting of both low and medium cost low) housing since its inception in 1972.

Kuching, being the capital of Sarawak, has been the most developed housing market in the state. Over the past years, the scarcity of suitable land in Kuching has pushed for more housing developments into neighbouring Samarahan fuelled by abundance of land and thus lowered the overall construction costs. These new housing developments in Samarahan are also due to the influx in student population coming from the various higher learning institutions there.

Kuching and Samarahan Divisions were selected as the sample areas for this study because both divisions consist of almost half of the total number of housing development activities in the state. In addition, both Kuching and Samarahan Divisions generates approximately 44% and 48% of the total number of residential property transactions in quarter 1, 2012 and quarter 4, 2012 respectively (National Property Information Centre 2013).\(^\text{10}\) Similarly, both Kuching and Samarahan Divisions also consist of about 45% and 57% of the transactions value in the residential market in the same period of time. Table 1.1 and Table 1.2 respectively illustrate the detailed breakdown between the number and value of the residential property transactions according to divisions.

---

\(^{10}\) Transaction activities on residential property of all types that consist of vacant lot, 1-1 ½ Storey Terraced, 2-2 ½ Storey Terraced, 1-1 ½ Storey Semi-Detached, 2-2 ½ Storey Semi-Detached, Detached, Condominium/Apartment, Cluster House, Town House, Flat, Low Cost House, Low Cost Flat and Others.
Table 1.1: The Number of Residential Property Transactions According To Divisions

<table>
<thead>
<tr>
<th>Divisions</th>
<th>Quarter 1, 2012</th>
<th>Quarter 4, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kuching</td>
<td>1156 (39%)</td>
<td>1312 (43%)</td>
</tr>
<tr>
<td>Samarahan</td>
<td>154 (5%)</td>
<td>156 (5%)</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>1314 (44%)</td>
<td>1468 (48%)</td>
</tr>
<tr>
<td>Other Divisions</td>
<td>1671 (56%)</td>
<td>1588 (52%)</td>
</tr>
<tr>
<td>Total Sarawak</td>
<td>2981 (100%)</td>
<td>3056 (100%)</td>
</tr>
</tbody>
</table>

Source: National Property Information Centre (2013)

Table 1.2: The Value (in RM million) of Residential Property Transactions According To Divisions

<table>
<thead>
<tr>
<th>Divisions</th>
<th>Quarter 1, 2012</th>
<th>Quarter 4, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kuching</td>
<td>208.62 (41%)</td>
<td>345.05 (53%)</td>
</tr>
<tr>
<td>Samarahan</td>
<td>20.27 (4%)</td>
<td>21.40 (3%)</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>228.89 (45%)</td>
<td>366.45 (57%)</td>
</tr>
<tr>
<td>Others</td>
<td>281.65 (55%)</td>
<td>279.46 (43%)</td>
</tr>
<tr>
<td>Total Sarawak</td>
<td>510.54 (100%)</td>
<td>645.91 (100%)</td>
</tr>
</tbody>
</table>

Source: National Property Information Centre (2013)

It is also noteworthy that, majority of the new developments in Kuching and Samarahan divisions are small, not exceeding 100 units, and located in the suburbs, particularly along the Kuching-Samarahan Expressway, Matang-Batu Kawa Road, Kuching-Serian Expressway and Kuching-Bau-Lundu Road. Residential developments in Kuching have remained quite steady in terms of output and pricing and high-end niche residential developments in prime areas such as Tabuan and MJC New Township continue to enjoy strong interest and sales.

In terms of house prices, generally, between the year 2011 and 2012, the prices of residential units in both Kuching and Samarahan Divisions showed considerable changes (whether positive, negative or stabilise). Table 1.3 attached indicates the comparison of house prices between 2011 and 2012 according to house types.