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PERCEPTIONS OF YOUNG PROFESSIONAL IN MALAYSIA: HOMEOWNERSHIP OR RENTING?

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Abstract

Since decades, housing affordability has been such a controversial issue that has been debated especially among Malaysian. Young professionals nowadays find it's hard to own a house due to the hike of house's price, which has led towards the growth of renting culture. The main objectives of this paper are to identify the perception of young professional in homeownership vs. renting in Malaysia. Quantitative research has been applied 182 respondents has answered the online questionnaire. The respondents involve in this research were those in the age of 22 and 37 years old in 2018, whom graduates with at least bachelor level. The respondent cohort would be those who resides in major cities in Malaysia such as Penang, Kuala Lumpur, Selangor, Johor Bahru, Kota Kinabalu and Kuching. The results of the finding, most of the respondents still preferred to be the homeowner despite the hikes of houses price from time to time. However, based on the result obtained, it also can be seen that majority of the respondents seem to be ready to adopt the renting culture due to the hikes of houses in Malaysia.

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Keywords: Young Professional, affordable housing, homeownership, Malaysia.



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1. Introduction

Owning a house are everyone's dreams, and this idea has been inherited from generations to generations, which in turn heighten a direct or indirect demand in the housing market (Cheah & Stefanie, 2017). Osman et al., (2017) highlighted that there are different definitions of affordable housing from different views in between of RM300,000 to RM500,000. However, according to Bank Negara Malaysia (BNM) (2018) the earlier statement is not usable because, houses in the price range of RM300,000 to RM500,000 are not consider as affordable to the households earning of the median income in Malaysia. BNM pointed out, according to the international standards using the Housing Cost Burden approach, they estimated the maximum price of affordable housing at only RM282,000.

Meanwhile, the renting cultures now have been widely practiced since the housing price is no longer reasonable and affordable for the median income in Malaysia (Lim, Olanrewaju, Tan, & Lee, 2018). According to Rafee (2018), only 33% of millennials in Malaysia can afford to own a property due to escalating home prices and slower salary growth. According to Fuster, Arundel, and Susino (2019) renting is the best option due to its flexibility and cheaper than buying a house. In addition, Salleh, Yusof, Johari, and Ahmad, (2018) highlighted in his report that for a house that cost more than RM500,000, renting might be a more viable option given the price of properties and the rising cost of living.

2. Problem Statement

Owning a home is like a reward to the buyer for their hard work (Lim et al., 2018). However, this dream is now becoming difficult to be a reality especially for today's youth whom are currently struggling to own a house (Olanrewaju & Tan, 2018). There are few factors that have been recognized which lead towards housing unaffordability.

▪ Growth in House Prices

According to Bujang, Jiram, Abu Zarin, and Md. Anuar, (2015) while Gen-Y has struggled to develop a career and increase their incomes, house prices to income ratios continuously rising, sparking challenges for first-time buyers today. Ling, Hassan, and Cheng, (2017) supported this scenario, in which there is steadily growth of housing prices from 2007 until 2018, whereas the household wage only recorded an upsurge of 8.3% in Malaysia. From the year 2009 until 2017 the number of houses constructed are double, which shows such a huge difference. However, as the year passes, most of the new launches feature houses focusing in the range of between RM250,000 and RM500,000. Meanwhile, the low-cost houses have been reduced gradually from year 2009 until 2018 (Edge Property, 2018). Most of the developers are now focusing on the high-end houses for maximum returns. The profits for the high-end projects are relatively much higher than the low-cost projects. As a result, the young generation cannot afford to own a house as the selling prices are beyond their affordability.

▪ Housing Loan

According to the Housing and Local Council Minister, Zuraida Kamaruddin, the strict housing loan requirement which is imposed by the bank on first-time home buyers, particularly youths, ought to be reviewed (Bernama, 2018). Zuraida added that factors obstructing the loans approval for home buyers are due to the lack of a second financial gain, insufficient spouse salary and National Higher Education Fund Corporation (PTPTN) loan repayments (Bernama, 2018). According to Kaushal (2016), in the

current scenario, where builders are desperate for buyers and banks also try to attract borrowers by reducing interest rates but difficulty to get the loan approval from the bank is just the same as before. Therefore, the bank should loosen the terms of the home loan application to help the younger generation to buy their first house (Lerner, 2018). Indeed, loosen the lending terms will encourage homeownership among young professional in Malaysia (Fuster et al., 2019).

▪ Mismatch Between Supply and Demand for Housing

Data from Bank Negara Malaysia (BNM) showed only 21% of new launches between January 2017 and March 2018 which cost less than RM250,000, indicating that the presence of 20 federal and state agencies for housing development did not help the situation (Cheah & Stefanie, 2017). In short, even though the government still provide the affordable houses for Malaysian, the quantity is insufficient to cater for the demand for the houses (Olanrewaju & Tan, 2018). This problem occurs due to the sudden 'gold rush' by the developers, in which they prefer to build high-end property compare to the lower- and medium-end property to ensure maximum profit. In the meantime, the slower growth in the household incomes in relation to house prices worsen the situation. As it is hard to find buyers, as a result there is enormous overhang of the high-end housing development (Lim et.al, 2018). If the house constructed is beyond affordability, as a result, the number of unsold properties will increase gradually (Bujang et al., 2015).

2.1.Homeownership VS. Renting

Lim et al. (2018) mentioned that home-ownership is best describe as a place we dedicated for ourselves, raise a family, reminiscences memories with friends and become part of robust neighbourhoods and communities as well as able to meet financial goals for investment in future. Meanwhile, renting means, a property from which the owner receives payment from the occupier, known as a tenant, in return for the occupation or use of the property.

Li and Wen (2018) stated that homeownership is not meant for everyone, this is because, there is no single country in the world have 100 percent of homeownership. In addition, usually the property penetration is about 75%, and the rest rent for various reasons, some residents can afford to become homeowners but by choice want to be a renter, some while others have not been able to become homeowners because they are at the early stage of their career (Olanrewaju & Tan, 2018).The residential sector has always dominated the Malaysian property market (REHDA, 2017). However, recently the transaction of residential have decreased to -0.8% from H1 2018 which equivalent to 767 units of houses. The decline volume transaction has an impact towards the value of transaction for residential sector. The value of transaction recorded a reduction of 3.6% from 2017 which is equal to RM 1.18 Billion. Even though residential sector is highly dominant for Malaysia property, however, it does not show positive growth in the housing market.

According to Bank Negara Malaysia, only 24% or 25,124 units of houses cost below RM250,000 including those being built by the private developers were launches throughout January 2017 until September 2018 (The Star Online, 2018). Hence, the number of houses constructed was insufficient to satisfy the demand of one third of Malaysian households which can afford to buy houses beyond this price level, as a result, the number of sold units decreases tremendously yearly. In 2015, Malaysia is

leading the home ownership rate with the percentage of 72.5% which is relatively high as compared to other developing countries (Khazanah Research Institute, 2015).

However, most of the developed countries including Australia, United Kingdom (UK) and United States of America (USA), have the least percentage of homeownership (are this fact validated by any citation or based on here say). This is mainly due to the higher price of properties in the country. This proves that the more developed the country, the more expensive the property will be. Hence, most of the communities in those countries are practicing renting instead of buying properties as it is beyond their reach.

Consequently, renting can be a reasonable choice under certain circumstances. Salleh et al. (2018) highlighted that when the market and the economy as a whole see long-term correction, it can provide a good opportunity for the rental market as a lease requiring lower financial commitments and giving immediate access to the accommodation. There is still massive growth in the rental market relative to the owner-population market. Li and Wen (2018) stated that, renting may not be a bad option because it allows flexibility. If buyers apply for housing loans, they need to bear for 30 years of commitment paying houses instalment.

Hoong (2018) mentioned that if monthly rents are below the monthly installments for housing loans especially in the urban areas, then perhaps the best option is to rent. In addition, Mostafa and Jones (2019) believes with a strong jobs market, people began to choose to stay mobile and often they could not afford to buy near urban centres where they are more likely to get a job at a higher wage. Besides, Hulse, Morris, and Pawson, (2019) stated that as a renter, tenant only need to sign the contract for a year, 6 months, or even on a month-to-month basis which gives them more freedom to move, travel long-term, etc. and is contrary to the mortgage payment for 30 years. Fuster et al. (2019) emphasizes that, by renting, occupants will experience financial benefits instead of owning a house. There are no right or wrong choices in choosing between renting or buying a home. However, the best option can be made depending on personal finances including the place that residents want to live on (Wahi, Zin, Munikanan, Mohamad, & Junaini, 2018).

2.2. Young Professionals

According to Business Dictionary (2018), “professional” can be best described as a person who is certified officially by a professional body belonging to a particular profession because of having a course of study and/or required practice. Young professionals show distinct characteristics which is caused by the environmental factors such as economic factors, depending on high technology, and have built up the young professional traits (Passy, 2018; Fuster & Zafar, 2016). According to the Fact Sheet (2017), young professionals are more likely to be college graduates, working in a rapidly growing occupation, and be racially and ethnically diverse.

According to Li and Wen (2018), across the board, the generally accepted age cut off for a ‘young’ professional is 37 years old. Therefore, this research was mainly focused on young professionals with the range of age between 22 years old to 37 years old which are defined by the age range for Gen Y. Therefore, this study intended to identify the perception of young professionals in Malaysia on their preference of homeownership or renting a house.

3. Research Questions

- What are the perceptions of young professionals in homeownership vs. renting in Malaysia?

4. Purpose of the Study

To identify the perceptions of young professionals in homeownership vs. renting in Malaysia

5. Research Methods

The main instrument used for data collection in a survey research is via questionnaires. An online questionnaire was designed using Google Forms sent through WhatsApp and email to the respondents. For this paper, the questionnaire design is mainly focus on the perception of young professionals regarding homeownership vs renting. The sample population for this research are graduates with at least at bachelor level and live in one of the major cities in Malaysia such as Kuala Lumpur, Selangor, Penang, Johor Bahru, Kota Kinabalu and Kuching and the age range between 22 to 37 years old (Gen-Y).

6. Findings

6.1.The Demographic Information

The personal information of respondents is gathered in this part. There are seven questions included which are gender, age, city they are currently staying or living, marital status, household member, educational background and monthly net income as shown in Table 1 and 2.

For the online survey, total of 84 males and 96 females answered the questionnaire The highest age groups is between 32 to 37 years old, followed by age group between 27 and 31 years old finally age group between 22 and 26. For current living city, the highest number of respondents are living in Kuala Lumpur. This is followed by Penang, Selangor, Johor Bahru, Kota Kinabalu and Kuching. The highest number of respondents are from Kuala Lumpur because the young generation prefer to work in major cities due to more job opportunities. This is supported by the Department of Statistics Malaysia, DOSM, (2017) which Kuala Lumpur recorded the highest median monthly household income of RM9,073 followed by Selangor (RM 7,225), Johor (RM5,652) and Pulau Pinang (RM5,409).

As shown in Table 1, there are 103 who are married, 75 respondents are single, and 4 respondents who single mother or single father. The high number of respondents that are married correlates with the highest number of respondents aged between 32 to 37 years old. Next, the educational background of respondents is taking into consideration in the survey as the level of education of respondents will correlates to the level of monthly income. It can be seen that there are 112 respondents have degree qualification, 34 have Master and 33 with PhD qualification.

For monthly income, the highest percentage of salary are between RM2,000 to RM3,999 categories. With this amount of monthly net income, it will be hard for the young professionals to purchase a house due to the unaffordable price.

Table 01. Summary of Respondent’s Personal Information

Respondent’s Personal Information	Category	No. of Respondent	Percentage (%)
Gender	Male	84	46%
	Female	98	54%
Age	26 – 26 years old	45	24%
	27 – 31 years old	59	32%
	32 – 37 years old	78	42%
City	Kuala Lumpur	37	20%
	Selangor	34	18%
	Penang	35	19%
	Johor Bahru	27	14%
	Kota Kinabalu	26	14%
	Kuching	23	12%
Marital	Single	75	41%
	Married	103	56%
	Single Mother / Father	4	2%
Household Member	1 – 2	59	32%
	3 – 4	63	34%
	5 – 6	52	28%
	> 7	8	4%
Educational Background	Degree	112	61%
	Master	37	20%
	PhD	33	18%
Monthly Net Income	<RM1,999	25	13%
	RM2,000 – RM3,999	54	29%
	RM4,000 – RM5,999	48	26%
	RM6,000 – RM7,999	36	19%
	>RM8,000	19	10%

6.2.Young Professional: Buying vs. Renting

Relative Importance Index (RII) is calculated according to the data obtain from the questionnaire survey. Then IT will be ranked using the RII calculation to find out the relative importance of each variables. The five-point Likert scale ranged from 1 (totally disagree) to 5 (totally agree) will be adopted and will be transformed to relative importance index (RII) for each factor as follows:

$$RII = \frac{\text{Sum of weights (W1 + W2 + W3 +..... + Wn)}}{A \times N}$$

Figure 01. Relative Importance Index (RII) Formula

W = weights given to each factor by the respondents and will ranges from 1- 5

A = highest weight (i.e 5 in this case), and

N = total number of respondents

The formula is derived from Badu, Owusu-Manu, Edwards, Adesi, and Lichtenstein (2013). Each factor’s RII perceived by all respondents will be used to assess the general and overall rankings in order to give an overall picture of the perception of young professional in buying or renting houses.

Table 02. Relative Importance Index (RII) of young professional: Buying vs. Renting

No.	Aspects	RII	Rank
1.	The growth of houses price could lead towards renting culture.	0.91	1
2.	People tend to rent rather than buying a house due to the hike of house's price which is out of their affordable range.	0.88	2
3.	Renting provide short-term commitment because tenants are bound to a particular period of contract payment.	0.79	3
4.	Renting is a flexible option since, it is always easy to shift out of a rented accommodation.	0.78	4
5.	Tenants have limited responsibilities towards rental property.	0.77	5
6.	Renting is more profitable as tenants are free from paying property taxes.	0.70	6

From Table 3, with highest RII, it indicates that majority of the respondents are now ready to shift towards a renting culture. Although this scenario is still new to be practiced in Malaysia, but in other countries such as in Singapore, the United States and China (are this fact validated by any citation or based on here say) have been widely introduced. It is not surprising to see Malaysia to practice this culture soon.

The second ranking would go to, ‘people tend to rent rather than buying a house due to the hike of house's price which is out of their affordable range’. The maximum pricing for affordable homes in Malaysia should be in the range of RM150,000 to RM300,000 and if it exceeds those amounts, the house will be deemed as unaffordable for young Malaysians. However, as the year passes from 2009 to 2018, most of the new launches feature houses focusing in building the house in the range of between RM250,000 and RM500,000. Therefore, it would be worth to rent a house if the monthly rentals are approximately 50% lesser than monthly housing loan payment for the same value of houses.

On the other hand, ‘renting provides short-term commitment because tenants are bound to a particular period of contract payment’ was ranked at the third place with RII of 0.79. Usually, the rental period lasts for 12 months. If the tenants have an intention to stay longer, they need to renew their contract with the homeowner. Compared with buying a house, renting provide a short-term commitment since they only bound with the payment contract within the stipulated period. Meanwhile, if buying a house, they are bound with a contract which they are required to pay monthly instalment without skip for at least about 25 to 30 years.

In addition, respondents believe, ‘renting is a flexible option since, it is always easy to shift out of One of the positive sides of renting is that, tenants only need to prepare a short notice to inform the home owner if they have intention to move out from the house. Besides, renting will be an ideal option especially for those that might confront with unexpected changes such as job relocation. Since the young professionals are still climbing up the ladder in their career, they might opt for job relocation in other cities to develop their career. Hence, renting will be the best option for them.

Furthermore, the next ranking is ‘tenants have limited responsibilities towards rental property’. Once the tenants are in renting periods, all the maintenance or repairing costs should be covered by the landlord. For example, if any damages occur such as leaking of roofs, appliances are not functioning and etc. homeowner are responsible to fix the damages on their own expenses. Unless the damages occur due to the tenant’s fault, then the landlords are free from that obligation. The landlords are responsible to ensure that their properties are in a good condition before allowing the tenants to rent the house.

The lowest rank goes to 'renting is more profitable as tenants are free from paying property taxes' with the RII of 0.70. As compared with buying a house, renters are free from paying taxes like property assessment tax, quit rent, stamp duty, and etc. Most of the time, all these taxes can be such a hefty burden for homeowners as it is determined according to the estimated values of the house (Grossman, 2018; Mostafa & Jones, 2019). This means, the expensive the houses prices, the higher the tax will be bear by the home buyer. Therefore, the monthly rent is always cheaper than the monthly instalment on a house as renters are free from paying taxes and hence provide the best option to the young professional to have a shelter to live on

7. Conclusion

Providing adequate affordable homes for all Malaysians which cater for all levels of income earners with sufficient quantity and quality is always the aspiration of the Malaysian government. This linked to the fact that the lower and moderate-income families have always been the most important parts in Malaysian's society. They have made up the largest component of population in Malaysia, and their housing needs are very crucial for the development of both the social economy aspects as well as the social security aspects of the country. On the other hand, if the government fails to fulfil their housing needs, indirectly the urbanization process in Malaysia will be affected.

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