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**State intervention in housing the urban poor in the  
developing State of Terengganu in Malaysia: An  
institutional analysis of low-cost housing regulations and  
their impacts on low-cost housing provision**

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**A thesis submitted in fulfilment of the requirements for the degree of  
Doctor of Philosophy in Property  
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## Abstract

About a billion of the world's population live in slum settlements. The poor housing conditions carry various socio-economic implications on both the affected low-income groups and the society overall. The issue of inadequate affordable housing for low-income groups is prevalent especially in developing nations which are experiencing rapid urbanisation. Low-cost housing has low effective demand, which is unattractive for private housing developers. Thus, the state has to step in and employ measures to rectify the inequities caused by market failures. State regulation is a form of indirect intervention, used to secure market engagement in adequate and proper affordable housing for the urban poor.

In Malaysia, 'low-cost housing' is a specific type of housing meant for low-income groups. Since 1970, low-cost housing has been employed as a measure to promote social cohesion among the multiple ethnic groups. Towards this aim, the Malaysian government has implemented various regulations to boost private low-cost housing supply, including (i) the low cost housing quota requirement on new developments, (ii) building standards to control low-cost housing quality and (iii) enforcement and monitoring procedures governing the low-cost housing development process. These regulations have been reported as cost inflationary and quantity restrictive by a World Bank study that adopted econometric modelling as the main methodology. Nevertheless, little insight was provided on how regulations were mediated by various institutions operating within the Malaysian housing market.

Low-cost housing forms about 20 per cent of the total housing stock, with the private sector remarkably supplying two-thirds of the low-cost housing stock. This study examines the regulatory context and institutional dynamics that have resulted in the production of approximately 950,000 low-cost houses. The institutional Structure of Provision (SOP) thesis (Ball, 1983, 1986, 1998, 2003b) approach was adopted to frame a three-tier analysis of low-cost housing regulations in the developing region of Terengganu in Malaysia. Terengganu is a rapidly urbanising State that is facing increased low-cost housing demand despite being overlooked in previous Malaysian housing studies. The SOP framework allows an in-depth analysis of how the Federal low-cost housing policy is rolled out at the State-level by examining the regulatory environment, the behaviour of planners and developers and case studies of actual low-cost housing developments.

This thesis provides the first comprehensive analysis of the regulatory environment governing the planning and production of low-cost housing in Malaysia. The analyses also identify the institutional structures that have evolved to provide low-cost housing in a previously neglected housing market in Malaysia. The thesis presents the first substantial Malaysian study that explicitly recognises and highlights the role of the State Authority in administering Federal low-cost housing policy. Additionally, the findings strongly suggest that the seemingly opaque set of regulations is tempered by institutional dynamics in the regulatory environment, enabling developers to engage in low-cost housing production. Generally, developers did not show support of deregulation. Rather, both planner and developer interviews emphasised weaknesses in regulatory implementation including communication weakness, technical and support staff deficiencies, political inputs and power play between different agencies. Significantly, developers indicated that they would not provide low-cost housing unless mandated by law.

## **Dedication**

This work is dedicated to my parents

Haji Hamzah bin Salleh and Hajah Zaini binti Abdul Latif.

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## Chapter 1: Introduction

### 1.1 Research Background

Most countries face issues concerning inadequate affordable housing for the urban poor due to the lack of market participation in this housing sub-sector. Low-income housing is characterised by low effective demand, whereby the potential house buyers often cannot produce income documents and/or a deposit (equity) and are thus considered high risk borrowers by commercial banks (Sengupta, 2006). The trend of rapid urbanisation, exacerbated by rising urban land prices and the speculative housing market, has contributed to housing shortages among low-income groups in urban areas. Especially in developing countries, the combination of these factors has resulted in the problems of slums and squatter settlements. Poor housing for low-income groups is a major global problem; an estimated one billion of the world's population currently live in slums (UN-HABITAT, 2003a, 2011a). Malaysia, a rapidly expanding economy in South East Asia (Figure 1.1), has not been spared the problem of meeting the housing needs of its low-income urban households. In this matter, the state plays an important role in ensuring the urban poor's access to adequate, affordable and comfortable housing.

**Figure 1.1: Location of Malaysia**



Source: Google Map



Various government programmes have been implemented throughout many countries to provide proper and affordable housing for low-income groups (UN-HABITAT, 2003a, 2011a). State intervention in the provision of low-cost housing, either through direct or indirect measures, help eradicate slums and associated problems. Proper housing for low-income groups can promote a healthy working population and enhance the general well-being of low-income groups and consequently has positive spill-over benefits for the general population.

Besides these potential benefits, low-cost housing in Malaysia has an additional significance. Ever since the racial riots of 1969, low-cost housing has been part of a policy mechanism to ensure social cohesion within this multi-ethnic country (Agus, 2002). In particular, low-cost housing provides an entry point for wealth creation among the country's low-income groups, which have been identified in various policy documents as the Malay and other indigenous groups until recently.<sup>1</sup> As a result of these considerations, state support for low-income home ownership has been expressed in various national economic and development plans from the first national economic blueprint, i.e. the First Malaysia Plan 1966-1970.

In Malaysia, the state ensures the supply of low-cost housing by direct investment and also by using regulations that compel market involvement. Regulations are a form of state control over the quantity and quality of private low-cost housing. A low-cost housing quota requirement has been implemented since 1982 (MHLG, 2001), a system akin to the Section 106 planning condition in the UK. Basically, new developments above a certain size can be mandated to include a percentage of low-cost housing. The quantum of the quota requirement (i.e. its amount and the minimum project size) varies from State to State due to the State Authority's final control over land policy (Yahaya, 1989). In addition to the quantity-based regulation, a number of regulations are in place to ensure that low-cost housing is built to a certain acceptable standard (Sufian & Ab. Rahman, 2008). These building regulations can be Federal, State or Locally-formulated and are generally administered by the Local planning authority.

---

<sup>1</sup> The latest Tenth Malaysia Plan (2011-2015) for the first time expressly stated that the provision of low-cost housing is for the "bottom 40% of household incomes", dropping any reference to the ethnicity of low-cost housing recipients.

In 1988, the World Bank examined the reasons for high housing costs in Malaysia. The impacts of state intervention in the State of Selangor (a developed west coast State) were estimated using a neo-classical econometric modelling approach, a cost-benefit analysis and an aggregate supply model method.<sup>2</sup> This study (Hannah, Bertaud, Malpezzi, & Mayo, 1989) concluded that overregulation and excessive development standards were the main cause of high housing costs. The consequent papers (Bertaud & Malpezzi, 2001; Malpezzi & Mayo, 1997; Mayo & Sheppard, 1996) similarly indicated a restrictive Malaysian housing market. It was argued that the regulatory regime resulted in an inelastic housing supply curve (Malpezzi & Mayo, 1997).

Despite the reported stringency of the regulatory regime, a review of various Malaysia Plans revealed that more than 900,000 units of low-cost housing have been produced by both the public and private sector in Malaysia since the introduction of the low-cost housing quota requirement in 1982.<sup>3</sup> Out of this figure, almost 600,000 units were produced by the private sector.<sup>4</sup> Therefore, notwithstanding the reported strict regulatory system, two thirds of the low-cost housing supply in Malaysia is attributable to the market. This raises the question of the actual operation of the regulatory environment, which despite its 'stringency', has engaged the market in producing a substantial amount of low-cost housing.

An unexplored issue by the above World Bank study was the role of institutions. Institutional approaches are a valuable research methodology in property studies especially when studying development processes (Adams, Watkins, & White, 2005a; Ball, 1998, 2003b, 2010b; Healey, 1992, 1998) and the impact of policy (Adams, 2008; Adams, Watkins, & White, 2005b, 2005c). The provision of low-cost housing involves a set of actors, including planners, developers and various government departments, each with roles to play and exhibiting distinct economic behaviours. The regulatory environment also receives inputs from the country's social, economic and legal structures. On the surface, the various regulations may seem complex and rigid, but the outcomes are also conditioned by these institutional factors. This thesis argues that the dynamics of institutions have a considerable role to play in determining housing policy outcomes.

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2 These five interventions were: the increasing role of the private sector in housing production; land-use and infrastructure standards; lengthy housing construction approval procedures; quotas related to the New Economic Policy (NEP); and financial interventions.

3 Includes the Special Low-cost Housing Programme from the mid-1980s to mid-1990s, which was a medium-term policy to boost the quantity of private low-cost housing and stimulate the economy through the multiplier effect. The current housing stock in Malaysia stands at approximately 4 million (RICS, 2008).

4 215,265 units of the total 595, 093 units (36.2%) built from 1985 to 2005 were produced under the Special Low-cost Housing Programme.

Using the institutional Structure of Provision approach (Ball, 1983, 1986, 1998, 2003b), this thesis presents for the first time analyses of housing regulations and their impacts at the macro, meso and micro levels to give a more comprehensive view of the effects of low-cost housing regulations. Such detailed and systematic analyses of low-cost housing regulations have not been detected in Malaysian literature. The macro-level analysis produced a comprehensive database of regulations related to low-cost housing. This is a valuable contribution as Malaysia does not have an individual statute on low-cost housing. The meso-level analysis presents the perceptions and experiences of planners and developers, actors at the opposite ends of regulatory implementation. This analysis provides an insight into how the sets of regulations were internalised in the planning system and development processes and how actors interact to produce built outcomes. Finally, a micro-level analysis of actual housing outcomes from five low-cost housing developments completes the examination. The discussion of the housing and non-housing outcomes of regulations addresses the wider effects of housing regulations besides price and quantity.

The research takes place in the emerging yet unexamined housing market of Terengganu, a State located on the east coast of Peninsular Malaysia. This region has been generally overlooked by Malaysian housing studies due to its perceived unimportance. Terengganu's rapid development and urbanisation over the last forty years has raised concerns about housing affordability among its low-income groups.

The rest of the chapter is structured as follows. The next section provides a discussion on the effects of urbanisation on housing. It focuses on the effects of inadequate housing for the urban poor, the benefits of low-income housing and how the provision of low-income housing is featured in state policy, especially in emerging economies. This section precedes a discussion on the country and State contexts. The next section identifies the research gap as gleaned from the review of relevant literature, before subsequently providing the problem statement and the research questions. As the researcher's positionality has had a considerable influence over how this research was designed and executed, the researcher's positionality is discussed together with the research methodology. The final two sections provide the research contributions and the outline of the thesis.

## 1.2 Urbanisation and housing issues

### 1.2.1 Global issues of urbanisation and perceived benefits of low-income home ownership

Urbanisation has a significant effect on a country's housing situation. The trend of rapid urbanisation at a global level is reflected in the United Nations' document "World Urbanization Prospects: The 2009 Revision". Table 1.1 indicates that from a largely rural-based global population in the 1950s, currently the ratio of world urban population to rural population stands at 50.1:49.9. More importantly, it is shown by Table 1.1 that the rate of urbanisation in developing countries always outpaces that of developed countries since the general period of decolonisation in the 1950s.

**Table 1.1: Percentage urban by development group, selected periods, 1950-2050**

Development group	Percentage urban					Rate of urbanisation (percentage)			
	1950	1975	2009	2025	2050	1950-1975	1975-2009	2009-2025	2025-2050
World	28.8	37.2	50.1	56.6	68.7	1.02	0.87	0.77	0.77
More developed regions	52.6	66.7	74.9	79.4	86.2	0.95	0.34	0.36	0.33
Less developed regions	17.6	27.0	44.6	52.3	65.9	1.71	1.48	0.99	0.92

*Source: Table 2, Percentage urban by development group, selected periods, 1950-2050. World Urbanization Prospects: The 2009 Revision (Highlights) (United Nations Department of Economic and Social Affairs/Population Division, 2010)*

This staggering increase in urban population, whether through natural population increases, rural-urban migration and increased labour mobility (Agus, Doling, & Lee, 2002; Drakakis-Smith, 1993), has socio-economic, environmental and political ramifications. The main problems are increased insecurity and inequalities among the urban poor (United Nations Department of Economic and Social Affairs/Population Division, 2010). One major concern is deplorable living conditions of the urban poor, whose effective demand is too low for market housing. The propagation of slums and informal settlements is the result of inadequate and unaffordable housing for the urban poor (UN-HABITAT, 2003a). Moreover, the proliferation of slums is not unique to emerging economies, but to a lesser degree is an affliction of advanced economies as well.<sup>5</sup> It has been estimated that 43% of the urban population in developing countries are slum dwellers compared to about a 6% slum population in developed countries (UN-HABITAT, 2003a, p. 13).

<sup>5</sup> A compelling discussion on the causes and experiences of slums in developing economies is found in Davis, M. (2006). Planet of Slums. London: Verso.

The issue of inadequate housing for low-income groups in developing economies has become the research focus of several international organisations, chief of which is the United Nations Human Settlements Programme (UN-HABITAT). The UN-HABITAT report “The Challenge of Slums: Global Report on Human Settlements 2003” for the first time presented an assessment of the issue of slums at a global level based on a 2001 survey. According to the report, “924 million people, or 31.6 per cent of the world’s urban population, lived in slums” (UN-HABITAT, 2003a, p. 14). The problem of poor housing among low-income groups has been especially persistent in the South Central Asia, Eastern Asia, Sub-Saharan Africa and Latin America and the Caribbean (UN-HABITAT, 2003a). Recently UN-HABITAT reported that developing countries in the Asian region, accommodating 61% of the world’s slum population, have faced particularly chronic problems associated with inadequate low-income housing compared to other regions (UN-HABITAT, 2011a).

In 2002, the United Nations produced a formal definition of slums to ensure uniformity in future research. A slum is “an area that combines, to various extents, the following characteristics... (i.e.) inadequate access to safe water, inadequate access to sanitation and other infrastructure, poor structural quality of housing, overcrowding...(and) insecure residential status” (UN-HABITAT, 2003a, p. 12). As shown in Photo 1.1, slums comprise decrepit or poor quality illegal structures built haphazardly and densely on land which lacks basic facilities, infrastructure and tenure security and whose residents experiencing poverty and social exclusion (UN-HABITAT, 2011b). By using cross-country case studies, UN-Habitat recognised that there were variations in the slum situations between countries (i.e. moderately deprived, severely deprived and extremely deprived) (UN-HABITAT, 2011b).

**Photo 1.1: View of the world's slums**



*Source: Slums of the world: The face of urban poverty in the new millennium? (UN-HABITAT, 2003b)*

Urban slums and squatter settlements in developing countries were shown to depress the economic productivity of low-income groups in terms of poor health and well-being (Arku & Harris, 2005). Such poor housing conditions can foster “rising violence, urban unrest, environmental degradation and underemployment” (United Nations Department of Economic and Social Affairs/Population Division, 2010). Moreover, the effects of poor housing for low-income groups are not contained to these groups, but spread to the broader social and economic fabric of society.

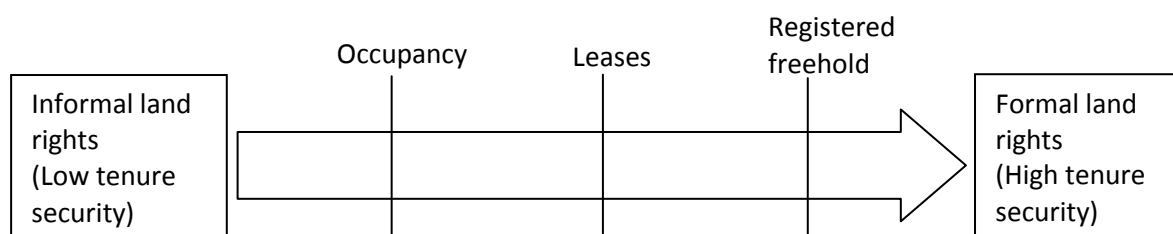
The perceived and potential benefits of low-income home ownership have played a major role in shaping housing policy in most countries. The ideology of low-income home ownership can be argued to guide policymakers rather than the lived experience of low-income homeowners. The recent global financial crisis caused by the failure of the US subprime market has raised the question whether the economic costs of low-income home ownership outweigh its socio-economic benefits (Jaffee, 2009; *The Economist*, 2009). Despite this, the state is unlikely to abandon policies designed to increase low-income home ownership due to its perceived socio-economic benefits. According to UN-HABITAT, the past two decades saw the support of most governments in developing economies for home ownership, at the expense of other housing tenures (UN-HABITAT, 2011a).

Although there are other tenure types (e.g. private and social rental), home ownership is a popular tenure which is supported by most governments, or at least not suppressed for fear of political repercussions (Ball, 1983). If home ownership is the holy grail of most country’s housing policy, then the state plays the crusader role of championing and facilitating the home ownership ‘dream’. Ronald (2008) identifies two economic consumption models in Western countries, ‘investment/speculation’ and ‘asset/security’, to differentiate between the two major economic motivations for owning a house. The first concept sees home purchase as an opportunity to reap future capital gains whilst the second concept considers the home as a means of building equity over time. Despite the ‘differentiation and fragmentation’ in home ownership experiences (Forrest, Murie, & Williams, 1990), home ownership is generally seen as a highly desirable goal for everyone.

Home ownership is desirable for many reasons. In his 1943 paper, Maslow discusses the theory of human motivation which in essence states that humans are driven to “achieve or maintain” five basic needs which comprise “physiological, safety, love, esteem, and self-actualization” and “are related to each other, being arranged in a hierarchy of prepotency” whereby “the most prepotent goal will monopolize consciousness... (whilst) the less prepotent needs are minimized, even forgotten or denied” (Maslow, 1943, p. 394). More importantly, Maslow explains that “when a need is fairly well satisfied, the next prepotent ('higher') need emerges, in turn to dominate the conscious life and to serve as the center of organization of behavior, since gratified needs are not active motivators”<sup>6</sup> (Maslow, 1943, pp. 394-395). Fundamentally, this theory can explain the propensity to own one’s dwelling after gratifying the fundamental objective of physical shelter from natural elements.

The different security offered by land rights can further explain the argument linking Maslow’s theory of human motivation with home ownership (see Figure 1.2). As depicted by the diagram, owner-occupation carries the highest tenure security in terms of land rights that are guaranteed by the state. In contrast, informal land rights conferred by mere occupation of the land (i.e. squatting) have the lowest security of tenure. Rental housing is situated in the middle of the scale, because whilst leases are given some rights under law, they have limited durations and are subject to conditions from the landlord (or the state). Thus, Maslow’s theory suggests that the security of tenure afforded by outright home ownership can assure the safety of continuous shelter for the occupant of the dwelling. In terms of low-income home ownership, the security of tenure improves the wellbeing of low-income groups by assuring against eviction, and thus providing a good living environment for low-income households.

**Figure 1.2: Security of tenure based on land rights**



Source: Adapted from Figure 22: *The continuum of land rights. “Affordable land and housing in Asia.”* (UN-HABITAT, 2011a)

<sup>6</sup> American English spelling is preserved as per the original article.

The perceived individual and societal benefits of home ownership are reflected in high home ownership rates in most countries. For instance, 70% or more of the population are homeowners in Spain, Italy, Ireland, UK and Belgium, which are countries with historically strong institutional support for, and family tradition of, home ownership (Voigtlander, 2009). The US home ownership rate increased from 64% in 1996 to almost 70% in 2005 (Carrillo & Yezer, 2009). The trend is similar in selected Asian countries such as Singapore, Malaysia, Thailand and China with 80% or higher home ownership rates (RICS, 2008). However, not all developed countries embrace home ownership. For instance, Germany's home ownership rate is only 43% due to the institutional structure that favours the private rental sectors (Voigtlander, 2009). Generally, however, home ownership is the tenure of choice in most countries.

The body of work exploring the benefits of home ownership is immense. The literature has discussed the benefits of home ownership in terms of its positive economic effects at the national and individual levels (Doling, 1999; Forrest et al., 1990; Harris & Arku, 2007; Ronald, 2008), enhancing homeowner's wellbeing (Cairney & Boyle, 2004; Elsinga & Hoekstra, 2005) and better academic performance of homeowner's children's (Aaronson, 2000; Boehm & Schlottmann, 1999; Boyle, 2002; Bramley & Karley, 2007; Green & White, 1997; Mohanty & Raut, 2009). Notwithstanding the above, this section will only discuss the benefits of low-income home ownership which are more relevant to the core of this thesis. Chapter 4 (country context) reveals that the Malaysian government has adopted a policy favouring low-income home ownership since 1971. Low-cost housing regulations are a form of indirect government intervention in the Malaysian housing market to ensure the supply of low-cost housing. Thus, the government's low-income home ownership aspiration has a significant bearing on the regulatory environment controlling the provision of low-cost housing.



Table 1.2 shows the perceived benefits of low-income home ownership ranging from household to society level as synthesised by Shlay (2006). Low-income home ownership can promote various socio-economic benefits by building equity in an asset which simultaneously confers a stabilising effect on family life. The mortgage and maintenance costs paid on the house compels the homeowners to participate in the society. The academic and behavioural outcomes for low-income homeowners' children may also be improved. The stability provided by home ownership may correspondingly enhance the mental and physical wellbeing of the family. From a political perspective, low-income home ownership is believed to produce a safer and more stable community. A home owning society is perceived to espouse a living environment which has less crimes, higher voting participation, higher commitment to employment and population growth. At a neighbourhood level, low-income home ownership can help to sustain property maintenance and consequently property value.

**Table 1.2: Low-income home ownership rationales/goals**

<b>Family economic</b>	<b>Family social</b>	<b>Political</b>	<b>Neighbourhood</b>
Asset-building	>Social stability	<Criminal activity	>Property values
Alternative investment	<Family functioning	>Political (voting) participation	>Care of property
Enforced savings	>Satisfaction	>Commitment to employment	>Stability
Created 'fixed' housing costs	>Voluntary/civic participation Children's outcomes (cognitive and behavioural) <Juvenile delinquency >School attendance >Physical and mental health	>Population growth	<Abandonment <Graffiti, litter and other signs of decline

*Source: Adapted from (Shlay, 2006)*

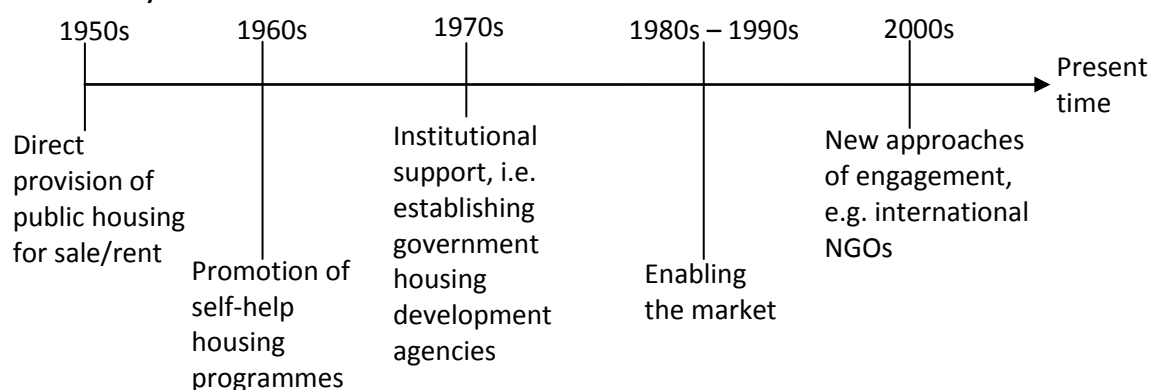
### **1.2.2 An overview of state housing policy in developing countries**

Government housing policy plays an important role in determining the nature and degree of state intervention in low-income housing. Generally, governments in 'welfare state' countries in the west had a higher tendency to be involved in housing provision, particularly in the post-war period from 1950s to 1970s (Ball, 1983). This trend only emerged in the developing economies later in the 1960s, following concerns about the health of the working population (Harris & Arku, 2006, 2007). Although driven by different motivations, governments in both developed and developing economies placed a similar emphasis in housing their low-income groups. In turn, a number of mechanisms have been adopted to implement national policies at the State and Local levels. Therefore, any examination of housing regulations must consider the broader policy environment that determines the formulation of these regulations.

Rapid urbanisation in developing economies has altered state housing policy. Harris & Arku (2006, 2007) traced the evolution of housing policy in developing economies since 1945 and found that until 1960's, housing was regarded as a wasteful social expenditure and received little state attention. However, two main developments in the 1960's improved perceptions of housing as an indirect catalyst of economic growth and a valuable investment tool for the national economy (Harris & Arku, 2006). First, economists became receptive of the 'human capital' concept, linking human capabilities to health by way of nutrition and housing. Second, the negative perception of the housebuilding industry as a 'backward, disorganised and corrupt' industry (Harris & Arku, 2007, p. 5) improved as more studies explained its shortcomings (for instance, see Goldberg, 1974; Goldberg & Ulinder, 1976). As a result, there was increased housing investment in developing economies by the state (Agus et al., 2002) and global organisations, including the World Bank (Harris & Arku, 2006, 2007).

According to UN-HABITAT (2011a), low-income housing policy in the Asian region has significantly evolved since the 1950s (see Figure 1.3), with "national housing policies and programmes (being) in favour of outright household ownership of housing" (p. 27). In the beginning, most governments adopted a strategy of direct provision of large-scale public housing either for sale or rent. A number of factors impeded the operation of this policy in most countries, except for Singapore and Hong Kong. These city states have the advantage of a centralised government structure, the lack of large rural population which had brought urbanisation pressures in other countries, total state control over land and robust housing programmes (UN-HABITAT, 2011a). Singapore in particular provided good institutional support for its low cost housing policy through a highly efficient Housing Development Board (UN-HABITAT, 2011a).

**Figure 1.3: Low-income housing policy in developing countries in the Asian region (1950s to current time)**



Source: Summarised from Chapter 1. "Affordable land and housing in Asia" (UN-HABITAT, 2011a)

The problems with direct state intervention led to an increasing trend in indirect provision of low-income housing across Asian countries since the late 1960's, beginning with self-help housing programmes. In theory, the poor were supposed to develop their own housing with the support of appropriate institutional frameworks. Nonetheless, large-scale low-income housing development under this policy was hindered by “unsupportive institutional, regulatory and economic arrangements” (UN-HABITAT, 2011a, p. 6). Backed by the awareness of the housing sector's contribution to the national economy, the 1970s saw reforms in institutional and regulatory systems by Asian governments (UN-HABITAT, 2011a). Institutional and regulatory supports were implemented to support the private and self-help sectors.

In the 1980s, a paradigm shift saw the role of the Asian governments changing to that of a market ‘enabler’. This was based on the argument that slums arose as a result of “inefficient and skewed markets due to overly onerous government involvement” (UN-HABITAT, 2011a, p. 7). This set the tone for low-income housing policy in Asian countries until the present time. Recent trends saw the establishment of new players in the low-income housing provision process. For instance, the Shack/Slum Dwellers International (SDI) is an international organisation working in Asia, Africa and Latin America that gave advice on capacity building and promoted knowledge sharing (UN-HABITAT, 2011a, p. 9).

The above discussion highlights the need for governments to instil appropriate institutional and regulatory frameworks in order to successfully tackle the issues of inadequate low-income housing (both in quantity and quality). In turn, these intervention mechanisms should fit within the social, economic, historical, cultural and political structures of the country.

### **1.2.3 State intervention in low-income housing provision in developing countries**

In developing countries, formal low-income housing has been credited with clearing slum and squatter settlements and improving the health and well-being of the urban poor (Drakakis-Smith, 1993). In contrast to informal low-income housing, formal low-income housing produces “affordable, comfortable, and healthy housing consistent with the sustainable and planned growth of cities and urban regions” (UN-HABITAT, 2011a, p. 10). A case for outright low-income home ownership is made based on its many potential benefits mentioned above, chief of which concerns the security of tenure. Currently, the governments of developing countries are engaged to provide adequate affordable housing for the urban poor through various programmes, with an emphasis on owned housing (for a review of the various programmes in Asian countries, see UN-HABITAT, 2011a).

The adequacy of housing for low-income groups may be measured by the quantity produced and also the quality of housing provided. According to UN-HABITAT, there are five indicators of low-income housing quality, namely its durability, the sufficiency of the living area, the access to improved water supply, the access to improved sanitation and the security of tenure (UN-HABITAT, 2011a, pp. 20-22). As the governments seek to ensure adequate low-cost housing supply, quality-based measures such as building standards should be incorporated alongside the measures used to boost the number of low-income housing.

‘Government interventions’ may be defined as *direct* and *indirect* inputs from the public sector, taking the form of subsidies, taxes, regulation and other interventions (Hannah et al., 1989). The government may be *directly* involved in low-income housing provision by building and allocating houses to recipients. However, public housing programmes for low-income groups have failed in many developing countries (Agus, 2002; Keivani & Werna, 2001; Kitay, 1987; Sivam, 2002). In the context of emerging economies in Asia, large-scale low-income housing programmes have been frustrated by competing demand for urban land and lack of housing finance (UN-HABITAT, 2011a).

The United Nation’s “Global Strategy for Shelter to the Year 2000” and “Habitat Agenda” guidelines have led to the withdrawal of many governments from direct housing provision (UN-HABITAT, 2011a). The majority of governments have increasingly adopted an *indirect* approach by playing the role of enabler to support the private sector’s involvement in low-income housing provision (Keivani & Werna, 2001). Government intervention in assisting the private sector’s capacity to supply low-income housing may take two forms. First, the government can remove constraints or inefficiencies they caused (Bertaud & Malpezzi, 2001; Dowall, 1992; Malpezzi & Mayo, 1997). Second, the state can provide incentives or inducements to leverage even greater private sector efforts (Keivani & Werna, 2001).

Tiesdell and Allmendinger (2005) identify four broad policy interventions in the land and property market aimed at shaping, regulating, stimulating and building the capacity of the market (see Table 1.3). Table 1.3 shows that the state can use an array of tools to influence the housing market, depending on the aim of the policy. The mechanisms vary in terms of degree of control (shape, regulate, stimulate or build the market) and scope of control (macro-level or micro-level). Furthermore, the intervention tools may be restrictive (e.g. building regulations) or facilitative (e.g. grants). Specific to the provision of low-cost housing, this public good can be mandated on the market based on the principle of correcting the externalities caused by market failures.

**Table 1.3: Broad types of policy intervention in land and property markets**

<b>Policy type</b>	<b>Purpose</b>	<b>Examples</b>
Market 'shaping'	To shape the context within which market actions and transactions occur	Statutory development plans Transport investment plans Code for sustainable homes
Market 'regulation'	To regulate or control market actions and transactions, ensuring some consideration of externalities and the public interest	Development control/management Building regulations Restrictive covenants attached to sales of public sector land
Market 'stimulation'	To make the market work better, by having a direct impact on financial appraisals	Land assembly and release Grants or tax breaks to encourage more desirable activity or taxes to discourage undesirable activity
'Capacity building'	To build capacity of state and/or market operators	Encouraging public-private development partnerships Promoting skills for sustainable communities

*Source: Adapted from Tiesdell and Allmendinger (2005) cited in Adams (2008)*

These policies alone do not create the policy environment that governs the operation of property market agents. Indeed, the implementation of these policy intervention mechanisms is influenced by the policy's organisational arrangements (Adams, 2008) and social interactions between actors (Ball, 1998, 2003b, 2010b; Ball, Lizieri, & Macgregor, 1998). Another feature of state intervention tools are their non-uniform effects, at both the micro and macro levels. This is argued by Evans (1999) in an analysis of the extensive literature on zoning, conservation areas, growth controls, planning gain and impact fees in the context of market economies. He concludes that "the forms of government intervention... vary from country to country, and even within countries" (Evans, 1999, p. 1666).

It is evident that the government has a range of intervention mechanisms available to influence the market in providing adequate low-income housing. The decision by the state on the approach to be employed depends on the local market conditions and the interactions of the mechanism with other policies (Whitehead, Chiu, Tsenkova, & Turner, 2010). In the context of this thesis, market 'regulation' is the type of intervention adopted to engage private developers in low-cost housing provision.

#### **1.2.4 The need for state regulation in low-income housing provision**

This section highlights the role of the state regulation in mitigating the proliferation of slum settlements and poor housing conditions among low-income groups. Throughout the world, housing markets are heavily affected by state regulation. Planning regimes, building controls, taxation policies and welfare programmes condition the operation of nationally constituted housing markets. Regulations are used to compel the market to provide low-profit, low-income housing. Examples of such regulations are the Section 106 planning requirement in the UK and the low-cost housing quota in Malaysia. To ensure that these low-cost houses are built to an acceptable quality, building and planning standards are enforced on developers.

Housing regulations are formulated to pursue specific urban policy objectives. Healey (1998) suggests that the link between development activity and public policy is in matters of resources and regulation. The public sector in providing infrastructure, investment and regulatory stability helps facilitate the capacity of the housing industry (Healey, 1998). In terms of low-income housing in developing countries, state regulation can be used to provide a framework to pursue the government's low-income housing objectives (UN-HABITAT, 2011a).<sup>7</sup> A well-designed regulatory framework thus can help the government to achieve its low-income housing objectives.

From an economic point of view, state intervention is needed to address market failures that result in “negative externalities, lost opportunities and scant provision of public goods” (Adams, 2008, p. 4571). In the context of urban land systems, the market failures in low-cost housing provision tend to be large-scale in nature (Whitehead et al., 2010). In developing economies, the speculative private sector housing has worsened housing affordability conditions with its tendency to cater for the high-income population. As a result, low-income groups have to resort to slums and informal settlements in urban areas that provide employment opportunities. For instance, one third of housing in Bangladesh is produced in slums and without any security of tenure (UN-HABITAT, 2011a, p. 9). Government intervention can rectify the inequities and inefficiencies resulting from the underprovision of low-income housing by the pure market.

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<sup>7</sup> For instance, the Philippines' Urban and Development Housing Act 1992 expresses the state's policy to produce affordable housing for its urban poor using strategies such as cooperation with the private sector, rational urban land usage, better urban-rural management and improvement in the security of tenure (UN-HABITAT, 2011a, p. 33).

### **1.2.5 Types of state regulation in low-income housing provision**

There are three types of regulations that are relevant to this thesis. The first group of regulations concern development control. Property development represents not only physical change to the urban landscape but also carries potential socio-economic benefits and costs. The aims of development controls are to protect health, safety, or welfare (Adams, 2008; Cheshire & Sheppard, 1997, 2003; Dowall, 1992), to preserve the environment (Adams, 2008; Dowall, 1992) and to improve energy conservation (Adams, 2008; Downs, 1991). Development control may regulate any material change in the use of any land whether physically (e.g. constructing a building on a vacant land) or non-physically (e.g. title subdivision). In most countries, development control comprises elements of urban containment, density, minimum building standards and social integration (Brueckner, 2010). Development control is often identified with urban land policy (i.e. the control of the land market will have a corresponding effect on the property market) (Adams, 2008). Regulations that control development activities include planning, land and environmental laws.

The second type of regulation involves planning obligation which aims to convert benefits accrued to landowners caused by the planning system and convert them into low-income housing. Described as a betterment tax on the land value increment upon the grant of planning permission in a planning-restricted land market (Monk, Short, & Whitehead, 2005), it involves mandating a percentage of low-income housing in a new development. Examples are the Section 106 planning agreements in the UK and the low-cost housing quota in Malaysia.

The third type of relevant regulations is housing standards, employed to ensure that the low-cost housing is built according to acceptable physical and social standards. It has been observed that developing countries have a tendency to adopt western building standards that can be unsuitable to the local socio-economic conditions (UN-HABITAT, 2011a). Some western housing standards are deemed unsuitable and overgenerous for low-income groups in developing countries (Malpezzi & Mayo, 1997).

For the purpose of this thesis, the cumulative laws, regulations, enactments, guidelines and standards forming the regulatory framework for housing development are collapsed into the term 'housing regulations'. Other regulations that might indirectly influence housing, including labour regulations, historic preservation regulations, wildlife preservation regulations and rent controls, are excluded.

## 1.3 The context

### 1.3.1 Low-income housing in Malaysia

As mentioned above, the severity of slum settlements vary between regions and countries (UN-HABITAT, 2011b). Whilst Malaysia has been spared the problem of large-scale and severe to extremely severe types of shelter deprivation slums, most of its major cities and towns are plagued by illegal squatter settlements of a lesser deprivation<sup>8</sup> and pockets of unplanned traditional housing (see Photo 1.2), lumped together under the term ‘*kampung*’ by UN researchers (UN-HABITAT, 2003b).<sup>9</sup> In the Malaysian context, squatter settlements are houses illegally built on both private and public lands whilst the traditional settlements are legally built on private lands but may have been excluded from planning control due to the nature of the title or newly implemented Local Plans. Typically, these are timber and brick houses of various sizes, layouts and designs that sometimes accommodate extended families and may be passed on through generations. These houses are normally provided with basic infrastructure by the government.

**Photo 1.2: Typical squatter settlements and traditional housing in Malaysia**



Typical Malaysian squatter settlements.



Typical traditional housing in Terengganu

Source: Author

<sup>8</sup> UN-HABITAT classifies slum settlements as moderately deprived, severely deprived and extremely deprived depending on their access to safe water, sanitation and other infrastructure, structural quality of housing, density and security of occupation.

<sup>9</sup> This is somewhat a misnomer as a ‘*kampung*’ is actually a traditional Malay village. This type of settlement predates the current western-based land administration system introduced by the British in the early 20th century. It is therefore wrong to describe all *kampungs* as slum settlements.



There are various social ills associated with the lifestyle of squatter and traditional settlement dwellers. Although basic services such as running water, electricity and sewerage treatment are provided, there are associated problems with illegal and informal housing such as sanitation, flash floods, social disharmony, inefficient resource allocation and other social ills. Additionally, due to their illegal or unplanned nature, these types of housing normally lack public amenities and infrastructure such as schools, community centres, places of worship and access roads. Insecurity of tenure also means that the occupiers of squatter settlements face the risk of eviction. All these factors contribute to substandard living environments and reduced well-being among the Malaysian urban poor.

Another factor that supports the provision of low-cost housing in Malaysia is the country's social structure which resulted from British colonial policy. The "13<sup>th</sup> May Tragedy" of 1969, the country's worst ethnic-related incident, had its roots in the divide-and-rule colonial policy of inducting non-indigenous Chinese and Indian populations into commercial urban areas whilst keeping indigenous Malays in the agricultural-based rural areas. After independence in 1957, the economic disparity between the Malay and Chinese communities fostered growing feelings of resentment and alienation (Abdullah, 1997). The perceived inequalities in wealth and housing (a reflection of wealth), among other things, saw the simmering tensions between the two ethnic groups finally erupt into full blown riots, resulting in the loss of many lives and a substantial amount of property damage (Abdullah, 1997). Thereafter, low-cost housing in Malaysia has had a social engineering function to correct any ethnic-based economic imbalances. More specifically, the country's social structure results in low-cost housing being viewed as a mechanism for wealth-creation and social-stabilisation.

The many perceived benefits of low-income home ownership have led to state intervention in this housing segment in Malaysia. Voluntary market involvement in the low-cost housing sub-sector is deterred by its low effective demand. However, the social benefits of low-cost housing in terms of poverty eradication and increased social equity and stability are perceived to outweigh its economic costs. Furthermore, formal housing schemes for the urban poor provide a source of income for the Local government in terms of rates and taxes. These are among the factors that have sustained government intervention in low-cost housing provision in Malaysia.

In Malaysia, low-cost housing is a type of housing which is heavily subsidised and centrally planned (Photo 1.3). The houses must comply with building standards and public amenities requirements set by planners. A more detailed description of the physical characteristics of low-cost housing specifications is given in Chapter 4. Low-cost housing in Malaysia is meant for households with monthly income of less than RM2,500 (about USD800) in major cities (the amount is reduced to RM1,500 in smaller towns and cities), but the income threshold may be altered by the State Authority (MHLG, 2009a).<sup>10</sup> Owned units are sold at a price between RM25,000 (USD8,000) in smaller cities and RM42,000 (USD13,000) in major cities whilst rental units are let at well-below market rents. Although both owned and rental house types are available, home ownership is highly promoted in the national policy. Low-cost housing applicants must register under the Open Registration System (ORS), a merit-based distribution mechanism administered by the State Authority (MHLG, 2009a). Subsequent sales of low-cost units must have express permission from the State Authority to prevent speculative activities.<sup>11</sup>

**Photo 1.3: Typical low-cost house types in Malaysia**



Single storey low-cost terraced



Walk-up low-cost flat low-cost flat (with lift)



From left to right, common facilities including day-care centre, community hall and playground

*Source: Author*

<sup>10</sup> Low-cost housing does not extend to the lowest income category, the housing needs of those below the poverty-line are catered by special programmes e.g. the Poorest People Housing Programme and the Site and Services Scheme, which is outside the scope of this research.

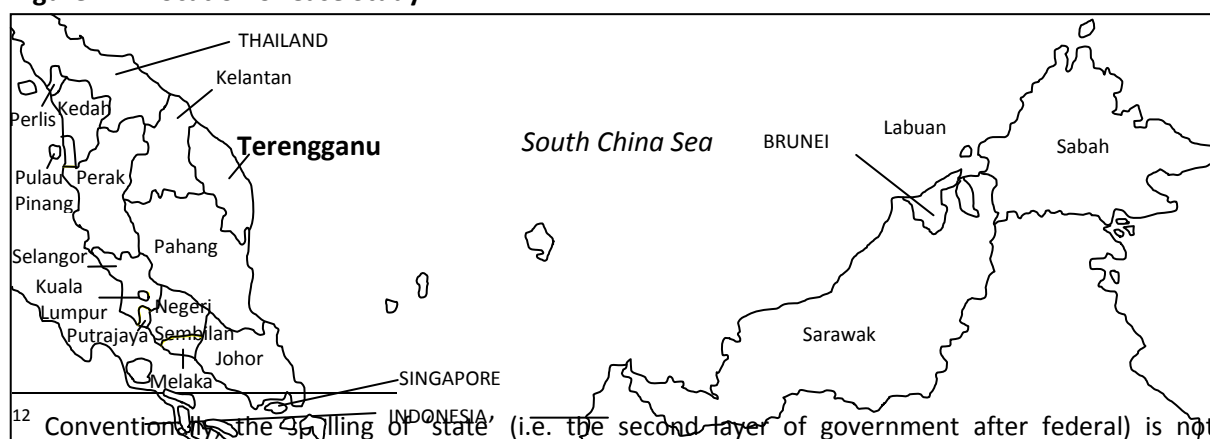
<sup>11</sup> Normally, land or strata titles for low-cost housing unit contain express conditions for any transactions to obtain written approval from the State Authority. This is a built-in mechanism to check profit-seeking pursuits among low-cost housebuyers.

Besides public low-cost housing, the low-cost housing quota requirement obliges private developers to provide low-cost housing in new developments. These direct and indirect state interventions have been guided by housing policies embedded in long and medium-term national economic policies. In 1970, the New Economic Policy (NEP) was implemented to jumpstart the economy of the rural Malays with low-cost housing as a strategy to integrate them in the urban economy (Agus, 2002; Drakakis-Smith, 1977). Since then, low-cost housing has received priority in various national economic master plans. This commitment is reflected in the government's continuous investment in the housing sector. Information from the Terengganu housing agency stated that the national Economic Stimulus Package in 2009 allocated RM1.2 billion for various low and medium cost housing programmes throughout Malaysia from the overall RM7 billion budget (Housing Department of State Secretariat Office for the State of Terengganu, 2009). The State Authority has announced its plan to supply an additional 12,000 units of low-cost housing in Terengganu by 2013 (Bernama, 2010).

### 1.3.2 The study area (the State of Terengganu, Malaysia)<sup>12</sup>

Figure 1.4 shows the fourteen States in Malaysia, which comprises West Malaysia (also known as the Peninsular Malaysia) and East Malaysia (part of the Borneo Island).<sup>13</sup> Previously, Malaysian housing studies have focused on the more affluent west coast States of Peninsular Malaysia such as Selangor, Kuala Lumpur, Pulau Pinang and Johor. The housing markets of previously poorer States, such as Terengganu, have been overlooked due to their perceived unimportance.

**Figure 1.4: Location of Case Study**

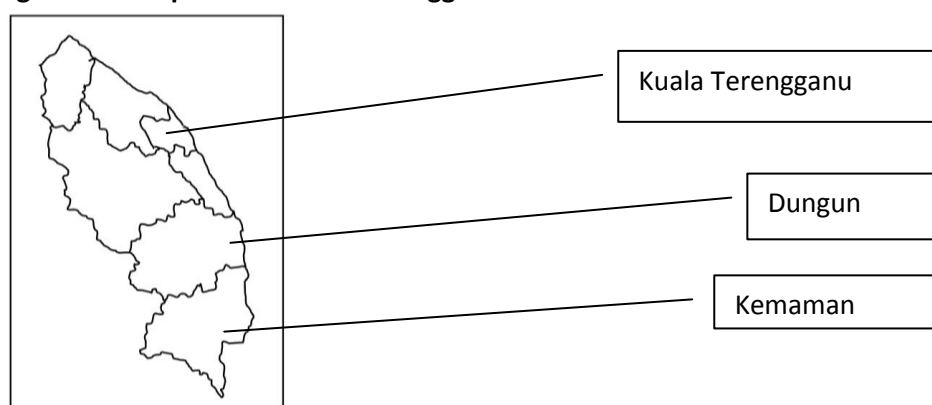


<sup>12</sup> Conventionally, the spelling of 'state' (i.e. the second layer of government after federal) is not capitalised. However, this thesis also makes frequent reference to 'state intervention', whereby 'state' is used to connote the government in general. To avoid confusion, this thesis uses capitalisation ('State' e.g. the State Authority) to represent the layer of government and non-capitalisation ('state' e.g. state intervention) to denote the government in general.

<sup>13</sup> The fourteen States are Perlis, Kedah, Pulau Pinang, Perak, Selangor, Negeri Sembilan, Melaka, Johor, Pahang, Kelantan, Terengganu, Sarawak, Sabah and the Federal Territories of Kuala Lumpur, Putrajaya and Labuan.

Two factors significantly contributed to the recent economic boom and a more active property market in Terengganu. Firstly, the discovery of petroleum off the southern shore of Terengganu in the late 1970s has significantly shifted the economy from agriculture and fisheries to petroleum. Secondly, the Federal Government has implemented various national policies over four decades to reduce the west coast-east coast economic gap, the latest being the East Coast Economic Region (ECER) master plan implemented over a period of twelve years from 2008 to 2020 (ECER Development Council, 2009). The “Terengganu Structure Plan 2020”, which is the development plan for the State, described a number of major infrastructure projects for Terengganu including the East Coast Highway Phase II, the upgrading of the Sultan Mahmud Airport, the construction of Kuala Berang-Simpang Pulai road and the development of Universiti Darul Iman Malaysia (State Authority of Terengganu, 2006). In particular, three districts in Terengganu - Kuala Terengganu, Dungun and Kemaman (see Figure 1.5) – experienced unprecedented growth in their economies and populations.

**Figure 1.5: Map of districts in Terengganu**



*Source: Derived from Fig. 1.1, The State of Terengganu Structure Plan Area. State of Terengganu Structure Plan (State Authority of Terengganu, 2006)*

The latest population statistics compiled by the State Economic Planning Unit reflect this trend (State Economic Planning Unit, 2009). The population growth rate of Terengganu for 2008 (2.4%) was slightly higher than the national rate (2.0%) (State Economic Planning Unit, 2009). Terengganu’s urban to rural population ratio also has risen from 47.1:52.69 in 2000 to 54:46 in 2008. During that period, the urban population of Terengganu increased by 165,797 whilst the rural population only increased by 25,903 (State Economic Planning Unit, 2009). In eight years, the urban population of Terengganu has grown more than 6 times its rural population.

However, notwithstanding the economic progress, this rapidly urbanising State also experienced the usual socio-economic afflictions, chief of which was worsening housing affordability among low-income groups. Consequently, the demand for housing for low-income groups in urban areas is anticipated to rise alongside the employment opportunities and rural-urban migration. The combined low-cost housing demand in Terengganu was estimated to be about 25,000 units in 2007 (State Economic Planning Unit, 2009). Although this figure has not been updated, it is assumed that the current demand is at least similar to that amount, if not more, based on the rapid urbanisation rate mentioned above. The State Authority has announced plans to build 12,000 units by 2013 (Bernama, 2010). According to the State's housing strategy obtained from the State housing department, the remainder of the low-cost housing needs will be met by the private sector via housing public-private partnerships (PPPs) and the low-cost housing quota requirement.

#### **1.4 Research gaps**

The provision of low-cost housing occurs within a nationally constituted institutional framework. Notwithstanding the country-level low-cost housing programmes and regulations, institutional factors may cause regional differences in the interpretation and implementation of low-cost housing regulations. The thesis aims to address two research gaps in the current knowledge on the effects of housing regulations.

The first gap lies in understanding the actual operations of institutions and key organisations in a given regulatory environment. In the past, numerous studies on the impact of housing regulations have suggested that regulations have an inflationary effect on housing costs and/or restrictive effect on housing supply (for instance Bertaud & Malpezzi, 2001; Bramley & Leishman, 2005a; Clingermayer, 2004; Malpezzi, 1999; Mayer & Somerville, 2000; Schill, 2005; Schuetz, 2009). These studies mainly employ econometric modelling, with the underlying neo-classical economic assumptions of market efficiency, unitary price and rational behaviour to predict impacts on the price and quantity of housing. This approach tends to ignore or give a passing consideration to institutional behaviours and operations in the housing market.

Nevertheless, housing provision is characterised by pre-existing institutional conditions and a multiplicity of actors carrying out their own economic agenda who may not display rational economic behaviour in their on-the-ground operations. This thesis supports Ball's argument for opening the theoretical 'black box' of institutional interactions within the given regulatory environment to enable a deeper understanding of processes in housing provision (Ball, 1998, 2003b, 2006). A number of studies on affordable housing in the UK have emerged recently, examining the interactions between institutions and the regulatory structure (Burgess & Monk, 2011; Crook, Monk, Rowley, & Whitehead, 2006; Monk et al., 2005; Whitehead, 2007; Whitehead et al., 2010; Whitehead & Yates, 2009). This thesis proposes an institutional approach in examining the interactions between pre-existing institutions (i.e. legal, government and political institutions), key housing players (i.e. planners and developers), and low-cost housing regulations.

The second gap is related to the tendency for macro-level examinations within housing studies. Given significant regional differences in social, economic, political, technological and demographic conditions, any study on the impact of housing policy should acknowledge regional differences and recognise that policy implementation may be different from region to region. This thesis focuses on an emerging yet understudied east coast region in Malaysia. Previously, housing studies in Malaysia have focused on the more developed west coast States (Bertaud & Malpezzi, 2001; Hannah et al., 1989; Malpezzi & Mayo, 1997; T. H. Tan, 2008; Wan Abd Aziz & Hanif, 2005; Wan Abd Aziz, Hanif, & Ahmad, 2008), resulting in a knowledge gap regarding the housing market of the less developed east coast States of Peninsular Malaysia (particularly Terengganu) and East Malaysia.

This thesis explicitly recognises the existence of institutional differences within a country which shape regional housing markets. As Ball (1998, 2003, 2006) has demonstrated, the institutional structure of local housing markets may cause similar sets of agents to operate differently between countries. Furthermore, institutional factors such as a Local Authority's capacity have also been shown to cause regional variations in housing markets within countries (Ball, 2010b). The work by Bramley & Leishman (2005b), for instance, recognises a "two-speed" British housing market (i.e. area with 'high' and 'low' housing demands). Developing upon these studies, this thesis focuses on three districts (Kuala Terengganu, Dungun and Kemaman) in Terengganu that have similar levels of economic growth.

Based on the need to understand how state regulation influences the behaviour of the actors involved in the provision of low-cost housing at a regional level, the institutional ‘structure of provision’ thesis (Ball, 1983, 1986, 1998, 2003b) was chosen to frame an in-depth analysis of the regulatory environment controlling low-cost housing in Terengganu. This framework has not been used by any previous Malaysian housing literature. For the first time, a systematic effort was made to collate and review all regulations pertaining to low-cost housing. Besides that, this thesis also revealed the manner in which these regulations were interpreted and implemented by planners and internalised by developers. Finally, the actual outcomes of this arbitration were surveyed from case studies of housing developments to determine the everyday operation of low-cost housing regulations. This presents a comprehensive study into the effects of low-cost housing regulations.

### **1.5 Statement of problem**

In Malaysia, low-cost housing policy is an important tool designed to improve the socio-economic conditions of the urban poor. State intervention in the provision of low-cost housing mainly takes the form of regulations. Previous studies of housing regulations have tended to ignore the actual operations of agents and the institutional behaviours within the housing market. Whereas the World Bank study examined the broad regulatory context, it did not explain the effects of the low-cost housing regulatory environment in the poorer regions in Malaysia. Since the housing market involves multiple interactions between different actors and pre-existing institutions in specific regional contexts, it is clear that housing regulations may produce dissimilar outcomes in different regions. The manner in which the regulatory environment controlling low-cost housing is internalised by the key actors involved in low-cost housing provision in a developing region in Malaysia needs to be examined.

### **1.6 Research questions**

These are the questions that underpin the objectives and methodology of this research:

1. How do housing regulations shape the provision of low-cost housing in Terengganu, a developing yet understudied region in Malaysia?
2. What other institutions (e.g. political, social, economic and legal institutions) affect the regulatory environment controlling low-cost housing provision? How do these institutions influence low-cost housing provision in the given regulatory environment?
3. What are the roles of developers and planners in the provision of low-cost housing in Terengganu? How do they perceive the low-cost housing regulatory environment?
4. How do the interactions between developers and planners influence the implementation of low-cost housing regulations and the final housing outcomes?

## **1.7 Research objectives**

The main aim of this thesis is to examine how housing regulations shape the provision of low-cost housing in Terengganu, Malaysia. In order to achieve this objective, the thesis will examine the regulations governing the provision of low-cost housing in the study area, the behaviours of the key actors involved in the provision of low-cost housing (i.e. planners and developers) in relation to these regulations and the actual housing outcomes produced by the regulatory environment controlling low-cost housing.

In the context of the study area, the main objective is further detailed as follows:

1. To examine the low-cost housing regulatory environment.
2. To identify the roles and interactions of the main actors.
3. To examine the perceptions of planners and developers about the low-cost housing regulatory environment.
4. To examine the actual practices of planners and developers in the implementation of low-cost housing regulations.
5. To determine the actual low-cost housing outcomes produced by interactions of institutions and housing regulations from selected case studies.

## **1.8 Linking research positionality with research methodology**

This section aims to critically discuss the value brought by the researcher's positionality to the thesis methodology. Indeed, authors have explicitly pointed out the advantages brought by their professional and personal experience in addressing potential issues and challenges in their research (see for instance Satsangi, 2011).

This thesis highlights the paramount role of institutions. Ball's structure of provision (SOP) approach (1986, 1998, 2003b) is used as a framework for examining the operations of key actors in the low-cost housing regulatory environment. The SOP approach entails identifying the actors involved in the provision of housing, placing them within the wider social, economic, political, technological and demographic context at a specific location and time (Ball, 1998). Any actors and institutions that directly influence the housing provision spheres, i.e. production, exchange and consumption, are part of the structure of provision (Ball, 1986). This thesis focuses on the production aspect of low-cost housing due to its centrally planned nature.



Drawing upon the growing institutional focused literatures in housing studies, this study will examine the effects of regulations on low-cost housing provision in Terengganu by using a three-tier structure. At the macro-level, this thesis will document the multi-tiered regulatory environment that governs the provision of low-cost housing in Terengganu. The meso-level analysis will examine the economic behaviour of key players who must interpret, implement and negotiate these regulations, i.e. planners and developers. This second layer of analysis is represented by fourteen semi-structured interviews conducted with major housing developers and senior planners. Finally, the micro-level analysis will examine the outcomes of variations in regulatory implementation by analysing five case studies of low-cost housing developments.

Since the 1980s, Terengganu has undergone rapid progress due to a robust petroleum industry and successful national economic policy. I was born and raised in the State, later working as a valuer for seven years in the State capital of Kuala Terengganu. During that period, I observed worsening housing affordability among its low-income groups. Subsequently, I pursued an academic career 400 kilometres away in Kuala Lumpur teaching valuation and property law. The subjects I taught exposed me to the various regulations controlling the provision of low-cost housing. I was also involved in a national level research in housing affordability issues among middle-income groups. My teaching and research experience suggested a gap in understanding how regulations affect low-cost housing provision in a developing region in Malaysia. The above reasons have influenced the choice of my PhD topic.

My positionality has an important bearing on this thesis. I bring three types of background experiences to this research; my academic background in Malaysian property law (knowledge of housing regulations), my professional background having worked in the property field in the study area for several years (I have considerable knowledge of the local housing market) and my personal background having originated from the study area (I have fluent knowledge of the local dialect and customs).

My academic background prepared me for the task of compiling the regulatory database. Having taught property law, I am aware of the various sources of law relevant to my database. My previous working experience in Terengganu informed me on the institutional structure and characteristics of the local housing market. I knew which government departments to contact for information and where they were located. I knew that private developers in the smaller Terengganu housing market comprised mostly of private limited companies compared to the listed public companies in the west coast. This particular characteristic of Terengganu developers could impede information gathering. However, when I encountered this problem, my personal background provided the needed assistance. I gained the confidence of Interviewee 2 (see Chapter 3) during the pilot study, an officer at the State housing department. He became very helpful and supportive after learning about my previous working experience in the State and personal interest in low-cost housing in Terengganu. He became the gate-keeper for the developers' interviews, securing two interviews with major developers.

## **1.9 Contribution to knowledge**

### **1.9.1 Practical contribution**

This thesis deals with a highly relevant issue in the context of a developing economy namely the provision of low-cost housing for the urban poor. Its practical significance lies in the examination of a previously neglected housing market in Malaysia. Hitherto, Malaysian housing studies have neglected the less developed east coast of Peninsular Malaysia. Given the complexity of the land and housing regulatory structure in Malaysia, this thesis could assist policymakers in understanding the internalisation of low-cost housing policy among actors involved in the provision of low-cost housing in an understudied region.

The examination of the regulatory environment in Chapter 6 produced the first comprehensive database of low-cost housing regulations in the case study area. This database is attached as Appendix 3 (Database of regulations controlling low-cost housing provision in Terengganu). Such a database has not been detected in other Malaysian studies. Whilst the State and Local-level regulations are specific to the State of Terengganu, the compilation of Federal regulations has a wider usage in informing policymakers, developers and academics of low-cost housing regulations applicable at the national level.

### **1.9.2 Academic contribution**

This thesis presents an examination on the effects of low-cost housing regulations previously unexplored within Malaysian housing studies. The three-tier analysis of low-cost housing regulations framed within a structure of provision approach represents an innovative strategy to examine the processes that shape the delivery of low-cost housing in Malaysian. Besides providing knowledge into the effects of housing regulations, the approach highlights the disaggregation of Malaysian housing markets caused by institutional factors. At another level, this thesis looks at the outcomes of housing regulations beyond simply price and quantity. In particular, the findings highlight the welfare and equity effects of housing regulations. All these issues have not been explored within a single study.

### **1.10 Thesis outline**

This introduction chapter has discussed the significance of the research topic namely state intervention in low-cost housing provision. It presents an account of the benefits of low-income home ownership that have driven the Malaysian government's efforts to produce adequate low-cost housing since the 1970s. In particular, it highlights the main objective of the thesis; to examine how the regulatory environment controlling low-cost housing has been influenced by institutional dynamics to produce low-cost housing in a developing region in Malaysia. This chapter stresses the study of institutions in understanding processes within the housing market.

Chapter 2 reviews the relevant housing and property literature with the aim to provide the conceptual framework for this thesis. This chapter draws attention to the nature of the housing market which is represented by a number of institutions (i.e. organisations and 'rules of the game'). It presents results from the 'mainstream literature' in examining the effects of state regulation on housing provision, highlighting how the econometric modelling approach of the majority of these studies has provided a weak explanation of institutions. In contrast, institutional approaches, in particular the structure of provision (SOP) framework adopted in this thesis, offers a framework to study the interactions of institutions in given regulatory environments. The SOP enables a deeper understanding of how regulations influence the processes involved in low-cost housing provision.

Based on this conceptual framework, Chapter 3 explains the research design comprising a three-tier analysis of low-cost housing regulations in Terengganu. The analysis involves the macro-level examination of the low-cost housing regulatory environment derived from a review of all relevant regulations controlling low-cost housing provision in Terengganu, the meso-level examination of the economic behaviour of planners and developers influenced by the external regulatory environment and the micro-level examination of actual housing outcomes produced by the interactions of actors and the regulatory environment using actual low-cost housing developments as case studies. This research design provides a comprehensive investigation into the institutional dynamics within the structure of low-cost housing provision in the regulatory environment controlling low-cost housing in Terengganu.

Chapter 4 provides the country context, outlining Malaysia's socio-economic background which has shaped its low-cost housing policy. Instead of being purely descriptive, this chapter incorporates some analysis of the national low-cost housing policy and achievements from 1957 to 2011. This establishes the significance of low-cost housing provision in solving housing issues among the urban poor in Malaysia. This chapter serves to explain the roles of the state and private developers in fulfilling the low-cost housing demands under various Malaysia Plans, highlighting the important role of the market in producing low-cost housing via the operation of the low-cost housing quota requirement system.

Chapter 5 is the second context chapter, explaining the low-cost housing policy and the housing market characteristics at the State level (i.e. Terengganu). It shows the complicated nature of national housing policy implementation at the State level due to pre-existing institutional arrangements such as the legal, government and political systems and also regional housing market characteristics. Additionally, the chapter analyses the various actors and methods of low-cost housing developments which have contributed to low-cost housing supply. It highlights the growing importance of the market in building low-cost housing in Terengganu based on the current State Authority's housing strategy.

Chapter 6 is the first full results chapter. This chapter examines the consequences of the multi-layered regulatory environment that governs low-cost housing provision. The first part of this chapter describes and examines the basic regulatory framework of low-cost housing (i.e. the Malaysian legal system and Federal low-cost housing statutes) to establish the fundamental authority over low-cost housing. The result of this analysis (i.e. the primacy of the State Authority in the implementation of low-cost housing policy) has far-reaching repercussions for the manner of regulatory implementation and this is also confirmed in the other analysis chapters. The chapter then proceeds to review and analyse State and Local low-cost housing regulations to find out how Federally formulated regulations are rolled out at the State and Local levels. Despite the general perception of a complicated regulatory framework given by this chapter, this system has successfully secured a long-term engagement of Malaysian private developers in producing a substantial amount of low-cost housing. This outcome suggests the influence of institutional dynamics within the system, which this thesis examines in the next results chapters.

Chapters 7 and 8 present the results of semi-structured interviews with senior planners and major developers in Terengganu, respectively. These two chapters examine the economic behaviour and social interactions of key players involved in low-cost housing supply in the State, based on their past experiences with the regulatory environment. Chapter 7 examines the interpretation and implementation of regulations by planners (i.e. agents of the state) whereas Chapter 8 investigates the behaviours of developers (i.e. agents of the market) in negotiating the low-cost housing regulatory environment. In sum, these two chapters present the views, perceptions and experiences of key actors, from opposite sides of the low-cost housing control in Terengganu, on the seemingly complex layers of regulations.

Chapter 9 is the fourth and final results chapter. It presents the housing and non-housing outcomes of low-cost housing regulations of five actual housing developments in Terengganu. The actors included in this chapter are not only planners and developers, but also various technical government departments. This reflects the actual nature of the low-cost housing regulatory implementation in practice, whereby the control of low-cost housing development involves many regulations enforced by various authorities. Despite the perceived opacity of the regulatory environment, this chapter shows how the flexibility contained in the regulatory structure has enabled negotiations between developers and authorities to produce low-cost housing and its associated outcomes.

Chapter 10 concludes with the overall thesis findings. Drawing on the findings of the results chapters, it highlights the effects of institutional dynamics on low-cost housing provision in the given regulatory environment in Terengganu. It discusses the institutionalised behaviours of key actors and interactions of regulations with other institutions that have enabled the development of low-cost housing despite its low profitability and seemingly complex regulatory environment. It identifies the legal, government and political institutions as the pre-existing institutions that have the most substantial influence over the implementation of low-cost housing policy in Malaysia. It concludes that regulations have assisted in securing proper housing for low-income groups, thus alleviating slums and their adverse effects to the society whilst simultaneously improving the well-being of low-income groups. Moreover, the regulatory environment is seen to have promoted access to low-income ownership, thus supporting the broader social-integration aspirations of the Malaysian government.

### **1.11 Chapter conclusions**

The proliferation of slums and squatter settlements especially in developing countries arises as a result of the market failure in providing adequate housing for low-income groups. In addressing this issue, the Malaysian government implements regulations to secure market provision of low-cost housing. However, opponents of state intervention in the housing market have highlighted the price inflating and supply constraining effects of housing regulations, describing the Malaysian housing market as having a ‘stringent’ regulatory environment (Bertaud & Malpezzi, 2001; Hannah et al., 1989; Malpezzi & Mayo, 1997). Deregulation is proposed as a solution to this situation.

Nonetheless, since 1966 well above 900,000 low-cost houses have been produced in Malaysia in the current regulatory environment. This suggests the operation of institutional dynamics that have enabled low-cost housing production despite the appearance of an overregulated market. Given that low-cost housing holds vast socio-economic significance, any move to deregulate this sub-sector without understanding the actual operation of regulations can have serious effects in the progress already made. Indeed, the regulatory environment controlling housing provision is not only determined by sets of regulations but also the organisational structures that internalises these regulations (Adams, 2008). Also, the myriad of actors within the housing market must work within the pre-existing political, social, economic and legal institutions (Ball, 1983, 1986, 1998, 2003b). This thesis considers that a comprehensive examination of housing regulations should incorporate social interactions of housing agents and the institutional dynamics of pre-existing institutions, and should not be restricted to the analysis of housing prices and quantity only.

## Chapter 2: Conceptual framework of research

### 2.1 Background

Low-cost housing has potential welfare benefits for low-income groups and can boost the national economy. Despite these perceived benefits, low profitability and low effective demand have led to its underprovision under market conditions. In most countries, government intervention measures are employed to address this market failure. Despite the social equity rationale for state intervention, the majority of studies from the World Bank have reported that regulations have skewed housing market efficiencies in developing economies (Bertaud & Brueckner, 2004; Bertaud & Malpezzi, 2001; Dowall & Clarke, 1996; Hannah et al., 1989; Malpezzi & Mayo, 1997; Mayo & Sheppard, 1996). Using econometric modelling as the main approach, these studies linked the planning regime and building standards to land supply constraints and high compliance costs.

Notwithstanding the negative reports on regulations, the wider housing literature has indicated a number of positive benefits arising from housing regulations. For instance, the planning regime has been shown to enhance amenities (Cheshire & Sheppard, 1997, 2002) and increase the supply of affordable housing (Burgess, Monk, & Whitehead, 2011; Crook et al., 2006; Monk et al., 2005). The legal framework also provides institutional support to enable market involvement in low-cost housing provision in developing countries (Keivani, Mattingly, & Majedi, 2008; Sengupta, 2006). Clearly there are positive economic and welfare benefits arising from regulations that merit further examination.

In general, the provision of housing involves planners, developers, various government departments, financial institutions and land owners. The interactions between these actors together with pre-existing institutional factors influence the operation of regulations. Policies aimed at shaping, stimulating, regulating and building capacity of the market should consider the operation of organisations and institutions (Adams, 2008). Oftentimes the state, keen to fulfil the perceived housing needs of the society, implements policies aimed at facilitating low-income home ownership without understanding processes at work within the housing market. To ignore such institutions and their dynamics may cause the policy pendulum to “swing too far to the other side of the policy spectrum with the final result of yet another failure in low-income housing policy” (Keivani & Werna, 2001, p. 113), such as the US subprime mortgage crisis.

This thesis aims to examine the effects of the regulatory environment controlling low-cost housing provision in a developing region in Malaysia. This objective guides the review of literature undertaken to provide the conceptual framework for this thesis. This chapter is structured as follows. First, it provides a discussion on key characteristics of the housing market, highlighting that institutions and institutional dynamics can determine the implementation of housing policy. For one, the regulatory environment governing low-cost housing provision in Terengganu accommodates social relations between key agents who engage in low-cost housing production. It is argued that these interactions have mediated the implementation of regulations. The review of the housing regulation literature revealed two distinctive approaches used in examining the effects of regulations. The first group of literature represents the mainstream econometric modelling approach. Focusing on price and quantity outcomes, this approach offers limited insights into institutions which feature prominently in the regulatory environment. The limitations of the mainstream approach in furthering the research objective of this thesis are clearly discussed before presenting an alternative approach. The alternative approach focuses on institutions and represents the second group of housing regulation literature. Ball's Structure of Provision (SOP) approach is chosen as the institutional framework to examine how the operations of regulations are affected by organisations and institutional factors (Ball, 1983, 1986, 1998, 2003b).

## **2.2 Consideration of key characteristics of the housing market**

The housing market has several key characteristics that affect the examination of regulations in this thesis. These attributes influence the operation of regulations in practice. In turn, they affect the research methodology for this thesis.

### **2.2.1 Different dimensions of housing provision**

According to Ball (1986, 2003b, 2006), housing provision involves aspects of production, consumption and exchange. Developing upon Ball's ideas, Burke & Hulse (2010) view production as "concerned with the nature and techniques of land ownership, land assembly and housing production"; consumption as "concerned with the forms and methods by which households consume housing"; exchange as "concerned with the practices and institutions which facilitate the sale, renting and use of housing" and further add a fourth housing provision dimension (i.e. management) which is categorised as "the practices by which the housing system is managed, including policy and planning at all levels of government" (p. 824). State policy on low-income housing may encompass one or a combination of these dimensions.



### **2.2.2 Myriad of actors**

Housing provision involves a network of actors with their own roles to play and which display distinct economic behaviours that correspond to their organisational objectives (Ball, 1986, 2003b, 2006, 2010b). The roles and degree of involvement of these actors are determined by the specific housing type and tenure (Ball, 1986). Generally, these actors include planners, developers, various government departments, financial institutions, land owners, building contractors and house buyers or renters (Ball, 1986). As agents of the state at the ground level, the Local planning authority is generally supportive of low-income housing and tends to create a favourable regulatory environment over low-income housing production (Burgess & Monk, 2011; Monk et al., 2005). On the other hand, housebuilders or private housing developers can be taken as market representatives in housing provision. Significantly, local variations of the housebuilding industry may occur between and within countries due to potential economies of scale, market factors, information asymmetries, regulation and risk (Ball, 2003b). These local housebuilding practices may give rise to significant variations in housing outcomes (Ball, 2003b).

### **2.2.3 Regulatory environment of the housing market**

Public policy is used to “override markets or steer market forces to achieve desired political aims” (Ball, 1998, p. 1502). State regulation is one of the mechanisms to control housing market actions, internalise externalities and incorporate public interest considerations (Tiesdell & Allmendinger, 2005). The regulatory environment over housing consists of the formal instruments and organisational arrangements involved in the implementation of these regulations (Adams, 2008). Development control and building regulations are two main components of state regulation over the housing market (Tiesdell & Allmendinger, 2005). In terms of low-income housing, state regulation is needed to ensure its availability to the poorer segments of the market and to safeguard against substandard housing (Whitehead, 2007). The implementation of housing regulations will depend on their interpretation by planners and negotiation between planners and developers (Monk et al., 2005).

#### **2.2.4 The production sphere, the land market and sub-markets in housing provision**

Production is the most visible housing provision sphere as it involves a permanent change of the urban landscape. Real estate space is mainly produced by developers. In the case of housing, Ball (2003b) has demonstrated how the housebuilding industry of one country is largely shaped by the legal structure besides local economies of scale, market factors, information asymmetries and risk. More recently, Ball (2010b) has indicated that at the micro-level, the characteristics of the developer, the site, the project and the Local Authority can influence the speed of development approval. Whilst developers are responsible to transform the urbanscape, their activities are regulated by planners. In sum, developer characteristics and development control have significant influence over housing production (Ball, 2010b).

This suggests that the production of housing is directly linked to residential land supply. Adams (2008) does not make the distinction between the land and the property market in his analysis of the effect of planning and building regulations, implying that the control of the land market would correspondingly affect the property market. The supply of residential land may be directly traced to the permissiveness and efficiency of the planning system (Bramley, 1993, 1999; Bramley & Leishman, 2005a, 2005b; Leishman & Bramley, 2005). More specifically, Evans (1999) divided government intervention in the land market into development control and growth control, taking different forms from country to country, and even within countries. These studies conclude that a stringent planning environment that restricts the supply of residential land will also hamper the supply of housing and contribute to inflationary house prices.

In the past, policymakers tended to assume a unitary housing market at the national level, neglecting market disaggregation and dynamism caused by pre-existing social, economic, government and political institutions (Adams et al., 2005c). Monk & Whitehead explained that a unitary national land market is one whereby land supply restriction in one area can be substituted elsewhere, whereas a completely segmented market means that housing demand has to be completely met locally (1999, p. 77). Recent developments in property studies have confirmed disaggregation within the housing market due to institutional forms between and within countries (Ball, 2003b; Keogh & D'Arcy, 1999; McMaster & Watkins, 2006). Disaggregation of housing markets at the regional or local levels are caused by institutional factors including technological changes, factors of production, price and information costs, together with changes in idea, norms and values (Adams et al., 2005a). Each regional submarket may have distinctive procedures from other submarkets (Adams, 2008).

### **2.2.5 Commentary on institutional characteristics of the housing market**

Housing provision comprises activities of a range of actors beginning from the development (i.e. production) stage through to its consumption, exchange and management. In turn, these activities take place in a regulatory environment specific to a country. At the regional level, the effects of regulations may be conditioned by the disaggregation of housing markets and other pre-existing institutions (e.g. the political, social, economic and legal institutions) together with policies designed to influence the land market. In conclusion, this section has shown how low-income housing policy can be substantially influenced by institutional factors that exist in the land and housing market.

### **2.3 Institutions and markets in low-income housing provision**

The supply of low-income housing often necessitates state planning as the market has the tendency to underprovide for this housing segment. In a centrally planned supply system, interactions between the state and housing markets determine the success of policy interventions (Agus, 2002). According to Adams (2008), government interventions influence housing supply through its impact on industry players. It is the interactions between these housing agents and other institutional factors in the regulatory environment that influence state regulation deployed to control the provision of low-income housing.

The discussion of housing market characteristics in Section 2.2 indicates the prominence of institutions in the housing market. At this point, it is useful to provide a definition of institutions in the context of this thesis. These definitions are derived from both the economic and property perspectives.

Hodgson (1998, 2000, 2003, 2006, 2007) undertook to define institutions from an economics point of view. At its core, institutions are "systems of established and prevalent social rules that structure social interactions" (Hodgson, 2006, p. 2). With regard to the distinction between 'organisations' and 'institutions', generally organisations constitute entities whilst institutions are social rules but organisations may constitute institutions in some cases (Hodgson, 2006, pp. 17-18).

In property, Ball, Lizieri, & Macgregor (1998) somewhat concurred with the above definition of organisations (i.e. ‘players’) and institutions (i.e. ‘rules of the game’) but decided to compress the two concepts (i.e. ‘organisations and institutions’) into ‘institutions’ in their work. The authors deemed the usage of ‘institutions’ to represent ‘organisations and institutions’ to be acceptable because sufficient reference was made to the context. This thesis adopts the similar “casual approach to defining institutions” as “it is the easiest (approach) and corresponds to common sense views on what is an institution” (Ball, 1998, p. 1502).

Seabrooke & Hebe (2004) proposes that institutions in real estate encompass a wide range of tangible and intangible items. According to them, institutions include

*“...a characteristic group (e.g. developers, landowners, financiers), a practice (e.g. surveying, accountancy), a process (e.g. town planning, the process of law), a building that has a special, well-established place in society (e.g. a hospital, school, prison), a characteristic grouping of organisations (e.g. financial institutions, the Church), a sociological phenomenon (e.g. the institution of marriage), an enduring body of settled doctrine employed to regulate different legal relations, as in the ‘institution of property’.”(pp. 9-10)*

The relationships between the institutional environment and tangible and intangible institutions within the property market are shown by Keogh & D’Arcy (1999) in Figure 2.1. Tangible property institutions (actors) include developers and government agencies whilst intangible institutions (habits, norms or rules) may include property rights and land use and development control. The property market can be characterised by its political, social and legal environment that serve as the framework within which these tangible and intangible institutions operate. Nonetheless, the influence flows both ways in that the institutional environment shapes and is simultaneously being shaped by institutional actors and rules.

Figure 2.1 also indicates a reciprocal relationship between actors and rules, whereby the behaviour of actors are shaped by habits, norms and rules that become entrenched (i.e. institutionalised). In codifying the behaviour of actors, no distinction is made between the effects of formal rules (e.g. laws and regulations) and informal rules (e.g. habits and norms) on the behaviour, as long as the rules involve “durable systems” that structure the interactions of actors (Hodgson, 2006, p. 13). In addition, the roles and interests of actors define the rules that eventually dictate their behaviours (Han & Wang, 2003). Property studies that codify these normative (i.e. repetitive) behaviours (or habits) allow a deeper understanding of the processes within the market (Ball, 1998).

**Figure 2.1: The institutional hierarchy of property markets**

*Source: Keogh & D'Arcy (1999)*

From an epistemological point of view, an institutional approach in housing studies recognises that the habits or behaviours of market actors shape housing market outcomes (Ball, 1998). These habits or behaviours are complex forces that may frustrate assumptions of a unitary market or price, and other assumptions including perfect competition and rational behaviour of the mainstream neo-classical economics paradigm (Keogh & D'Arcy, 1999). Some of these forces may take place within the macroeconomic framework (Ball, 2003b), whilst some forces are produced by individuals or firms responding to opportunities and constraints at the micro-level (Ball, 2010b). These forces are generated by codifiable habits which institutional frameworks permit to capture for examination (Hodgson, 2006).

## 2.4 Effects of housing regulations

### 2.4.1 A discussion on selected housing regulations studies

According to UN-HABITAT (2011a), one of the factors contributing to low housing affordability in Asia is “the compliance costs and regulations surrounding formal housing development (that) are expensive and time consuming” (p. 25). However, the objectives of housing regulations discussed in Chapter 1 clearly indicated the socio-economic motivations behind the state regulation of housing, particularly in the area of low-income housing. Therefore, any studies that examine the effects of housing regulations must consider the social as well as the economic implications of regulations to avoid any wrong conclusions on the influence of regulations on housing provision.

Indeed, state regulation can determine the achievement of the country's low-cost housing policy whereby a restrictive regulatory environment can frustrate Federal targets and vice versa. A review of the Malaysian literature was undertaken to see if there have been any studies on Federal housing regulations. Except for the World Bank study in 1989 (see Hannah et al., 1989), no concerted empirical studies on the effect of housing regulations was discovered. In the area of housing regulations, Sufian & Ab. Rahman (2008) undertook a national-level examination of the efficacy of Malaysian building laws in ensuring 'quality housing'. In the area of low-cost housing provision, Agus's (2002) study revealed the problems of meeting low-cost housing supply projections at the country level due to inefficiencies in the development control system. Other studies examined the efficacy of housing PPPs in delivering low-cost housing in Malaysia (Abdul-Aziz & Jahn Kassim, 2010; Singaravelloo, 2010; Wan Abd Aziz & Hanif, 2005; Wan Abd Aziz et al., 2008); housing satisfaction among low-income homeowners (Abdul Karim, 2008; Hashim, Abdul Rahim, Syed Abdul Rashid, & Yahaya, 2006; Salleh, 2008) and various issues with Malaysian housing developers (Abdul Aziz & Ho, 2006; Jaafar, Abdul Aziz, & Ali, 2007; Yap, 1991; Zainul Abidin, 2010). The subject matter of this thesis is timely considering the low-cost housing aspirations contained in the recently formulated National Housing Policy.

Despite this lacuna in Malaysian literature, this subject has garnered attention amongst academics elsewhere. The body of literature examining the effects of housing regulations is immense. Since the late 1980s, various authors have undertaken studies of the housing regulations in the US (Berry, 2001; Clingermayer, 2004; Glaeser & Gyourko, 2002; Glaeser, Gyourko, & Saks, 2006; Ihlanfeldt, 2004; Mayer & Somerville, 2000; Mills, 2005; Nelson, Dawkins, & Sanchez, 2004; Nelson, Sanchez, & Dawkins, 2004; Pendall, 2000; Quigley & Raphael, 2004, 2005; Quigley & Rosenthal, 2005; Schill, 2005; Schuetz, 2009) and the UK (Bramley, 1993, 1998, 1999; Bramley & Leishman, 2005a, 2005b; Burgess & Monk, 2011; Cheshire & Sheppard, 1989, 1997, 2002, 2003; Crook et al., 2006; Monk, Pearce, & Whitehead, 1996; Monk et al., 2005; Monk & Whitehead, 1999). The World Bank has been actively undertaking similar studies in developing countries (see Bertaud & Brueckner, 2004; Bertaud & Malpezzi, 2001; Dowall & Clarke, 1996; Hannah et al., 1989; Malpezzi & Mayo, 1997; Mayo & Sheppard, 1996). The sheer volume of these studies and their recentness indicates that there is still much to be known about the effects of regulations on the housing market.

The review of the international literature indicated two main approaches in the examination of housing regulations. The first group represents the neo-classical econometric modelling tradition and forms the largest body of work on policy impact studies. This literature focuses on the extent to which planning policy “through its constraints on overall land supply...(can) lead to higher prices and densities (and)... restrictions in the quantity of homes supplied” (Adams, 2008, p. 4571). The second group of literature comes from the institutional perspective, which addresses the mainstream approach’s neglect of actors and their social relations and provides a deeper insight into the “less tangible social costs and benefits” of land and housing regulations (Adams, 2008, p. 4571). The next section discusses the principles that underpin the mainstream literature before highlighting its limitations in furthering the objectives of this thesis. Following this, the institutional approach will be discussed in detail as the alternative approach to examine regulations, focusing on the ‘structure of provision’ approach (Ball, 1983, 1986, 1998, 2003b) as the chosen framework for this thesis.

#### **2.4.2 The principles behind mainstream studies of housing regulations**

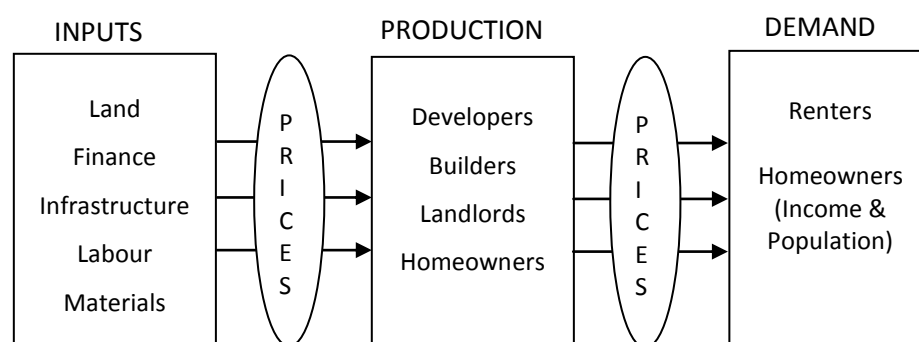
The core of mainstream studies of housing regulations is situated within the neo-classical economy paradigm. The mainstream literature “is theoretically underpinned by the rational man construct and the efficient market hypothesis and uses regression-based econometric techniques” to analyse price and quantity (Diaz III, 1999, p. 327). A key concept of this paradigm is that demand and supply are assumed to automatically adjust to any exogenous changes and reach a new equilibrium in the long run. As stated by Keivani & Werna (2001):

*“...demand for a commodity always increases as price falls and reduces as the price rises. On the other hand, supply always increases as price rises and reduces as price falls. In the long run, however, supply and demand reach an equilibrium point where the price is such that quantity demanded equals quantity supplied... (T)his control mechanism is an automatic self-functioning system which is highly sensitive and flexible to changes in the market behaviour of consumers and suppliers.”(pp. 94-95)*

The above ‘automatic self-functioning system’ within property market involves assumptions of property market efficiency, characterised by agents’ rational behaviour, perfect competition, perfect knowledge and no transaction cost (Keogh & D’Arcy, 1999). This econometric modelling approach is evident within the mainstream literature that examines the effects of housing regulation, such as in World Bank housing studies (Keivani & Werna, 2001).

Figure 2.2 shows a basic schematic diagram of the housing market operation guiding many analyses of state intervention in the past. It presents a linear flow from the inputs of production being assembled by supply side agents to produce the finished housing product, with input price being the determinant of the quantity of inputs used and housing price signalling the quantity of housing produced (Malpezzi, 1990, p. 973). Fundamentally, price and quantity are the focus of such analyses, whereby producers' decision on the price and quantity of housing to be built is dependent on the price and quantity of the factors of production (Keivani & Werna, 2001). The market is expected to adjust and reach a new equilibrium when there is a shift in demand or supply.

**Figure 2.2: The operation of housing markets according to the neo-classical econometric modelling approach**



*Source: Figure 1: How housing markets work, Malpezzi (1990)*

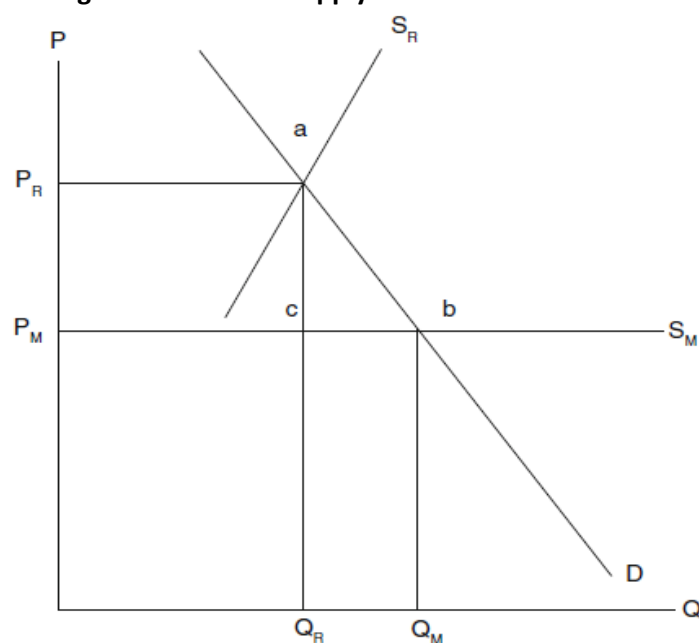
### 2.4.3 Price and quantity effects of regulations by mainstream studies

Using neo-classical econometric modelling as the main approach, the mainstream economic studies present a broad overview of the impact of regulations on house prices. By linking economic fundamentals with price, econometric models show how regulations add to total housing costs (see for instance Bertaud & Brueckner, 2004; Bertaud & Malpezzi, 2001; Bramley & Leishman, 2005a, 2005b; Malpezzi & Mayo, 1997). Regulations that govern planning, land use and the environment have been consistently demonstrated to inflate house prices by these models in terms of compliance costs and land supply constraints. Overall, this group of literature is similar in its main approach (econometric modelling) and result (unfavourable perception of regulation).



The World Bank has had a dominant influence over low-income housing policy in developing economies since 1972 (Arku & Harris, 2005). Figure 2.3 illustrates the basic effects of regulations as implied by a number of World Bank studies (see Bertaud & Brueckner, 2004; Bertaud & Malpezzi, 2001; Dowall & Clarke, 1996; Hannah et al., 1989; Malpezzi & Mayo, 1997; Mayo & Sheppard, 1996). Whitehead, et al.(2010) set out a simple version of the World Bank’s implicit model in explaining the effects of regulations on the housing market. In this model, housing supply under pure market conditions is presumed to be perfectly elastic ( $S_M$ ). Regulation causes inefficiencies, increases price and constrains land supply, resulting in an inelastic housing supply ( $S_R$ ). According to this theory, the price under a regulated market ( $P_R$ ) is higher than that in an unregulated market ( $P_M$ ) whilst producing a lower quantity ( $Q_R$ ) compared to an unregulated market ( $Q_M$ ). The ‘deadweight loss’ caused by regulations is represented by the triangle  $abc$ .

**Figure 2.3: The impact of regulation: Market supply elastic**



Source: Fig. 3.1, (Whitehead et al., 2010)

Market efficiency was the World Bank’s bottom line to ensure the efficacy of its ‘investments’ in developing economies (Pugh, 1991). It was observed that, “(the World) Bank policy advice has tended to be strongly market oriented... (including) getting rid of regulatory constraints” (Whitehead et al., 2010, p. 52) (i.e. the ‘deadweight loss’ in housing markets). The “systematic tendency to over-regulation” was perceived to lead to inefficiencies (cost inflation) and inequity (the poor rationed out by rent seeking behaviour in the housing market (Malpezzi, 1990, p. 1007). This underlying market efficiency objective resulted in the negative perception of regulations by World Bank economists.

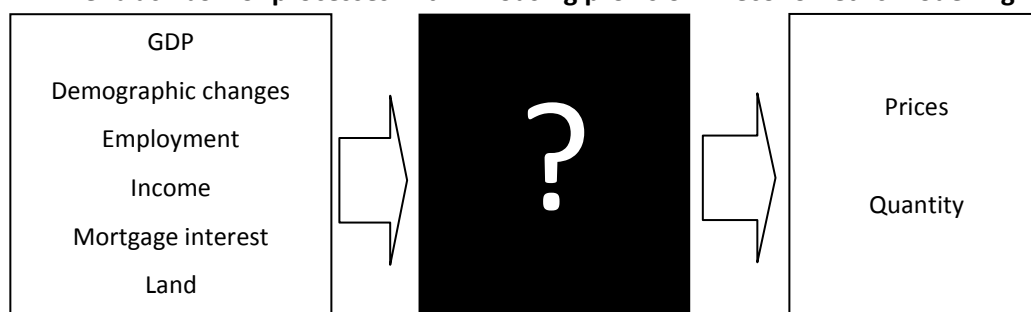
#### 2.4.4 Limitations of the mainstream approach in understanding market processes

Earlier on, it was established that the housing market involves tangible and intangible institutions that interact and shape each others' operations. The neo-classical econometric modelling of land and housing market phenomena has a tendency for "institutional neglect" (Ball, 1998, p. 1515), whereas its positivist-deductive approach employs assumptions in achieving its conclusions. As observed by Whitehead and Yates (2009):

*"The fundamentals behind economic thinking are about simplification and abstraction. These make it possible to identify significant relationships, to clarify the interdependences between determinants and to measure their importance in particular contexts. The cost of such simplification is that generally it is not possible to describe processes in detail. Instead, relationships and outcomes are analysed under well-defined assumptions."* (p. 2)

The main limitation of the mainstream approach in furthering the objectives of this thesis is in its neglect of the social relations in housing provision, whereas policy studies seek for "an understanding of the networked array of economic, political and social-cultural forces that govern them" (Satsangi, 2011, p. 400). The housing provision framework is characterised by "pre-existing institutional practices, market conditions and government policies" (Murphy, 2011) which may influence the way housing regulations are negotiated and enforced. As discussed in Section 2.2, the housing market is more complicated than what models represent. Property development is a "messy" business within which lies "the mysterious force of power" that constantly influence development processes, whilst the built environment is actually "steeped in history and local difference" that defeats assumptions of a unitary effect of policy at the regional level (Ball, 1998, p. 1501).

The discussion in Section 2.2 indicates that the actual operation of regulations depends on the mediation by actors and institutional dynamics. The manner in which the neo-classical econometric modelling approach effectively 'black-boxes' these process details is shown in Figure 2.4, firstly by assuming that firms operate in perfect competition (i.e. a market with many small firms using the same technology, perfect knowledge of the market and homogeneous products) and secondly assuming that firms operate on profit-maximisation objectives (Ball et al., 1998). Consequently, "many economic models have only limited, stylised, institutional behaviour" (Ball, 1998, p. 1506) and will not be able to explain the operations of institutions in detail.

**Figure 2.4: The 'black box' of processes within housing provision in econometric modelling**

*Source: Author*

Econometric modelling tends to measure the extent to which economic fundamentals (such as the GDP, demographic changes and employment) affect housing prices and quantity (see Figure 2.4). The interactions of the myriad actors and institutional structures involved in the market are mainly left unexplored in the ‘black box’ of market processes. Assumptions are made about market equilibrium and rational behaviour, so that the data can be used to fit the model rather than confirming the theory (McMaster & Watkins, 2006). This ‘black box’ hides the operations of institutions in housing provision, in the interest of simplifying processes.

In practice, the two assumptions made under modelling exercises can be difficult to sustain (Ball et al., 1998). The assumption of perfect competition among firms in the property market is problematic as firms tend to adopt “strategic behaviour” in their decision-making (Ball et al., 1998). Strategic behaviour involves adopting strategies that can “affect property market outcomes” that are mainly “positive” for the firms, especially in terms of earning “long-term above normal profit” (Ball et al., 1998, p. 106). For example, firms can rearrange their organisational structure, create a niche market, innovate, etc. This strategic behaviour is also adopted by planners, for instance, planners who wish to encourage more affordable housing can choose to expedite its progress (Ball, 2010b, p. 107). Additionally, individuals may adopt “opportunistic behaviour” within the organisation, for example by “making a career move against the interests of the firm or practice, or simply having a quiet life in the office” (Ball et al., 1998, p. 106).

The assumption of profit-maximising amongst firms may also be frustrated in practice. Non-maximisation behaviour may be displayed due to the limitations of available information and the “processing ability of the human brain”, causing decision-making to be based on “bounded information” (Ball et al., 1998, p. 107). An example of non-maximising behaviour is when firms opt to maximise sale instead of profits.

In the area of low-income housing in developing economies, the models have overlooked the lack of effective demand from low-income groups leading to underprovision by the market and the necessity for state intervention. An additional limitation of models is the failure to "to map underlying behavioural parameters" (Ball & Tsolacos, 2002, p. 21) of housing actors in developing economies, despite evidence of inefficiencies within the housebuilding sector in those countries (Harris & Arku, 2007). Furthermore, the models fail to reflect the complicated nature of the land markets in developing economies, characterised by ownership issues, traditional land allocation that may overlap Western-based land titling system and problems within the land administration system (UN-HABITAT, 2011a, pp. 32-33).

Analyses on the effects of actual deregulations of land and housing markets have highlighted the importance of some form of market control. In at least two developing countries (Chile and the Phillipines), the deregulation of housing land supply was found to inflate housing prices (Keivani & Werna, 2001, pp. 105-106) instead of reducing prices as suggested by literature (see Malpezzi, 1999). Evidence from these two countries attributed the soaring house prices mostly to unchecked speculative behaviour of private developers in search of increased profits. In both cases, relaxed regulations over land and housing markets and low-income housing, together with lenient building standards, not only led to the underprovision of housing for the urban poor, but also increased general house prices. Furthermore, regulations may be a less important cause of house price inflation compared to other factors such as scarcity and administrative failure factors (Whitehead et al., 2010).

## **2.5 Institutionalism to frame examinations of policy impacts on housing provision**

Bearing in mind the characteristics of the housing market (i.e. institution-driven), the limitations of economic models in explaining institutions in housing policy examinations and the reports on the effects of housing deregulation, the second group of literature on housing regulations offers an alternative to the mainstream approach. This second group of literature employs institutionalism as the main framework to analyse housing regulations. This thesis supports the argument that institutional approaches offer an alternative to mainstream econometric modelling especially in understanding the institutionalised behaviour and social relations of actors involved in producing low-cost housing. This section provides an overview of institutional approaches used in housing regulation studies before detailing the Structure of Provision (SOP) approach (Ball, 1983, 1986, 1998, 2003b) used to frame the analyses in this thesis.

There are significant variations within the institutional perspective. For example, the New Institutional Economics (NIE) focuses on issues such as transaction costs and institutional behaviour. In NIE, institutions are defined as “as both organisations per se and the rules, norms and traditions that govern and affect economic behaviour and policy formulation” (Gibb & Nygaard, 2006). NIE is concerned with how transactions costs affect the structure of governance and mode of organisation/production of goods and services (Coase, 1937) and whereby governance structures strive to minimising transaction costs is posited as a function of governance structures (Williamson, 1985).

This research aligns with the work of Hodgson and Samuels which are situated within the tradition of NIE’s focus on ‘rules, norms and traditions’. According to Hodgson, the study of institutions involves the examination of “human activity partly through the continuing production and reproduction of habits of thought and action” (1998, p. 180). Importantly, Hodgson (2000) supported the tradition of old institutional economics in the focus on the individual whereby “the individual is molded by social and institutional circumstances”<sup>14</sup> (p. 327). The analysis of individual habits can reveal “(c)onceptions of social power and learning” and become more useful to “address questions of structural change and economic development”, for instance “problems of less-developed economies” (Hodgson, 2000, p. 328). The examination of ‘human habits’ in institutional approaches is underpinned by the belief that the market in itself does not represent the economy (Samuels, 1995). Samuels (1995) explains that “the economy is fundamentally processual, involving a process through which things are worked out, not a transcendental mechanism imposing its will or enforcing some grand design or teleology on mankind” (p. 580). Institutional approaches focus on understanding the processes in the market through the social interactions of market agents.

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<sup>14</sup> American English spelling is preserved as per the original article.

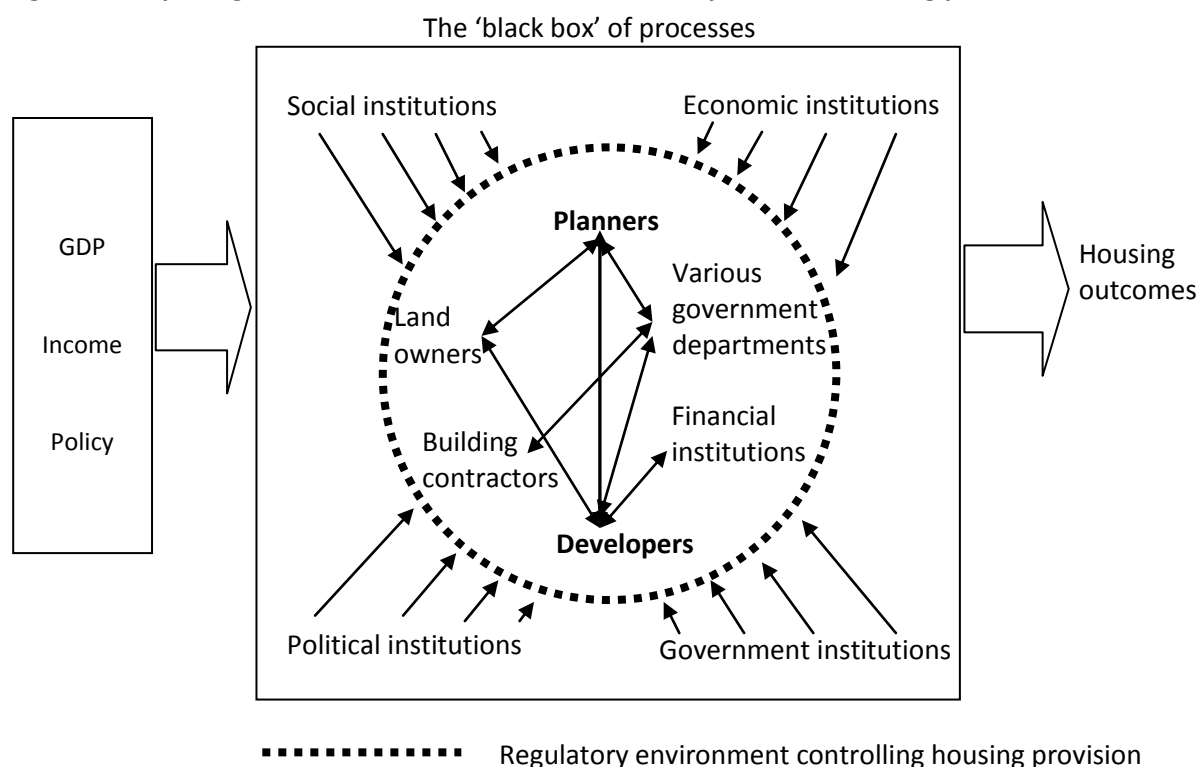
In his later work, Hodgson put an even greater stress on the study of habits, rather than organisations or the individual (Hodgson, 2006). Habit is defined as “a largely non-deliberative and self-actuating propensity to engage in a previously adopted pattern of behaviour” or “a form of self-sustaining, non-reflecting behaviour that arises in repetitive situations” (Hodgson, 1998, p. 178). In the context of this thesis, the ‘habits’ under examination are institutionalised knowledge or practices of individuals or organisations operating in the policy environment controlling low-cost housing provision. This examination of market processes in institutional approaches is seen to yield a “deeper answer” (Samuels, 1995, p. 571) to the phenomenon under study. Furthermore, the revealed knowledge is reliable as “(a)lthough changes in institutions and working rules occur frequently, they normally change slowly, through both non-deliberative (for example, habitual and customary) and deliberative (typically legal) modes” (Samuels, 1995, p. 573).

Institutional economists study and explain macroeconomic systems by examining “patterns and regularities of human behaviours” (Hodgson, 1998, p. 171). Institutional examinations of housing provision would first “uncover the underlying structural features of the system” using both quantitative and qualitative data before providing “the real causal linkages” that “could involve many factors including national cultural, political systems, and so on” that provides “an adequate causal explanation” (Hodgson, 1998, pp. 172-173).

Furthermore Hodgson explained that institutionalism shows “how specific groups of common habits are embedded in, and reinforced by, specific social institutions” (Hodgson, 1998, p. 169). The implementation process of housing policy involves the conveyance, interpretation and negotiation of policy between a number of actors within pre-existing legal, political and social environments. Thus, institutional dynamics in the policy environment are the force that shapes supply elasticity rather than the policy itself (Ball, 1998, 2003b). Institutionalism allows an analysis of how policy shapes the actual operations and interactions of actors in the housing provision process. In terms of the thesis, an institutional perspective enables an effective framing of the interrelation of market conditions, production characteristics, institutional structure and land supply within the regulatory regime controlling low-cost housing provision.

In Section 2.2, the role of institutions in shaping the housing market has been discussed at length. It has been shown in Section 2.4.4 how the mainstream economic modelling approach has the tendency to keep these institutional dynamics unexamined in the ‘black box’ of processes, thus providing a “partial analysis” of the impact of state intervention in the housing market (Adams, 2008, p. 4571). Figure 2.5 illustrates how institutional approaches open the ‘black box’ of housing market processes, revealing the institutional dynamics that shape the provision of housing in the regulatory environment tempered by the pre-existing social, economic, political and government institutions. The housing development process involves a number of actors including planners, developers, land owners, building contractors, various government agencies and financial institutions. These actors internalise extraneous factors, such as economic conditions (represented by the GDP and household incomes) and policy (including state regulation), in their operations and interactions. The resultant arbitration of policy by these actors and pre-existing institutions shapes housing outcomes (i.e. price and quantity) and in the case of low-cost housing, welfare and other non-tangible benefits for low-income groups.

**Figure 2.5: Opening the black box to reveal institutional dynamics in housing provision**



*Source: Author's analysis*

By "getting down into the trenches" i.e. "examining the particular sequence of events and institutions within particular industries, one can extract insights into the process... knowledge of a kind that cannot be deduced from some merely theoretical framework" (Rosenberg, 1994, p. 1). In the context of this thesis, an institutional analysis can assist in examining the actual behaviours of the key actors in the low-cost housing regulatory environment. This thesis focuses on the interactions between regulations and other institutions and economic behaviours of *planners* and *developers*, who represent the state and the market respectively (Adams, 2008). This would facilitate the question of *how* instead of merely *what* housing outcomes are produced in the given regulatory environment.

In sum, institutional approaches offer an alternative role to econometric modelling approaches in studies of policy effects. Whereas the mainstream economic modelling is useful in estimating outcomes of policy, an institutional analysis enables an insight into how policy can shape processes in the property market (Samuels, 1995; White & Allmendinger, 2003). Similarly, whilst econometric modelling may provide causality explanations and predict the future, the analysis of institutions may offer in-depth explanations that enrich the understanding of property market processes (Ball et al., 1998).

### **2.5.1 Selected institutional approaches in property studies**

Since the 1980s, prominent property researchers have adopted institutional approaches to examine a multitude of issues in various segments of the property market. Adams, et al. (2005a) went further to state that institutionalism has permeated the mainstream economics in explaining state-market issues in property. The property industry has also acknowledged the viability of institutionalism. For instance, RICS has published a number of books over the years that have adopted institutionalism as the research framework (see for instance Ball, 2006; Ball et al., 1998; Seabrooke & Hebe, 2004). Therefore, the value of institutionalism as a research methodology in property studies has long been established and accepted by both property academics and industry professionals.

Ball (1998) explains that in property studies, mainstream economics do offer a limited degree of institutional theories but stronger explanations of institutions are offered by "non-mainstream economic approaches" comprising power, structure-agency and structures of building provision (or structures of provision). The robustness of institutional approaches means there are now many ways "to look at institutions", with some non-mainstream economic approaches more likely to "disregard theory" while "others interpret their analysis of institutions in distinctive ways" (Ball, 1998, p. 1515).



Table 2.1 illustrates the diversity in institutional approaches used in numerous property studies. Among others, institutional perspective has been used to explain housing market performance (Burke & Hulse, 2010; Murphy, 2011), land development issues (Healey, 1992, 1998; Healey & Barrett, 1990), property investment decision-making processes (Guy & Henneberry, 2000) and affordable housing policy (Burgess et al., 2011; Crook et al., 2006; Monk et al., 2005). Institutional approaches have also been used to explain property market issues in various countries such as the UK (see for instance Ball, 1998, 2010b; Guy & Henneberry, 2000; Satsangi, 2005; Satsangi & Dunmore, 2003), Australia (Burke & Hulse, 2010), New Zealand (Murphy, 2011), China (Han & Wang, 2003) and Turkey (Turk & Altes, 2010). In the context of developing economies, Keivani & Werna (2001) undertook an analysis of the modes of housing production across a large number of countries. It can be seen how institutionalism has enabled examinations into a broad range of issues in property research, where the focus is on the “relationships, organisations, rules, cultures and ways of thinking” within the market (Adams, 2008, p. 4570). More importantly, the range of studies strongly suggest that institutions do matter in property and the approaches that highlight institutions can reveal the actual operations of the property market (Ball et al., 1998).

**Table 2.1: Selected institutional analysis of the property market**

<b>Authors</b>	<b>Issues in property research</b>
Ball (1986; Ball & Harloe, 1992)	Provision of housing and affordable housing.
Crook & Kemp (2002) Satsangi (2005)	Understanding the failure of Housing Investment Trusts. Non-pecuniary factors influencing the structure of rental housing provision.
Burke & Hulse (2010) Murphy (2011)	Understanding how the Australian housing system has shaped housing affordability problems. The effects of the global financial crisis on the New Zealand and Australian housing markets.
Healey (1990, 1991, 1992; Healey & Barrett, 1990)	Analysis of land development, property-led urban regeneration.
Keivani & Werna (2001)	Analysis of modes of housing provision in developing countries.
Turk & Altes (2010)	Land development process on greenfield sites in Istanbul, Turkey
van der Krabben & Lambooy (1993)	Spatial and economic structures in property development process.
Guy & Henneberry (2000, 2002)	Integrating social and economic considerations into property investment decisions.
Han & Wang (2003)	Institutional structure of a property market in Chongqing, China.
Crook, et al. (2006), Whitehead (2007) and Burgess & Monk (2011)	The effectiveness of S106 planning obligation in producing affordable housing in south England.
Doak & Karadimitiou (2007)	Economic and social aspects of property redevelopment (case study of Paddington, London).

*Source: Author's analysis*

As stated by Ball, the choice of adopting an institutional approach requires understanding “what conditions require an institutional perspective and what do not” (Ball, 1998, p. 1515). In the context of this thesis, an institutional approach is needed to negotiate the complex Malaysian housing market in analysing the effects of state regulation. In the context of low-cost housing provision, the central plan-based system gives rise to not only interactions between government agents and the private sector but also between the hierarchy of Federal, State and Local governments. In addition, the variety in the low-cost housing delivery methods available in the study area (see Chapter 5) also supports the appropriateness of institutionalism as a tool of analysis.

### **2.5.2 The application of the Structure of Provision (SOP) approach in this thesis**

As indicated in the previous section, there are several institutional approaches in property research. This thesis adopts the Structure of Provision (SOP) approach proposed by Ball (1983, 1986, 1998, 2003b) as the basic research framework. This section discusses the rationale behind the choice of SOP as the research approach for this study, its definition and its previous usage in property studies.

The SOP has been critically discussed by authors. Ball (1986, 1998) himself has indicated that whereas the SOP provides a tool for examining housing and indeed other property issues, the SOP is not a complete theory in itself and must be supplemented with other theories. The usefulness of the SOP as a framework of analysis but not as a complete theory was supported in Payne (2009). Payne adopted the SOP in demonstrating the linkages between the internal firm competencies and external policy change in brownfield development in the UK, but further used the “core competence approach” to explain UK developers’ business strategies. However, Satsangi (2005) states that the SOP approach has two advantages over other institutional approaches. Firstly, the ever changing nature of structures is taken into account by the temporally and spatially specific character of the SOP. Secondly, the SOP does not make any claim of universality, but merely provides a framework for analysis. In sum, the SOP is useful in terms of analysis of national policy at a regional context but must be supported with appropriate theories.

According to Adams et al. (2005a), there are three institutional features of the land and property market that should determine the analysis of public policy:

*“First is the formal rules within which transactions occur, which may be directly or indirectly determined by processes of governance. Second is informal conventions or the unwritten ‘rules of the game’ that may also be affected by policy decisions. Third is the network of relationships between market operators (agents) and the extent to which policy induces the development of trust and the creation of other forms of social capital within the marketplace.”(p. 38)*

This thesis argues that the adoption of the SOP as the main research approach in this study can address the three issues above. The SOP allows the researcher to simultaneously examine low-cost housing regulations (i.e. “the formal rules”), behaviour of agents (i.e. “the unwritten ‘rules of the game’”) and the interactions between key agents [i.e. “the network of relationships between market operators (agents)”]. This provides the justification for the approach adopted in this thesis.

Ball (1983) describes the framework for the Structure of Provision (SOP)<sup>15</sup> as

*“... the product of particular, historically determined social relations associated with the physical processes of land development, building production, the transfer of the completed dwelling to its final user and its subsequent use” (p. 17).*

In the context of housing, an SOP is defined as “an historically given process of providing and reproducing the physical entity, housing; focusing on the social agents essential to that process and the relations between them” (Ball, 1986, p. 158). The focus is on “the contemporary network of relationships associated with the (housing) provision ...embodied within the organisations associated with that type of building provision, and they may take a market or a non-market form” (Ball, 1983, p. 1513).

According to Ball, et al. (1998), “(i)nstitutions, organisations and markets may all be part of structures of provision, because of the mutual influence of each on the others” (Ball et al., 1998, p. 130). The SOP approach does not strive to separately define the structure and the organisations operating within it, but focuses on the organisations and their relationships (Ball et al., 1998). The SOP framework supports the economics perspective of institutionalism that does not seek to examine actors and structures in isolation (cf. Healey & Barrett, 1990) but acknowledges the linked concepts of habit and institution, as espoused by Hodgson (1998, 2006). Furthermore, “(a)gents are part of the structure of provision” whereby it is “possible for agent behaviour to alter an SOP” (Ball et al., 1998, p. 130), supporting that agents may influence and are themselves influenced by institutions (Hodgson, 1998, 2006).

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<sup>15</sup> Variations of this phrase can be found in Ball’s work, i.e. the ‘structure of housing provision’ in Ball (1983) and ‘structures of building provision’ in Ball (1998). The ‘structure of provision’ (SOP) has been consistently used by other authors and in contemporary work by Ball. This thesis adopts SOP.

Basically, the SOP approach concerns identifying the main organisations involved in the provision of housing and their interrelations (Ball & Harloe, 1992; Ball et al., 1998). In housing, these organisations or actors are represented by those involved in “landownership, relations of production, exchange agencies (where they exist) and housing consumers”, comprising actors whose involvements have a direct bearing on the housing provision process (Ball, 1986, p. 160). The context is categorically economic and may include actors with interconnections of “varying relations of power and of domination and subordination” (Ball, 1986, p. 158). In the context of low-cost housing production in Malaysia, the actors may include planners, developers, various government departments at the State and Federal levels, financial institutions, land owners and building contractors.

This approach recognises the spatial and temporal boundaries of the housing market, as “structures of provision are historical products and cannot be isolated from their contemporary environment” (Ball, 1986, p. 163). Thus, a property type may have different SOPs between countries and even several SOPs nationally at one point in time (Ball et al., 1998). Among institutional factors that may influence the composition of SOPs include the legal structure, the local housebuilding industry, local building material and economies of scale (Ball, 2003b). These institutional factors and also “changes in technologies, tastes and policies and the strategies of the institutions involved” result in continual change of SOPs (Ball et al., 1998, p. 131).

Identification of the SOP is a prelude to analysis of interrelations between regulations, institutional structures and actors (Ball, 2003b). By unpacking the contemporary network of relevant actors and relationships, the SOP approach can reveal the actual economic behaviours of actors in the regulatory environment. Crucially, the SOP approach is not a stand-alone theory of housing provision and must be supplemented with other theories (Ball, 1998, 2002, 2003b, 2010a). Indeed, Ball has incorporated neo-classical economic theories with the SOP framework when examining the effects of planning on housing supply (Ball, 2003b, 2010a) and ‘negotiation theory’ in his analysis of a UK urban regeneration exercise (Ball, 2004).

The SOP has been adopted to frame a number of property analyses. Burke & Hulse used the structure of owner occupied housing to frame a reflexive analysis of the affordability situation of the Australian housing market based on the country's economic, social and political changes (Burke & Hulse, 2010). More recently, Murphy (2011) adopted this approach in examining why the New Zealand and Australian housing markets were less severely affected by the Global Financial Crisis (GFC). According to Murphy, the pre-existing institutional structure of housing finance and different policy responses in those countries have mediated repercussions from the GFC and could even lead to a new boom. Crook & Kemp (2002) used the structure of provision of the UK-based Housing Investment Trust (HIT) as the framework to examine its failure. Senior staff from 27 financial institutions were interviewed to gain an insight into the "organisational perceptions, policy and experience" (Crook & Kemp, 2002, p. 743). On the other hand, Satsangi (2005) used a questionnaire survey to elicit the attitude of private landlords within the structure of affordable housing provision in rural Scotland. The SOP has also been used to frame the study by Adams et al. (2009) in examining the land bidding behaviour of developers and Adams et al. (2012) in the role of networks among developers in securing future land supplies.

In terms of levels of analysis, Ball has employed the SOP to frame macro, meso and micro analyses of the property market in a number of separate studies. In the macro-level examination of the housebuilding industry, Ball stated that "housebuilding takes on a number of institutional forms across and within countries" (Ball, 2003b, p. 901) due to imperfect information within the market and strategies adopted by these firms. He also cited the legal environment as a major determinant of the structure of the housebuilding industry. At the meso-level, the SOP was used by Ball to examine the operation of planners and developers in influencing the housing supply in South England (Ball, 2010b). He used the planning process time as an indicator of planner efficiency, but did not examine the behaviours of planners and developers in detail. However, Ball did suggest that planners may have adopted "strategic behaviour responses" in processing planning applications such as "increasing the number of rejections or asking developers to withdraw and resubmit applications" to meet benchmark targets (Ball, 2010b, p. 12). Finally, Ball has adopted the SOP to analyse case studies of urban regeneration developments in London at the micro-level (Ball, 2004; Ball, Le Ny, & Maginn, 2003; Ball & Maginn, 2005). Drawing on interview data, these studies tackled issues of community participation (Ball, 2004), synergy between the private and public sector (Ball et al., 2003) and the wider effects of public-private partnerships on urban change (Ball & Maginn, 2005) in the context of urban regeneration.

Researcher judgement is crucial in deciding the institutions and relations to be included in the SOP, which depends on the research questions being asked (Ball et al., 1998). Ball (1986) describes housing provision to include production, exchange and consumption whilst Burke & Hulse (2010) further adds management as the fourth aspect of provision. This thesis focuses on the production aspect of low-cost housing in Malaysia.

## **2.6 Planner and developer behaviours**

As stated above, the SOP approach is not a stand-alone housing theory. Whereas the structure of low-cost housing provision provides a framework for analysis in this thesis, outcomes of the regulatory environment are “the consequence of specific market conditions and development processes” (Adams, 2008, p. 4573). Therefore, the SOP must be combined with wider social theories, methodologies of empirical investigation or statistical analysis.

The effects of regulations may be inferred from the economic behaviour of key actors and the actual housing outcomes produced by actors’ interactions. In the context of this thesis, the institutional approach is based on a theory of human behaviour building on the concepts of habits as suggested by Hodgson (1998, 2000, 2006). As a social science discipline, “(t)he essence of property is human behaviour”, and examinations that seek to *know* and *understand* property activities should involve observations of human behaviour (Diaz III, 1999, pp. 326-327). Diaz’s argument is supported by Hodgson who states that “institutions mold, and are molded by, human action”<sup>16</sup> (Hodgson, 1998, p. 181).

Whilst there are a number of actors involved in producing low-cost housing, fundamentally its supply depends on developers and planners. Ball (2003b, 2010b) shows how the operations of planners and developers determine the responsiveness of the supply side in meeting housing demands. Central to this thesis, the interactions between these two key housing actors (developers and planners) give rise to the regulatory environment controlling the provision of low-cost housing. Moreover, the behaviours of planners and developers in the regulatory environment have a substantial bearing on the final outputs of low-cost housing regulations. Therefore, the examination of the institutionalised perceptions and practices of planners and developers can facilitate a multi-tiered examination of the effects of low-cost housing regulations.

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<sup>16</sup> American English spelling is preserved as per the original article.

### 2.6.1 Planner behaviour

A number of international studies have examined the ‘habits’ or institutionalised perceptions and practices of planners. A review of this literature revealed that planner behaviour is determined by interactions with other institutions and is also informed by personal experience and knowledge. Ball (2010b) recognised that the institutional characteristics of the Local Authority and adoption of strategic behaviour are two factors that can influence planner operations. In the first area, organisational cultures, Local Authority size and development control staff are identified as having substantial control over the “essentially a standard set of development control procedures” (Ball, 2010b, p. 7). In the second area, planners wishing to boost affordable housing supply in the area may expedite such development process while giving less attention to other types of development (Ball, 2010b). On top of these two factors, issues with personnel may influence the efficiency of planners (Ball, 2010b)

In housing development, the general reaction of the planning system toward housing demand pressures may be characterised as ‘accommodationist’ (relaxing stringency to enable more housing supply) and ‘obstructionist’ (increasing vigilance against development sprawl) (Mayo & Sheppard, 2001, p. 125). Accommodationist behaviour should increase the supply of housing to meet the demand, whilst obstructionist behaviour should reduce the elasticity of housing supply.

This section focuses on the UK planning literature due to the similarity in the UK and the Malaysian planning systems. There is a significant body of UK literature that reports on planner behaviours. Flexibility is a noticeable feature of UK development control, evident in the actual implementation of supposedly uniform guidelines and procedures (Monk et al., 2005; Monk & Whitehead, 1999; Tiesdell & Allmendinger, 2005). The flexibility in the planning system is necessary for the complex development process. According to Cullingworth and Nadin (2006), the planning system needs to have an in-built discretionary mechanism to reflect changing circumstances during plan implementation. A high level of discretionary decision-making capability is typified by UK local planning authorities, a power that can significantly alter the supply of housing (Ball, 2010b; Cheshire & Sheppard, 1989; Satsangi & Dunmore, 2003; White & Allmendinger, 2003).

Negotiation is another characteristic of contemporary town planning (Cullingworth & Nadin, 2006; Monk & Whitehead, 1999). Ball described British planners as ‘mediators’ of conflicts between the local community and developers in commercial property developments (1998, p. 1507). In urban regeneration, the planner plays the role of the middle-man who must arbitrate the different requirements from various public interest groups and the developer to ensure project success (Ball & Maginn, 2005). Burgess & Monk (2011) identified negotiation and monitoring as two crucial elements in the successful implementation of Section 106 planning agreements in the UK, suggesting that these skills would be more productive than introducing a new mechanism to elicit planning contributions from developers.

Political influence may have a direct bearing on planners’ decision-making behaviour. This may arise as a result of interactions with local politicians, local community and various government departments. The combination of economic and political environments of the local housing market, moderated by negotiations with developers, has been suggested as a driving force behind local planning (Monk & Whitehead, 1999, p. 89), with political considerations sometimes overriding planning objectives (Campbell & Marshall, 2000). A strong public interest motivation has influenced the behaviour of British planners, whereby planning decisions are directed by ‘elected members’, especially pertaining to affordable housing (Campbell & Marshall, 2000, p. 304). Other political considerations of low-income housing are NIMBYism among the local public and interdepartmental tensions regarding funding allocation (Monk & Whitehead, 1999). Socio-economic realities, such as poverty due to lack of economic activities in the area, often favour development when there are conflicts between different interests (Cullingworth & Nadin, 2006; Monk & Whitehead, 1999).

The above factors result in ‘stochastic development controls’ in UK planning, whereby the decision-making process in planning reflects ‘human decisions’ that are difficult to be anticipated and uncertain in terms of fulfilling developers’ expectations, leading to “some randomness in the behaviour of the planning authority” (Mayo & Sheppard, 2001, p. 110). However, the UK literature also indicates a limited allowance for flexibility, negotiation and political input in affordable housing provision. British planners have been shown to be more strict in enforcing Section 106 agreements despite unfavourable economic conditions (Burgess & Monk, 2011). This is to avoid the perception of lax enforcement which may trigger other non-compliance among developers. NIMBYism also has a limited effect on the location of low-income housing, as the provision of affordable housing is expressly specified in most statutory development plans that guide local planners in the UK (Monk et al., 2005).



Notwithstanding planners' general support for affordable housing, some motivations may prevent them from pursuing the affordable housing policy. The lack of political will among UK planners in implementing Section 106 has been previously reported (Evans, 2009; Monk et al., 2005). Evans stated that the flexibility in the Section 106 affordable housing agreement (which operates on negotiation and agreement between planners and developers) caused the insistence of a lower target percentage of affordable housing by some Local Authorities as they "may have, from their point of view, more important policy objectives than the provision of affordable housing" (Evans, 2009, p. 6). Evans (2009) cited a case whereby planners preferred cash contributions than affordable housing, waiving the affordable housing requirement in lieu of a cash contribution based on negotiations with the developer.

Studies offering insights into the Malaysian planning system mainly present the operations of planners as a by-product of the main research. An exception was Rameli's (2009) study on how the practice of planners had contributed in the housing supply overhang in Johor. Among others, it was found that Local Authority planners adopted an inefficient method to project local housing demands. Mohd et al. (2009) surveyed developers' perceptions of the operation of the planning system. Developers stated that development was hampered by lengthy and inefficient development plans, weak planning administration and excessive requirements by technical agencies and seemingly unfair planning decisions.

### **2.6.2 Developer behaviour**

Similarly, a number of international studies have examined developers' habits or institutionalised perceptions and practices of developers (Adams et al., 2009; Adams et al., 2012). According to Coiacetto (2001), developers are a diverse, non-homogeneous group. At a micro-level, the diversity of developers' behaviour is argued to be analogous with the natural world where human-agents display a myriad of motivations in the decision-making process.

Notwithstanding the above diversity in developer's behaviour, literature from both developed and developing economies has indicated a general speculative behaviour of developers. The underperforming new housing supply in England was also linked to developers' profit-seeking activities (Monk & Whitehead, 1999). Monk & Whitehead (1999) showed how developers exacerbated the housing boom and subsequent slump in an underdeveloped local market due to their speculative activities.

Developers' speculative activities have caused disastrous results for the deregulated housing markets in Chile and the Philippines (Keivani & Werna, 2001). In the case of Chile, the housing market was deregulated from 1972 to 1984 following the government's intensive construction of low and medium-income housing from 1971-1973 (Duran & Soza, 1987 in Keivani & Werna, 2001). The market was intended to build for medium and high-income groups and self-regulate in terms of price, credit and interest rate control (Duran & Soza, 1987 in Keivani & Werna, 2001). In the end, even high-income groups could not afford the market price as evident in 15,000 unsold high-end residential units in Greater Santiago (Duran & Soza, 1987 in Keivani & Werna, 2001). Credit deregulation caused a house buyer to pay a real interest rate of 269.68% over twelve years (Duran & Soza, 1987 in Keivani & Werna, 2001). Finally, the deregulation resulted in speculative urban and some rural land purchases by developers for the purpose of land banks in the search for increased future profits, further reducing affordability (Duran & Soza, 1987 in Keivani & Werna, 2001).

In the Philippines, the land and housing market was characterised by minimal state regulations, relaxed low-cost housing regulations and good institutional and technological capacity and capability (Strassmann, 1994 in Keivani & Werna, 2001). Despite all these market enabling situations, large amounts of land in the city of Manila were left undeveloped due to speculative activities and very minimal taxation on vacant land (Strassmann, 1994 in Keivani & Werna, 2001). Furthermore, half of the low-income households could not afford the cheapest private housing due to high land and house prices (Strassmann, 1994 in Keivani & Werna, 2001).

At the macro-level, the characteristics of the local housebuilding industry have a significant effect on the housing market performance (see Ball, 2003a, 2003b, 2006). Countries have "different ways of organising the housing development process (which) are associated with distinct housing outcomes" (Ball, 2003b, p. 904). Furthermore, the housebuilding industry can differ "across and within countries" due to different "housebuilding market contexts, prevailing technologies, input costs and input availability" (2003b, p. 898). For instance, differences in the level of technology and local building material may determine the rate of local developers' response in meeting local housing demand (Ball, 2003b).

The level of developers' regulatory compliance may be linked to their profit-motivation. Ball states that "firms adopt strategies and, from experience, know that they are important in determining profit outcomes" (2003b, p. 898). In practice, incomplete information of property markets causes firms to adopt 'strategic' and 'opportunistic' behaviour which will be institutionalised (Ball et al., 1998). For instance, developers who possess skilled personnel or have had previous interactions with a particular Local Authority and major developers who have the resources to keep amending and re-submitting their application to meet the requirements of the local planner may experience shorter planning delays than other developers (Ball, 2010b, p. 8).

Developers are likely to display strategic behaviours underpinned by long-term profit seeking tendencies when faced with mandatory affordable housing requirement. Evans (2009) discussed how the Section 106 agreement has produced a "strategy of avoidance" among London developers:

*"The reasons why the proportion of total affordable housing permissions is less than half the target are likely to several. The most important is that the target only applies to 'large' housing developments. What is defined as 'large' varies from Local Authority to Local Authority and between ten and twenty five units, but the economic effect remains the same. Developers will find smaller schemes much more profitable than larger since no affordable housing has to be provided. As an implicit tax the affordable housing requirement is a disincentive to building larger schemes. A developer acquiring a site on which a few flats can be constructed has no incentive whatsoever to extend the site to build a few more. After all a developer building ten flats in a London suburb can build ten flats for sale on the market. The fifty per cent rule in London would mean that if the site were doubled in size so that a further ten flats can be built, they would all have to be affordable and would not add to total profits, indeed would reduce them."*(pp. 5-6)

Even if developers do not adopt avoidance strategies, various studies have shown that developers still engage in building mandatory affordable housing to obtain profits from the whole development (Burgess et al., 2011; Crook et al., 2006; Monk et al., 2005; Wan Abd Aziz & Hanif, 2005; Wan Abd Aziz et al., 2008). This reflects that the profits from the development are still significant despite being forced to build low-cost housing. Indeed, Dubben & Williams used the residual method of valuation to show that despite having to provide for Section 106 costs, even "if the landowner is reluctant to sell, the developer is able to make an increased offer for the site and still show an acceptable profit" (2009, p. 219). In other words, the 'restrictive' housing regulation poses no deterrent to the developer as long as the loss from the unprofitable housing component can be cross-subsidised with gains from the commercial component of the development.

In terms of approach, there has been a general trend in examining the actual practices of planners, rather than relying on models to explain the behaviour of developers. For instance, Leishman et al. (2000) used a model of speculative developer behaviour to explain how they internalise uncertainty in their operations. Recently, Adams, et al. (2009) and Adams et al. (2012) adopted Ball's Structure of Provision (SOP) thesis to frame in-depth analyses of developers' behaviours. Adams, et al. (2009) used a questionnaire survey and semi-structured interviews to gather primary data whereas Adams et al. (2012) conducted in-depth interviews with senior representatives of major UK developers. Importantly, Adams et al. (2012) empirically showed how the "networks of rules, conventions and relationships" (p. 719) that exist in practice play a role in securing future land supplies for developers.

There has been sparse literature on private Malaysian housing developers. Although outdated, Yap (1991) provided the most comprehensive overview of private developers in Malaysia. Certainly private Malaysian developers also have the tendency to cater for the profitable segments of the market. The private sector housing developers have been described as having "a capitalistic nature... one in which production is directed in those localities which ensure maximum profit production" e.g. west coast States, particularly Selangor (Yap, 1991, p. 121). There has been "lack of enthusiasm in low-income projects" (Yap, 1991, p. 122), which led to the implementation of low-cost housing quota requirement in the 1980s. Abdul Aziz & Ho (2006) found that developers' relationship with Local Authorities and developers' management expertise and experience determined their competitiveness. Furthermore, cost concerns were identified as a barrier to sustainable construction practices among Malaysian developers (Zainul Abidin, 2010).

### **2.6.3 Commentary on the behaviour of planners and developers**

In sum, actors' behaviour can determine the outcomes of state regulation in the area of low-cost housing. Planning decisions reflect human-decisions that contain elements of flexibility and negotiation which can influence planning outcomes. These factors together with external pressure from politicians, the public and other departments lead to 'stochastic development controls', where planning decisions can be perceived as random and uncertain by some authors (see for instance Mayo & Sheppard, 2001). Yet the discretion exercised by planners can allow for an interpretation of regulations that can bring about net benefits to the society (e.g. ensuring the quality aspect of low-cost housing whilst at the same time ensuring the economic sustainability of developers).

Generally, developers are speculative organisations that seek profits in their operations. Evidence from developing countries has shown that in practice deregulated housing markets only exacerbate the speculative tendencies of private developers. The result of deregulation in at least two countries was not only underprovision of low-income housing but also the worsening of housing affordability among higher-income groups. Central to this thesis is the need to examine and identify the strategies adopted by developer firms in ensuring their profits, which include complying with conditions to build low-income housing in their new housing developments. Indeed, the above review of literature indicates that strategic behaviour is not only displayed by firms (Ball et al., 1998), but also by planners (Ball, 2010b).

## **2.7 Chapter conclusions**

In both developed and developing economies, the provision of low-income housing has to be mandated on the market by the state. This intervention fosters housing and non-housing benefits among low-income groups and society. More importantly, these policies address potential externalities of inadequate low-income housing provision on society. However, notwithstanding the state's policy on low-income housing, there exists a multitude of actors and a number of institutional structures within the housing provision framework. The effects of regulations may be mediated by the operation of these actors and institutions. The main approach of previous examinations into the effects of housing regulations has disregarded housing provision processes. This has resulted in partial explanations of the effects of housing regulations. Consequently, the Malaysian housing market was described as possessing a 'stringent' regulatory environment which had led to a low elasticity of supply.

The main objective of this thesis is to understand how housing regulations affect the provision of low-cost housing in Malaysia. Accordingly, this thesis draws on institutional approaches to open the 'black box' of actors' roles, perceptions, behaviours and experiences in the mediation of housing regulations. The institutional 'structure of provision' approach is established as the research framework. Within the structure of low-cost housing provision in Malaysia, key actors must interpret and negotiate regulations to achieve their own organisational objectives. As with other property development ventures, key actors involved in the production of housing are planners and developers. The mediation of regulations by planners and developers result in housing outcomes. The next chapter will outline the research design adopted to examine how regulations have shaped the provision of low-cost housing in the study area.

## Chapter 3: Research methodology

### 3.1 Introduction

This thesis aims to examine how housing regulations shape the provision of low-cost housing in the previously understudied State of Terengganu, Malaysia. Based on a critical review of relevant literature, an institutional approach was adopted to frame the research in line with previous studies that have sought to explain development processes (Adams et al., 2005a; Ball, 1998; Healey, 1990, 1992, 1998; Healey & Barrett, 1990) and the impact of policy on the property market (Adams, 2008; Adams et al., 2005a, 2005c). This chapter presents the methodology adopted in this thesis, as framed by the conceptual framework discussed in the previous chapter.

The Structure of Provision (SOP) approach (Ball, 1983, 1986, 1998, 2003b) was chosen as the underlying research framework for this thesis. This thesis argues that the interaction of actors and the influence of the legal, government and political institutions with the regulatory environment shape the manner of implementation and outputs of low-cost housing policies. In order to gain a more comprehensive view of the effects of low-cost housing regulations, an innovative research design was adopted. The three-tier approach in this thesis not only documents the regulatory context but also traces the impacts of policies through the key housing actors (i.e. planners and developers), to specific low-cost housing developments. The methodology is designed to enable the researcher to reveal the institutionalised behaviour of key actors in the given low-cost housing regulatory regime and the resulting outcomes of the actors' economic behaviours.

Since this study was motivated by the desire to understand the actual operation of actors involved in the provision of low-cost housing, the choice of research instruments was biased towards methods that would yield explanatory qualitative data. In studying how regulations shape the low-cost housing development process, this thesis employed a qualitative approach to enable “detailed understandings of processes” (Dan & Kalof, 2008, p. 80). The primary data was obtained from semi-structured interviews with key informants directly situated within the low-cost housing provision system. The secondary data was derived from the analysis of various restricted housing files at the State housing department, government publications and websites, published statutes and newspaper articles.

As supported by literature, this thesis argues that the researcher's positionality can augment the planning and execution of the research design (see Satsangi, 2011). Firstly, my academic and professional backgrounds in Malaysian property law assisted the compilation and review of various regulations for the overall analysis of low-cost housing regulations. Secondly, my previous working experience in the Terengganu property market helped to identify and locate key actors involved in the provision of low-cost housing and also to select housing developments for the examination of the impact of regulations. Finally, my personal background and understanding of the local dialect and customs significantly improved the data collection process in general.

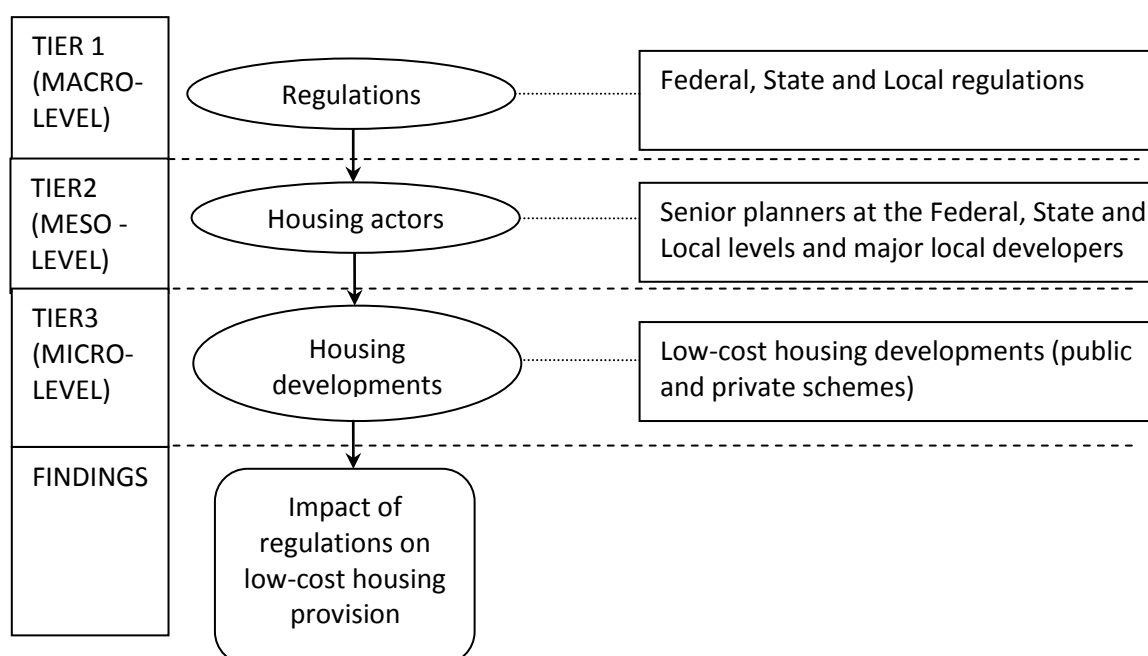
This chapter is structured in three main parts. The first section gives an overview of the three-tier analysis of low-cost housing regulations adopted in this thesis, including an overview of interview details. The second section discusses the pilot study. The third section provides details of the methodology of the main study. Basically, this thesis examined the impact of low-cost housing regulations at three levels, i.e. the macro, meso and micro levels. The macro analysis aims to show the diversity of sources of housing regulations and the implication of this diversity. The meso analysis examines how these different regulations were interpreted, mediated and implemented by planners and developers. Finally, the micro analysis examines selected case studies of low-cost housing developments. The SOP framework enabled the researcher to examine the behaviours of key agents in internalising low-cost housing regulations and the interactions of the regulatory structure with legal, government and political institutions. This three-tier examination results in a more complete understanding of the actual operation of state regulations in the housing market.

### **3.2 Research design**

The research design was formulated as part of the research proposal that was presented to the Department of Property, University of Auckland Business School on 17 July 2009. A three-tier analysis of regulations was proposed. These tiers represented the macro, meso and micro levels of analysis that were spread over two data collection phases. The first phase of data collection was the pilot study whilst the second part was the main study. The findings of the pilot study were used to guide and improve on the implementation of the research instruments in the main data collection phase.

Figure 3.1 shows the three-tier analysis based on the SOP approach adopted in the thesis. First, all Federal, State and Local regulations pertaining to low-cost housing in Terengganu were collated and reviewed, as these ‘formal instruments’ forms a part of the regulatory environment (Adams, 2008). This examination of regulations represents the macro analysis. At its most basic, housing regulations must be interpreted by planners before implementing them on developers. In turn, developers will negotiate these regulations with planners. During this interaction, both actors adopt strategic and opportunistic behaviours in achieving their long-term organisational objectives (Ball et al., 1998). The meso analysis examines the roles and interactions of planners and developers by implementing semi-structured interviews with senior planners at Federal, State and Local levels and major local developers who were involved with low-cost housing development. Whereas the meso analysis examines a basic interaction between two key actors (planners and developers) in the regulatory environment, in reality the implementation of low-cost housing policy involves interactions of a number of different authorities with the developer. The micro analysis (i.e. analysis of case studies of housing developments) reveals the outcomes of negotiations between these authorities and developers during the implementation of low-cost housing regulations. Therefore, this thesis examines the impacts of regulations at the macro, meso and micro levels.

**Figure 3.1: Three-tiered methodological approach undertaken in the current study.**



*Source: Derived from literature review and research objectives*



### **3.2.1 Ethical considerations**

Pursuant to the requirements of the University of Auckland Human Ethics Committee (UAHPEC), an application for permission to undertake the project was submitted on 27 July 2009 and this application included the Participant Information Sheet, Consent Form, interview themes and cover letters to participants (prepared in both English and Malay). The research project was processed under the ‘Low Risk’ route, the Committee deemed the research as imposing low or no harm to its participants.

After some minor amendments were undertaken, as requested by the Committee, full approval was granted on the 13 August 2009. The Participant Information Sheet contained all the relevant project information, such as the research purpose and the participant’s role and rights, to allow them to decide whether or not to participate. The Consent Form outlined the key rights and obligations of the participant and was signed by participants indicating their express permission in partaking in the research and for the information given by them to be used in the research. All documents pertaining to UAHPEC (i.e. the approval letter from the Committee and the approved Participant Information Sheet and Consent Form) are attached as Appendix 1.

Care was taken to ensure data confidentiality, which Schostak describes as part of the ‘ethical protocol’ (2005, pp. 53-54), by not divulging a participant’s response to other participants during the interview process and the use of coding during transcription. However, Schostak has also stated that anonymisation could not be completely guaranteed in policy studies as participants may be identifiable by the context provided in the interview. Whilst the nature of the study limits the anonymisation of participants, the subject of the study renders the risks associated with non-anonymity to be very low as acknowledged by the UAHPEC.

### **3.2.2 Overview of interview details**

Altogether 23 key informants were interviewed. They represented 17 different organisations, comprising 4 Federal agencies, 3 State agencies, 3 Local Authorities, 5 private developer firms, the national housing developer’s association and an institution of higher learning. In this chapter, the interviews are presented as 9 pilot study interviews, 1 supplementary interview with a law expert, 7 planner interviews and 7 developer interviews, totalling 24 interviews.

All interviewees held senior positions and had working knowledge of low-cost housing provision and low-cost housing regulations. A total of 18 out of 23 (78%) interviewees were decision-makers and leaders in their organisations whilst the remainder held assistant manager or executive posts. Planner interviewees included senior planners at the Federal, State and Local levels. The researcher's analysis of the licensed housing developers from the Ministry of Housing and Local Government website (see Chapter 5) identified 6 major developer firms involved in low-cost housing provision in Terengganu. Developer interviews comprised 5 out of these 6 (83%) developer firms.

The discrepancy between the number of individuals interviewed (23) and the number of interviews (24) was due to one interviewee who gave two interviews in separate capacities. One interview was given in the capacity of the Terengganu President of the national housing developer's association (REHDA) in the pilot study and another interview was given in the capacity of a developer in the main study.<sup>17</sup> The questions asked during the two interviews were different and did not pose any conflict of interest. The REHDA President interview was aimed at identifying characteristics of local low-cost housing developers (see Section 5.5 in Chapter 5), low-cost housing development processes in Terengganu and general issues faced by REHDA with low-cost housing regulations in the State,<sup>18</sup> whereas the developer interview focused on the interviewee's personal perceptions and experiences with low-cost housing regulations and procedures in the past.

Whilst planner and developer interviews provide data mainly for Chapter 7 and Chapter 8 respectively, information provided by all interviewees (pilot study, planner and developer interviewees) may be found interspersed throughout the two context chapters, the macro analysis of low-cost housing regulations (Chapter 6) and the micro analysis of low-cost housing developments (Chapter 9). These interview data will be clearly referenced whenever they appear.

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<sup>17</sup> The interviews with this individual are denoted as Interviewee 9 in the pilot study and Developer 2 in the developer interview.

<sup>18</sup> Examples of issues faced by REHDA are REHDA's relationship with state and federal agencies that implement various low-cost housing regulations and REHDA members' major complaints about the current low-cost housing regulations.

### 3.3 Pilot study

Ethics approval from the University of Auckland Human Participants Ethics Committee (UAHPEC) was obtained in August 2009 before contacting key informants for the pilot study via email from Auckland. Potential interviewees were provided with the UAHPEC-approved Participant Information Sheet and Consent Form to assist them in deciding to participate. The pilot study was undertaken between September to November 2009 in Terengganu and Kuala Lumpur, Malaysia. The main objectives of the pilot study were to identify the main actors involved in the provision of low-cost housing in Terengganu, to establish networking for data collection, to gather secondary data and to test the semi-structured interview questions.

During the pilot study, face-to-face interviews were conducted with the key informants based on the interview guides prepared in Auckland. The informants and organisations (see Table 3.1) were identified based on the researcher's knowledge of the local property market. Table 3.1 also shows information obtained during the case study including the state policy, the low-cost housing delivery system in the State, the development process and various data that were relevant to this thesis such as the socio-economic and demographic data and the supply of low-cost housing in Terengganu.

The key interviewees represented six main organisations involved in low-cost housing provision in the study area ranging from the main State agency that implements the State housing policy to the Real Estate and Housing Developers Association (see Table 3.1 for details). All key informants, except for Interviewee 9, were from the public sector. All organisations were directly involved in the provision of low-cost housing in the study area, with a focus on production. The majority of interviewees represented top level management. In three instances, the interviews with principals had to be supplemented with interviews with their subordinates, who were more hands-on with the day-to-day running of the organisation, to ensure a more complete account of the operations. All interviewees were based in the State capital of Kuala Terengganu, except for Interviewee 5 who was based in the nation capital of Kuala Lumpur. Interviews took between 30 minutes to 2 hours. Before each interview commenced, the Participant Information Sheet and Consent Form were again presented to the interviewee with a clear explanation of the research purpose and their role in the research. Signed Consent Forms were returned to the researcher on the spot, indicating the interviewee's willingness to be part of the research. Generally, the pilot study was successful in achieving its objectives.

**Table 3.1: Key informant interviewees for the pilot study (September – November 2009)**

<b>Interviewee</b>	<b>Rank of interviewee and Name of organisation</b>	<b>Role of organisation</b>	<b>Summary of interviewee's background and information provided</b>
Interviewee 1	Director, Terengganu Housing Department of the State Secretariat Office (HDSSO)	State housing agency that implements State housing policy.	Interviewee 1 had only been in office for ten months as the head of the 10-member HDSSO, so his interview was supplemented with Interviewee 2. He gave basic information on the State's low-cost housing policy.
Interviewee 2	Senior Officer, HDSSO	-Same as the above-	Interviewee joined HDSSO in 2003. He developed the HDSSO filing system and was the 'gate-keeper' for developer interviews. He informed on the structure of low-cost housing provision in Terengganu.
Interviewee 3	Manager, Low-cost Housing Department of the State Economic Development Corporation (SEDC)	State agency under the HDSSO that undertakes low-cost housing management activities such as distribution, rent collection, transfer, breach enforcement and repairs.	Interviewee joined the department since the early 1970s and now supervised 27 staff members. His interview was supplemented with Interviewee 4. He informed on the history and policy of low-cost housing in Terengganu.
Interviewee 4	Assistant Manager, Low-cost Housing Department of the SEDC	-Same as the above-	Interviewee joined the department in 1996. He undertook the day-to-day functions of the organisation. He informed on the management of State low-cost housing.
Interviewee 5	Assistant Director of Policy, Policy & Strategic Planning Division of the National Housing Department	Federal housing agency that coordinates State housing policy with national housing policy.	Interviewee joined the department in 2006. He oversaw his department's policymaking and monitoring tasks, including the achievement of low-cost housing objectives. He informed on the implementation of national low-cost housing policy at the State level.
Interviewee 6	Head of Department, National Property Information Centre (NAPIC)	Federal agency that collects, analyzes and disseminated property information.	Interviewee was newly transferred from another State. He headed 3 staff members. His interview was supplemented with Interviewee 7. He gave a general overview of the property data management process.
Interviewee 7	Senior Officer, NAPIC	-Same as the above-	Interviewee joined the organization in 1998. He analysed monthly property data in the State. He informed on low-cost housing developments in Terengganu.
Interviewee 8	Director, Project Implementation and Maintenance Branch of the National Housing Department	Federal agency that ensures Federal-State coordination, technical support and project monitoring agency of public projects at the State level.	Interviewee was newly transferred from another State. He headed 21 staff members. He informed on the implementation of public projects in Terengganu.
Interviewee 9	President, Real Estate and Housing Developers Association (REHDA), Terengganu Chapter	Represents the interest of private housing developers, including: to convey the views of members to relevant authorities, to inform on new housing regulations and procedures; and, to appeal for members in disputes.	Interviewee was elected in 2008. Having been a property developer in Terengganu since 1990, he possessed valuable property development experience and contacts. He informed on the characteristics of local low-cost housing developers, low-cost housing development process and issues with low-cost housing regulations.

Firstly, interviews yielded information on the key actors involved in the provision of low-cost housing in Terengganu. The “organisational arrangement” forms another component of the regulatory environment controlling land and property markets (Adams, 2008, p. 4571). The researcher identified the government agencies and major developers that had a direct involvement in influencing the supply of low-cost housing in the State. This on-the-ground information enabled the researcher to double check the information from government publications and websites, which was often out-of-date and incomplete. For instance, the Ministry of Housing and Development website only provided six low-cost housing developers but interviewees indicated a few other developers excluded from the list.

The second objective of the pilot study involved networking with interviewees to facilitate the subsequent data collection was also achieved. Relationships were established with key organisations in housing which was very important to the research. Among those organisations, two agencies eventually played an indispensable role in this research [i.e. the Terengganu Real Estate and Housing Developers Association (REHDA) and the Housing Department of the State Secretariat Office (HDSSO)]. In particular, the ‘gate-keeper’ for developer interviews was identified during the pilot study. Interviewee 2 was a reputable HDSSO officer who had good relationship with local developers. McNeill & Chapman described the ‘gate-keeper’ to the group under study as someone who is “close to the group in question and can reassure the group about the motives of the researcher” (McNeill & Chapman, 2005, p. 106). The networking also helped to secure a short placement as a researcher in HDSSO during the main study.

The third objective, to gather secondary data, was also achieved. Generally, all key informants were supportive of the research as there has been no previous research in the area of low-cost housing in Terengganu. Key informants provided not only official statistics and government publications, but also unpublished internal documents. For example, Interviewee 3 wrote an internal paper about the role and activities of his organisation in 2008 which was not available to the public, but was provided to the researcher. Interviewee 9 provided the list of REHDA members that was used in the subsequent developer interviews.

Finally, two senior planners and two major developers were successfully interviewed to test the interview questions and procedures. Upon returning to Auckland, a post-mortem of the interviews was conducted by analysing the recordings. This review offered the opportunity to reflect on the interview techniques to be employed in the subsequent data collection exercise. For instance, I was aware during reflections on the pilot study interviews of my tendency to let interviewees be sidetracked with irrelevant sub-topics. This was due to inexperience and wanting to keep the flow of the interview. An example is when an interviewee discussed at length about the effect of local culture on labour productivity, which has no bearing to the thesis topic. Upon reflection, I realised that the side-topics could detract from a more productive interview given the limited time some interviewees set aside for the interview. Therefore, in the main study interviews I kept a tighter rein on the discussion and actively steered the discussion to stay on topic.

Preliminary results from the pilot study were presented at the European Real Estate Society Conference in Milan in 2010 (see Hamzah, 2010). The analysis of the pilot study interviews revealed that at the regional level, the implementation of Federal low-cost housing policy was significantly influenced by a range of legal, government and political institutions. The State Authority was found to have primacy over the Federal Government in the Malaysian Constitution with respect to land and housing issues within State boundaries. This preliminary finding was further developed in the main study.

### **3.4 Main study**

The main study took place from July to September 2010 in Kuala Terengganu. It involved two main activities, namely a placement at the Housing Department of the State Secretariat Office (HDSSO) and semi-structured interviews with senior planners and major developers. The HDSSO is the main State agency overseeing low-cost housing provision in Terengganu. It is a small department of 10 staff members, but has the important responsibility of planning and monitoring low-cost housing supply in the State for both public and private low-cost housing and administering the selection process of low-cost house buyers.

During the pilot study, it was discovered that there was no separate State-level policy document or file pertaining to low-cost housing. State policies pertaining low-cost housing, including Federal directives, recommendations from various agencies and State Executive Council Meeting Decisions<sup>19</sup>, were physically scattered in various housing files at the HDSSO. The list of files referenced at HDSSO, given by Interviewee 2, showed 531 master files, grouped into ‘General Housing’, ‘Public Low-cost Housing by District’, ‘Privatisation-scheme Housing by District’ and ‘Housing Projects by the Government-linked Development Consortium KOPERAT’. Any policy document could be contained in any of the master files, many of which had generated sub-files. The dispersal of State low-cost housing policies among so many files was due to the diverse regulatory issues arising at different points in time and in different contexts. The housing policies in their original form were generally written in the Malay language. The list of housing files reviewed in this thesis is attached as Appendix 2.

As the analysis of the regulatory environment would be incomplete without the State-level regulations, a placement was proposed to the Director of HDSSO (Interviewee 1). The main aims of the placement were to produce an authoritative file containing low-cost housing policies in Terengganu and also to identify and collect information on case studies of housing developments. During the placement, the researcher was given full access to all housing files with the understanding that only non-classified documents could be photocopied and digitally photographed. The permission from Interviewee 1 extended over materials for the State low-cost housing policy and housing developments. It is emphasised that only non-classified documents are discussed in this research. The placement was agreed with the condition to produce and submit to Interviewee 1 an individual file containing low-cost housing policies compiled during the placement. The researcher did not have to observe the normal working hours. This arrangement enabled interviews to be undertaken when appointments were secured with key informants.

At the end of the placement, the new file containing all policy documents pertaining to low-cost housing was submitted together with a short report on the placement to Interviewee 1. The researcher was given permission to retain a copy of the policies for academic purposes. For the purpose of this thesis, these policies were translated in English and put into a tabulated format. The State-level regulations are contained in the database of low-cost housing regulations (Appendix 3).

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<sup>19</sup> Any state policy is proposed and approved by the State Executive Council that meets once a month. The resultant official policy document is known as the ‘State Executive Council Meeting Decision’.

### **3.4.1 Tier 1: Macro-level analysis of housing regulations**

“Formal instruments” form a part of the regulatory environment (Adams, 2008). The first tier of analysis corresponds with the first sub-objective of the research, i.e. *to ascertain the regulatory environment of low-cost housing provision in Terengganu*. The macro analysis of the regulatory environment involved two steps. The first step involved assembling the database of low-cost housing regulations in Terengganu. Federal, State and Local housing regulations were reviewed to extract provisos related to low-cost housing. The second step was to examine the effects of the multiple sources of regulations. An interview with an expert of Malaysian administrative law was conducted to support and clarify findings of the macro-level analysis in Chapter 6. The interview took place during the placement. The interviewee (Interviewee 10) was a senior law lecturer with 15 years teaching experience at a local university. He provided information on the implementation of Federal housing regulations at the State level. All UAHPEC documentations and procedures were observed for this interview.

#### **3.4.1.1 Data collection process**

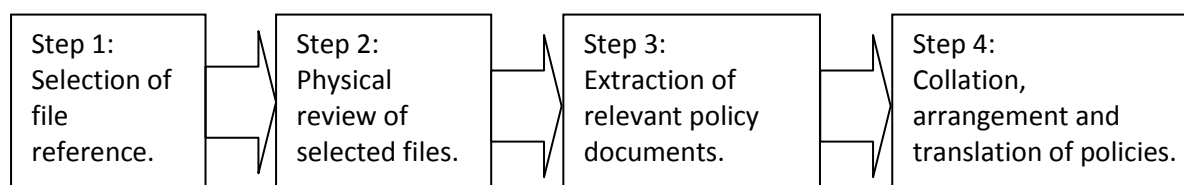
The method of assembly of the low-cost housing regulation in Terengganu is summarised in Table 3.2. To date, this detail of analysis has not been undertaken by any other Malaysian study. As there is no specific statute on low-cost housing in Malaysia, various statutory instruments including acts, regulations, enactments, guidelines and standards and official State documents were carefully reviewed to extract and compile the relevant provisions pertaining to low-cost housing provision. All selected provisions that were originally in Malay were translated into English. The assembly of Federal and Local low-cost housing regulations was fairly straightforward and involved a review of sets of clearly established statute or policy documents. In the case of Federal regulations, the titles of relevant statutes were already known based on the researcher’s past experience teaching property law. The Local regulations only needed a review of the district Local plans that were obtained from respective Local Authority planners.



**Table 3.2: Method of assembly of the database of low-cost housing regulations in Terengganu**

Type of statute	Document source	Method of assembly
Federal regulations	Published statutes (books or downloaded from the internet).	All regulations were reviewed to select provisions relevant to low-cost housing.
State Authority policy	Federal directives, recommendations from various agencies and State Executive Council Meeting Decisions contained in the housing files located at the HDSSO.	Housing files at the HDSSO were reviewed during placement for policies related to low-cost housing.
Local regulations (mainly planning policies at the State and Local levels)	The State of Terengganu Structure Plan was obtained from the Terengganu Town and Country Planning Department website. The Local Plans for the Districts of Dungun and Kemaman were obtained from the respective Local Authorities during fieldwork. The Local Plan for the District of Kuala Terengganu was still under review during fieldwork. Subsequently, the Kuala Terengganu City Hall website released a Powerpoint summary of the Local Plan. A check with the Town and Country Planning Department website revealed that the Local Plan had been approved in principle. Therefore, the Powerpoint summary was included in this thesis.	All statutory development plans were obtained during fieldwork. All plans were reviewed to extract and collate planning policies that concern low-cost housing either directly or indirectly.

The assembly of the State regulations needs further explanation. All State Authority policies regarding housing, including low cost housing, are kept by the HDSSO. Unfortunately, there was no individual file specifically for low-cost housing policies. Therefore, the researcher had to undertake a manual review of the files at HDSSO to compile all related policies pertaining to low-cost housing. Figure 3.2 shows the flow of the file review process. First, file references were selected from the HDSSO list according to their titles. Their contents were inferred from the titles, with input from Interviewee 2 who had established the HDSSO filing system. Altogether, fifty-five file references of different importance and thickness were selected. The titles and references of selected files are attached as Appendix 2. Many of the file references contained extensions, meaning that there could be a number of actual physical files under a reference. In the end, the total number of physical files examined was significantly greater than fifty-five.

**Figure 3.2: Work flow of assembling State regulations**

Next, each file was physically reviewed. Relevant non-classified documents containing low-cost housing policy were extracted and photocopied. After copies of the relevant policies were collated, they were sorted thematically and chronologically. The latest policies that have direct bearing to the thesis were carefully selected and inserted in a new physical file titled “Compilation of policies regarding the provision of low-cost housing in the State of Terengganu as at September 2010” (translated from Malay). The new file was submitted to Interviewee 1 at the end of the placement. A copy of the policies was kept by the researcher for research purposes.

The complete database of low-cost housing regulations is attached as Appendix 3. Appendix 3 represents the first comprehensive reference list of the myriad and multi-level regulations controlling low-cost housing provision in Terengganu. It maps out the regulations that must be interpreted and negotiated by key actors involved in the provision of low-cost housing in the State.

#### **3.4.1.2 Data analysis**

Results of the macro analysis make explicit the various regulatory tensions that may be evident in the provision of low-cost housing. Each level of regulation (i.e. Federal, State and Local) was carefully reviewed to ascertain any significant institutional factors that may shape the regulatory environment. For example, the researcher’s property law background anticipated a significant influence from the legal system, in terms of the effects of the hierarchy of Malaysian law. Accordingly, a review of the Malaysian Constitution established the State Authority’s dominance in low-cost housing development control. Individual regulations were also examined to establish the regulatory characteristics (i.e. types of regulations, roles of regulators and stringency/flexibility of regulations). Finally, the institutional characteristics of Local Authority planners (LAPs) as the on-the-ground regulators were made evident by comparing the organisational structures of the Local planning authorities under study.

### **3.4.2 Tier 2: Meso-level analysis of planner and developer behaviour**

Regulatory documents and processes must be interpreted by planners before being implemented on developers. The second tier of analysis in this research involves a survey of the perceptions, behaviour and experiences of planners and developers involved in the production of low-cost housing in Terengganu. This analysis addresses the second, third and fourth sub-objectives of the thesis, i.e. *to identify the roles and interactions of the main actors, to examine the perceptions of planners and developers about the low-cost housing regulatory environment and to examine the actual practice of planners and developers in the regulatory implementation.*

This thesis focuses on the production aspect of housing provision. At the meso-level, semi-structured interviews were conducted with two groups of key informants who are directly involved in low-cost housing production. These consist of senior planners at Federal, State and Local levels and major local housing developers. Although some economists described state interventions as restrictive (see for instance Malpezzi & Mayo, 1997), recent works showed that the effects are far from uniform due to different capacities of the Local Authorities and developer behaviours (Ball, 2010b; Ball, Allmendinger, & Hughes, 2009; Whitehead et al., 2010). Adams, et al. (2005c) described analysis of policy and planning that excludes either the state or market as “a shallow and partial analysis” (p. 241). This thesis provides an analysis from both sides.

Semi-structured interviews were undertaken to examine the perception, behaviour and operational experience of planners and developers in Terengganu in the current regulatory environment. The main objectives of the interviews were to analyse the ways that they perceive housing regulations [i.e. as a constraint (costly) or a benefit (adding certainty)] and to examine how their operations have been influenced by the existing regulatory framework. As suggested by McNeill & Chapman (2005), the usage of semi-structured interviews in social science can be either ‘explanatory’ or ‘descriptive’ (p. 28), offering ‘flexibility and discretion’ (p. 33) which is crucial to the thesis. As mentioned in Section 3.3 (Pilot Study), the interview technique was improved after the pilot study test.

### **3.4.2.1 Semi-structured interview process**

McNeill & Chapman state that the choice of research participants to represent the ‘research population’ depends on the research topic (2005, p. 31). In this research, planners and developers who operate in the State of Terengganu and possess knowledge about the system of low-cost housing provision in the State were selected. These were key informants representing the opposite sides of regulatory implementation. Planners were the regulator whereas developers represented the regulated in the structure of low-cost housing provision in Terengganu. Key informant interviews entail “interviewing a select group of individuals who are likely to provide needed information, ideas and insights on a particular subject” undertaken on “a small number of informants” and has the advantage of giving “data and insight” that may not be yielded by other methods (Kumar, 1989, p. 1). Details of interview participants are further explained below.

#### **3.4.2.1.1 Planner interview participants**

The organisational structure of Malaysian town planning is three-tiered (i.e. Federal, State and Local). The highest authority in Malaysian town planning is the Federal Town and Country Planning Department under the Ministry of Housing and Local Government, with State branches to represent and coordinate Federal planning. The State planners in Terengganu are part of the State Economic Development Corporation, totally independent from the Federal government and only serve the State Authority. Finally, Local planners are officers stationed at the Local Authority, referred to as ‘Local Authority planners’ (LAPs) in this thesis. LAPs hold their tenure under the Federal Town and Country Planning Department. This thesis included interviews with all three levels of planners, i.e. Federal, State and Local planners.

The summarised details of planner interviewees are presented in Table 3.3. In this research, planners represent the viewpoint of implementers of housing regulation. Thus, only senior level planners who possess authority in development plan formulation and development control were interviewed in this study as they had “an intimate knowledge” of the planning regulation system based on their “positions, experience, participation in the project or program, or professional expertise” (Kumar, 1989, p. 8). Seven senior planners were interviewed comprising five Local planners at the Local Authorities of Kuala Terengganu, Kemaman and Dungun districts; one State planner at the State Economic Development Corporation and one Federal planner at the Town and Country Planning Department.

**Table 3.3: Details of planner interviewees**

Interviewee	Gender	Current organization level	Current position in organization	Highest academic qualification	No. of years working experience	Level of working experience
Planner 1	Male	Federal	Assistant Director	Masters	22	National and State
Planner 2	Male	State	Manager	Degree	20	State
Planner 3	Female	Local	LAP	Degree	5	National and Local
Planner 4	Male	Local	LAP	Degree	25	Local
Planner 5	Male	Local	LAP	Degree	9	Local
Planner 6	Male	Local	LAP	Degree	27	Local
Planner 7	Male	Local	LAP	Degree	6	National and Local

On average, the seven interviewees had sixteen years of working experience between them, with four interviewees having worked over 20 years each. The most senior interviewee had worked for 25 years whilst the least experienced had been a LAP for five years. All interviewees had been involved in overseeing the formulation of statutory development plans at national, State or Local levels and were responsible for implementing those plans, including housing matters. Both the Federal and State planners had an advisory role to the State Authority in major development matters. All LAPs interviewed were also heads of the ‘One Stop Centre’ (OSC), which is the development secretariat at their respective Local Authorities.

Interviewees had varying influence over low-cost housing provision. For instance, although planners do not have the authority to implement low-cost housing quota requirement, they still can prescribe and implement planning standards over low-cost housing quality. The quality aspects of low-cost housing include building standards (size, layout, density and building material) and living environment (provision of common facilities and amenities such as access road, children’s playground and place of worship). LAPs, as the head of OSC, may influence the speed of development approval by deciding whether the development application can be processed, rejected or returned for amendment upon submission. LAPs also possess enforcement capacity over housing development activities in their areas.

#### **3.4.2.1.2 Developer interview participants**

In this thesis, developers represent the market in low-cost housing provision. There was lack of data on the Terengganu housing market as there had been no prior studies undertaken on the subject. Thus, the size of the local market or characteristics of the house building industry were not known prior to this study.

Whilst the deficiency in housing market data did not affect the study outcomes, an analysis of licensed developers in Terengganu as extracted from the Ministry of Housing and Local Government website was undertaken (see Chapter 5) to provide some background on developers. In brief, it was found that private housing developers in Terengganu operated on a small scale basis. Out of 92 licensed developers, 78 developers (85%) undertook 10 or less housing developments whilst only 14 developers or 15% had undertaken more than 10 housing developments.<sup>20</sup> Additionally, only six of these 92 licensed developers had confirmed involvement in low-cost housing development.

Developer interviewees came from five of the six firms with confirmed involvement in low-cost housing development based on the Ministry's website. In other words, developer interviewees came from 83% of firms with documented involvement in low-cost housing provision in Terengganu. These firms were major private housing developers in Terengganu, with current or previous experience in developing low-cost housing in the State. Four of the companies are wholly privately owned and one is a State-linked company. All developers were located in Kuala Terengganu except for Developer 6 who was located in Kemaman. The details of developer interviewees are set out in Table 3.4.

**Table 3.4: Details of developer interviewees**

Interviewee	Company	Gender	Current position	Highest academic qualification	Organisation	Working experience (no. of years)
Developer 1	A	Male	Manager	Degree	Government-linked company	14
Developer 2	B	Male	General Manager/ Owner	Degree	Private company	22
Developer 3	A	Female	Senior Executive	Diploma	Government-linked company	12
Developer 4	C	Female	Junior Executive	Degree	Private company	5
Developer 5	B	Male	Assistant Manager	Secondary school	Private company	20
Developer 6	D	Male	Manager	Degree	Private company	35
Developer 7	E	Male	General Manager/ Owner	Degree	Private company	20

<sup>20</sup> The definition of 'housing development' as provided by the Housing Development Act 1966 is any land subdivisions of actual housing developments above four units.

It must be pointed out that Developer 1 and Developer 3 came from the same company (Company A). Similarly, Developer 2 and Developer 5 also came from the same company (Company B). Although representing the same organisation, the information provided by the interviewees were different based on their position and capacity within the firm. As senior managers, Developer 1 and Developer 2 provided information at a broad perspective compared to Developer 3 and Developer 5 (a senior executive and an assistant manager, respectively), who were more familiar with specific aspects day-to-day running of the company. In addition to their participation in the developer interview section of the thesis, Developer 1, Developer 2, Developer 3 and Developer 5 also represented Companies A and B that developed Case Study 1 and Case Study 2, respectively. Therefore these four developers were also interviewed for the case study section of the thesis.

The interviewees represented various levels of organisation, ranging from junior executives to general managers who also owned the company. In this thesis, the definition of ‘developer’ interviewees includes individuals who were associated with a housing developing firm by employment or ownership, whose role in the organisation was direct and significant enough in the primary activity of the firm (i.e. housing development) to be able to give a first-hand insight into the firm’s principles and operations. Therefore, a junior executive in charge of preparing and submitting development applications who must interact with various government departments in the course of his or her daily tasks was viewed as a qualified representative of the organisation. However, the Accounting Manager whose day-to-day functions do not entail interaction with development control agencies would not qualify for interview.

The above developer interviewees provided informative insights into the process of low-cost housing provision in Terengganu. The viewpoints represented both private and semi-government developers. They also include various levels of the organisation (i.e. from executives who must interact with various government agencies in undertaking their duties to business owners who made decisions for the organisation). The average number of working years between developer interviewees is eighteen years, the most junior having worked for five years and the most senior had 35 years of working experience.

#### **3.4.2.1.3 Semi-structured interview themes**

Based on the main research objective of determining the effects of low-cost housing regulations, seven interview themes were chosen for planner and developer interviews as shown in Table 3.5 below.

**Table 3.5: Themes of planner and developer semi-structured interviews**

<b>Planner interview themes</b>	<b>Developer interview themes</b>
Perception of their role in the provision of low-cost housing	Perception of their role in the provision of low-cost housing
Perception of general government intervention tools	Perception of general government intervention tools
Perception of the current regulatory environment	Perception of the current regulatory environment
Perception of the low-cost housing policy	Perception of the low-cost housing policy
Perception of deregulation	Perception of deregulation
Experience with developers	Experience with planners
Actual practice in implementing regulations	Experience with government efforts to simplify housing development process

Table 3.5 shows that the planner and developer interviews had highly aligned topics of inquiry flowing from the general to the specific. First, interviewees were asked their perception of their roles in low-cost housing provision to establish their basic philosophy on non-market housing for the urban poor. Next, a line of questioning involving government intervention tools, the current regulatory environment and the low-cost housing policy was undertaken to gain an insight into the actors' opinions on the efficacy of the current housing regulations. This line of questioning was concluded by asking the interviewees to comment on a deregulation scenario. Usually, the researcher provided examples of lower low-cost housing standards and/or abolishing the low-cost housing requirement as an initial discussion point.

Next, interviewees' opinions on interactions with the other party were elicited (i.e. planners were asked about developers and vice versa) to examine the dynamic between planners and developers in the regulatory environment. This part of the interview began by the researcher asking interviewees to describe their relationship with the other party. Scenarios were given to draw out further insights if interviewees could not answer the question. The researcher also asked for examples to clarify interviewees' answers.

The final question presented a point of departure between the interviews. Planners were asked to recount their actual practice in carrying out regulations to determine whether their interpretations were rigid or flexible and how their interpretation of the regulations may eventually affect housing outcomes. On the other hand, developers were asked about their experience with the recently streamlined housing development process to reveal any weaknesses from an institutional perspective.



### 3.4.2.2 Semi-structured interview implementation

The interviews were conducted from July to September 2010. Although the interview themes were highly similar, the interview protocols differed slightly for each group with respect to the method of approach. The planner interviewees were formally contacted in advance via post with a letter of request for interview, together with the CV of the researcher, interview themes, the Participant Information Sheet and the Consent Form to fulfil the requirement of the University of Auckland Human Participants Ethics Committee (Approval Ref No: 2009/339). They then indicated their willingness to be interviewed by a formal letter or verbally upon telephone follow-up by the researcher.

Organising developer interviewees was less straightforward. Previous studies of Malaysian housing developers indicated that it would be difficult to receive their cooperation; a study on developers' competitiveness only achieved a 2.4% response rate of 1,677 mailed questionnaires (Abdul Aziz & Ho, 2006) whilst a study comparing *Bumiputera* and non-*Bumiputera* developers fared slightly better at 8.08% response rate of 838 mailed questionnaires (Jaafar et al., 2007).

From the beginning of the research, a relationship with the Terengganu Real Estate and Housing Developers Association (REHDA) was established to facilitate access to local developers, beginning with REHDA members. Terengganu REHDA had eighteen members (four of which were affiliated non-developer members) and all were major players in the Terengganu housing market. However, not all REHDA members were involved in low-cost housing development and not all REHDA members who were involved in low-cost housing were willing to be interviewed when contacted. Eventually, the REHDA's membership list elicited five interviews coming from three developer companies. The final two developer interviews were secured via the 'gate-keeper' (Interviewee 2). All developer interviewees were fully willing to participate in the research as evident by the signed Consent Forms.

Interviews were conducted one-to-one in the interviewee's office, commencing with a detailed explanation of the research objectives and research background. Next, the interviewees were clarified on their rights by explaining the Participant Information Sheet. The interviewees then were given the Consent Form for their express consent on the interview process before proceeding with the interview questions. All interviews were performed by the researcher and were tape-recorded with consent from the participants. The interviews ranged from twenty minutes to two hours, averaging approximately forty minutes.<sup>21</sup> Guided by prepared interview themes, questions began on a general note before pursuing more specific queries based on the participant's response. Field notes taken during the interviews were used to reinforce the interviewer's impressions of the interview process.

The interviews benefitted from the common background and local Malay dialect shared between the researcher and participants; the researcher originally came from the State, had previously worked as a property valuer in the State for seven years and was familiar with the local housing market. All interviews were conducted in the local Malay dialect (except for the interviews with Interviewee 9/Developer 2), which added to the flow and openness of the interview. As the interviewer spoke the same language, both literally and figuratively, it provided reassurance among the interviewees about the research purpose and researcher trustworthiness. The familiarity that characterised the interviews helped to increase the interviewer-participant rapport and removed any 'power imbalance' (Schostak, 2005, p. 55) that could prejudice the interview outcomes. At the same time the language advantage ensured accuracy of interpretation of the interviews as some local idiosyncrasies, both verbal and physical mannerism, could be lost to an outside interviewer. For instance, some local words or gestures that implied sarcasm may be wrongly misconstrued by non-locals and affect the accuracy of the interview data.

### **3.4.2.3 Data analysis**

Qualitative research is characterised by researcher interpretivism and process non-linearity. Qualitative data involves "records of observation or interaction that are complex and contexted" (Richards, 2005, p. 34) that needs researcher's reflexivity in the process of analysis.

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<sup>21</sup> Although the interviewees were informed beforehand that the interview may take approximately an hour, sometimes the interviewee can only spare a certain amount of time due to their busy schedule. Only one interview took twenty minutes, but the interview sufficiently covered all planned themes. The researcher ensured that all interviews were conducted according to protocol.

Almost all interviews were undertaken in the Malay language, except for some instances whereby interviewees spoke some English or used English terms to clarify their points. Only Interviewee 9/Developer 2 gave his answers in Malaysian English. After the interview process, the audio-taped interviews were then transcribed in English by the researcher. During the transcription/translation process, reference was made to the field notes to ensure accuracy. The researcher tried to translate the interviews as faithfully to the interviewees' meaning as possible. Any language idiosyncrasies and grammatical errors are therefore attributed to the researcher, except in the interviews given by Interviewee 9/Developer 2. Completed transcriptions were verified against the recording and corrections were made. Throughout this verification process, notes were continuously taken on noticeable trends, patterns or relationships in the overall data. These notes assisted in building the general themes that eventually guided the analytical coding of the interview data.

After the transcripts were satisfactorily verified, a systematic coding and analysis process was undertaken. Whilst the coding process was done manually, the outputs were presented in Microsoft Excel spreadsheets. The formal coding process began as early as the pilot study stage. As suggested by Richards (2005, p. 88), there were three types of coding used in the data analysis process namely descriptive coding, topic coding and analytical coding.

Table 3.6 shows the usage and outputs of the coding according to type. Descriptive coding was straightforward as it mainly involves extracting participant details established at the beginning of each interview and tabulating them in a Microsoft Excel table. Manual topic coding was then undertaken on the interview transcripts. Each interview was carefully read because although the researcher organised the interview to follow a linear thematic path, relevant comments sometimes strayed from the order of themes and could be diffused in other parts of the interview. Texts that reflected predetermined themes e.g. 'Perception of their role in the provision of low-cost housing' were manually highlighted using colours that had been assigned to each interview theme. The results of this coding process were tabulated in Microsoft Excel by using individual worksheet for each theme. Finally, an analytical coding process was carried out on the selected texts under each topic. This final coding was the most rigorous of the three coding processes. It involved identifying recurring patterns in each theme of both planner and developer interviews, assigning keywords to those identified patterns, establishing key patterns and merging redundant keywords and comments, and drawing conclusions of the key findings. The results of the analytical coding were produced in a single Microsoft Excel spreadsheet.

**Table 3.6: Coding usage and outputs in data analysis**

Type of coding	Description	Example of outputs in the research
Descriptive	Information about participants	Gender, position in organization, highest academic qualification and working experience.
Topic	Labelling the texts according to their predetermined themes	From developers' interviews: Perception of their role in the provision of low-cost housing Perception of general government intervention tools Perception of the current regulatory environment
Analytical	Interpretation and reflection of meaning	Developers' perception of their role in the provision of low-cost housing: Provide quality housing, social obligation, assisting the government, forced. Developers' perception of general government intervention tools: Ensure health, negotiable, promotes equity, always changing, burdensome, inefficient, poorly implemented. Developers' perception of the current regulatory environment: Not rigid, uncertain, bureaucratic, State/Federal divide, lacks accountability.

*Source: Adapted from Richards (2005, p. 88)*

Memos were continuously written by the researcher throughout the coding process to provide a 'log trail' (Richards, 2005, pp. 43-44) of the final outcomes of the data analysis process. These memos served as reinforcements and reference points during the writing of the result chapters.

### 3.4.3 Tier 3: Micro-level analysis of housing development case studies

The third tier of the research involved the construction and examination of five case studies of low-cost housing developments in Terengganu. The adoption of case studies allows an in-depth analysis into the everyday operation of low-cost housing regulations; the manner of their interpretation, implementation and subsequent negotiations by actors involved in the provision of low-cost housing. The results of interactions between actors' and other institutional structures within the regulatory environment are reflected in the actual outcomes of the case studies. This analysis presents the fifth and final sub-objective of the thesis, i.e. *to determine the actual low-cost housing outcomes produced by the interactions of institutions and housing regulations from selected case studies.*

The case study method was adopted to enable a detailed examination of how regulations have influenced the low-cost housing development in Terengganu. The case study is particularly useful in practice-oriented fields, including property, where ‘how’ and ‘why’ were the guiding research questions on a given phenomenon (Yin, 2003). This method allows the researcher to study various issues in regulatory implementation (e.g. how actors react to enforcement of regulatory breaches, how actors negotiate to achieve development objectives, why flexibility in regulatory implementation is accorded, etc).

The case study method in this research was constructed on two common principles. Firstly, the relationship between housing actors has a direct and significant influence on the provision of low-cost housing in the State. Secondly, housing outcomes are influenced by the manner in which regulations are interpreted, implemented and negotiated by actors rather than the regulations *per se*. Therefore, the interactions of actors in handling a regulatory ‘constraint’ determine the final outcomes which this micro-analysis aims to reveal.

#### **3.4.3.1 Case study assembly**

Primary data for the case study was obtained from housing files at the HDSSO during the placement. These housing files were not available to the public but were fully accessible to the researcher during the placement at HDSSO, as permitted by Interviewee 1. Five housing files were used as the primary reference to construct the case studies (see Table 3.7). Those files contained project details including location, project size, project cost and number of low-cost houses. They also documented procedural issues that arise during the duration of the project, such as any technical agency’s queries and contractors’ contract infringements and resolutions of those issues. In addition, relevant information found in the course of reviewing the housing files for the regulatory database was also used to build the case study. Information that was relevant to the research objective was extracted from formal letters, memos, notices, meeting minutes and other official and non-official papers contained in those files. These documents were photocopied and filed by the researcher for reference.

**Table 3.7: The main HDSSO housing files used as primary reference for case study assembly<sup>22</sup>**

Case Study Ref.	File Ref. No.	File name
Case Study 1	1121/ 6/ 3/ 1 Vol.2	Proposed Public Housing in Bukit Kuang, Kemaman by Company A*.
Case Study 2	1121/5/ 8/6	Taman S* Low-cost Housing Project in Kuala Nerus by Company B*.
Case Study 3	1121/2/31	People Housing Project Management Committee Meeting (Desa K*)
Case Study 4	1121/3/1/22	Proposed Design, Construction and Completion of Affordable Flat Project in Kampung Batin, Seberang Takir, Kuala Terengganu.
Case Study 5	1121/3/1/20	People Housing Programme on the Former Site of Radio Malaysia Terengganu Transmitter at Cabang Tiga, Kuala Terengganu

Face-to-face interviews were also conducted with key informants to supplement and verify some data from housing files. Interviewees comprised developers and Local Authority planners (LAPs) who had direct knowledge of the projects. Developer 1, Developer 3 and Planner 6 provided information on Case Study 1 whilst Developer 2 and Developer 5 provided information on Case Study 2. Planner 7 provided information on Case Study 4 and Case Study 5. These interviews had two purposes namely providing information that was not contained in the housing files and clarifying matters from the files that were unclear to the researcher. These interviews were transcribed and filed by the researcher under each case study.

### 3.4.3.2 Case study details

Table 3.8 shows five case studies comprising housing developments with different components of low-cost housing, sizes, completion stages and actor combinations. In selecting the case studies for this research, the principal criterion was to choose housing developments that could facilitate better understanding of the behaviours of actors involved in low-cost housing development in various situations. Thus developments in various stages of completion involving different methods were selected. Three developments had been completed, one was under construction and one was at development approval stage. One development was undertaken by a private developer, two were PPPs between the State Authority and private developers whilst two were Federal Government projects.

<sup>22</sup> Anonymisation could not be completely guaranteed in policy studies as participants may be identified by the context provided in the interview (Schostak, 2005). Despite Shostak's argument and UAHPEC's categorisation of this research as "low-risk", the specific names of the housing schemes and companies on the files are suppressed in the above table to provide a degree of data confidentiality (suppressions are denoted by the sign "\*"). The actual names are available with the researcher.

Each case study involved different regulatory issues which produced various outcomes. The case studies were systematically analysed to examine these housing outcomes. The analysis of the case studies showed how housing regulations were adopted and adjusted to suit the prevailing socio-economic conditions, reflecting how in reality “the state and the market do not exist in isolation from one another, but are engaged in a continual attempt at mutual transformation” (Adams, 2008, p. 4573).

**Table 3.8: Basic information of case studies**

Item	Status of completion	Location	Mode of development	Low-cost housing component
Case Study 1	Completed	Kemaman	PPP with State-linked private developer	About 50% of 941 units
Case Study 2	Completed	Kuala Terengganu	Private development	About 30% of 476 units
Case Study 3	Completed	Kuala Terengganu	Federal project	100% of 250 units
Case Study 4	Under construction	Kuala Terengganu	PPP with private developer	100% of 722 units
Case Study 5	Development approval	Kuala Terengganu	Federal project	100% of 1000 units

The nature of the case studies prevented anonymisation, as the presented information was inextricably linked to the context. However, anonymisation was not a significant concern in the present study as the issues identified and presented from them were not politically controversial and presented little risk to the parties involved.

### 3.4.3.3 Case study analysis

The construction of the case studies involved an analysis of the regulatory issues that had arisen, the reactions of actors involved and the final outcomes resulting from the actors' actions. This analysis involved critically assessing the causal relationship between the regulatory issue, actions of actors and the final housing outcomes in each case study. Care was taken to establish the link between the issue, the action and the housing outcome. After the individual analysis of each case study, a general review of the case studies was undertaken to identify common housing and non-housing outcomes resulting from the mediation of low-cost housing regulations by actors. Following this, a critical discussion ascertains the institutional factors that shaped these housing and non-housing outcomes.

### 3.5 Data validity considerations

Although data validity should be a concern of all types of research, it was a significant consideration to the present study as the bulk of its primary data was qualitative. Whilst it has been suggested that ‘overzealous and uncritical’ use of ‘technical fixes’ (i.e. data validity techniques) in qualitative approach, including purposive sampling, grounded theory, triangulation and respondent validation, can adversely affect the research outcome than improve research rigorousness (Barbour, 2001), appropriate usage of such fixes could enhance data validity without sacrificing the principles of qualitative research.

In this research, triangulation was used as a technique to improve data validity. According to Schostak (2005),

*“(t)riangulation involves the general process of taking multiple perspectives on the same thing, or the thing that is allegedly ‘real’, ‘objective’, ‘true’, or defined in meaning and is the same under a variety of circumstances. Thus triangulation can be performed during an interview and between interviews. Each question provides a different view, a different angle, a different approach to the ‘thing’ in question.” (p. 29)*

Data triangulation is an important aspect of research that can add to research rigor by “the use of multiple sources of data or views, with the aim of bringing many perspectives to bear on the question” (Richards, 2005, p. 21). This validation technique was employed throughout the research and may be divided into two categories. First, the research was designed to incorporate macro, meso and micro views of the effects of regulations. In itself, that presents multiple views on the research. Second, a validation mechanism was present in all tiers of analysis. In the macro analysis of housing regulations, the usage of various sources of regulation and the interview with the law expert strengthened data validity. The meso analysis surveyed the views of two opposite actors [i.e. planners (regulator) and developers (regulated party)] who came from different operational perspectives. Planner interviewees encompassed Federal, State and Local levels whilst developer interviewees included both public and private sectors. In the micro analysis, research validity was enhanced by using multiple case studies. These triangulation techniques increased the data trustworthiness in this thesis.



### 3.6 Chapter conclusion

The research methodology adopted in the thesis is based on the central argument that the interactions of institutions (i.e. key actors and the legal, government and political structures) within the given regulatory environment governing low-cost housing determine the manner and outputs of regulations rather than the regulations *per se*. An examination of institutional behaviour provides an insight into how a seemingly dense regulatory environment had been successful in producing a significant number of low-cost houses. Evidently, the regulatory system must have been equipped with mechanisms that enable the market to engage in low-cost housing production.

The three-tier research methodology provides a comprehensive analysis of low-cost housing regulations by extending the examination of regulations to include the behaviour of key actors and actual housing developments in the regulatory environment. Rather than accepting the complexity of low-cost housing regulations at face value, a second layer of analysis was implemented to reveal the manner of regulatory implementation. The perception, behaviour and experiences of key planners and developers in the regulatory environment were captured in this meso-level analysis. Finally, results of actors' arbitration, implementation and negotiation of regulations within the structure of low-cost housing provision were represented by the micro analysis of housing developments. Throughout the three tiers of analysis, data triangulation mechanisms were incorporated to enhance research rigour.

As an SOP is temporally and spatially specific, context plays an important role in the implementation of an SOP-based analysis of the property market. Two context chapters are provided. The next chapter presents the country context whereas Chapter 5 provides the State context. The next chapter discusses the establishment of low-cost housing in Malaysia and the achievements of the national low-cost housing policy under various economic plans. The structure of low-cost housing provision in the country is discussed to provide the background for the later discussion on the macro-level analysis of low-cost housing regulations (Chapter 6).

## **Chapter 4: A review of the Malaysian low-cost housing policy**

### **4.1 Introduction**

So far, it has been established that the need for state intervention in low-cost housing provision arises due to the failures and inequities of the market. The state may apply direct or indirect mechanisms to influence the quantity and quality of low-cost housing. The choice of intervention mechanism, whether taxation, subsidies or regulation, rests on the country's broader policy environment (Whitehead et al., 2010). An examination of the national housing policy provides an overview of the state's commitment towards low-income housing and the strategies undertaken to achieve housing targets.

In order to provide the policy background of low-cost housing provision in Malaysia, this chapter presents an analysis of the national housing policy from the country's independence in 1957 until the present. The housing markets in Malaysia are moulded by pre-existing institutions that cause non-uniform regulatory implementation within the country. Based on this argument, this thesis provides two contexts, i.e. the general country context and the more specific State context. This chapter provides the national policy context within which the analysis of low-cost housing regulations was undertaken. The case study area context (i.e. the State of Terengganu) is presented separately in Chapter 5. This chapter has both analytical and descriptive elements. It involves mainly secondary data obtained from various sources (e.g. Malaysia Plans, published studies, government websites and official documents) obtained during fieldwork. Some interview data was used to supplement parts of this chapter and are referenced accordingly.

The chapter aims to establish the institutional context of low-cost housing in Malaysia by charting the evolution of the national-level policies, target achievements in various Malaysia plans and the low-cost housing delivery system. Structurally, it begins with the definition of low-cost housing in the Malaysian context before explaining the general housing development process. Next, a brief historical and administrative review precedes a detailed overview of the strategies and achievements of low-cost housing policies in all Malaysia Plans. It should be noted that this detailed analysis has not been undertaken in any previous Malaysian housing studies. A review of the structure of low-cost housing provision was undertaken to complete the country context and involves the description and analysis of public housing programmes and agencies involved in low-cost housing provision.

## 4.2 Country background: History and administration

The evolution of modern Malaysia plays an important role in shaping the national low-cost housing policy. Malaysia is a federation of thirteen individual States and three Federal territories.<sup>23</sup> The country comprises two major regions, Peninsula Malaysia and East Malaysia, separated by the South China Sea. The modern history of Malaysia can be traced to the establishment of the Malay Sultanate of Malacca in 1400, an empire that eventually reigned over the Malay Peninsula and part of Sumatra at its peak. In 1511, the Malaccan Empire fell to the Portuguese. The Portuguese ruled the Malay States until 1641 when the Dutch seized control. The British finally took over in 1874 and established an administration known as British Malaya. Pre-colonial Malaysia consisted of a number of individual States with their own identities and systems of administration that still influence current social, political and economic situations.

During the British administration era, British Malaya (former name of Malaysia) was represented by four Federated Malay States, five Unfederated Malay States, two Straits Settlements and two East Malaysia States on Borneo Island. These States obtained their independence in 1957 and merged as one nation. The separation of Singapore from the Federation in 1963 resulted in the present nation of Malaysia. It is important for the history of Malaysia to be kept in mind because this plays an important role in shaping what Wan Abdullah (2004) termed the national “policies for diversification” that eventually determines the direction of Malaysian housing policy.

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<sup>23</sup> As mentioned in Chapter 1, the conventional spelling of ‘state’ (i.e. the second layer of government after federal) is not capitalised. To ensure consistency and avoid confusion, this thesis uses capitalisation (‘State’ e.g. the State of Terengganu) to represent the layer of government and non-capitalisation (‘state’ e.g. state intervention) to denote the government in general. Using a similar rationale, the capitalised ‘Local’ in this thesis refers to the third layer of government (e.g. the Local Authority area) and the non-capitalised ‘local’ represents a geographical area (e.g. local low-income groups).

Administratively, Malaysia is a constitutional monarchy (ILBS, 2010). Although the supreme ruler is the King, the executive power is held by the parliament, which is headed by the Prime Minister, and authorized to pass national legislation (ILBS, 2010). As a federation, the central governance is administered by the Federal Government with each individual State being ruled by the State Authority headed by a Chief Minister (ILBS, 2010). Federal and State powers are clearly divided in the Malaysian Constitution under the Federal, State and Concurrent lists (Awang, 2008). In effect, there is a three-tier system of administration in Malaysia - Federal, State and Local (ILBS, 2010). This multi-level government structure gives rise to a complicated low-cost housing regulatory structure which will be further explored in Chapter 6.

The brief historical and administrative snapshot above provides the underpinnings of the Malaysian housing policy as contained in various development and economic plans since 1957. The year 1957 represented the year of independence for Malaysia, when national policies were formulated and implemented by the Malaysian government instead of the colonial authority in London (ILBS, 2010).

## **4.3 Low cost housing in Malaysia**

### **4.3.1 Background**

Pre-independence public housing comprised government quarters and new Chinese resettlements to counter the communist insurgency (Agus, 1989, 2002; Yahaya, 1989). The British colonial-era policies left behind a multi-racial Malaysian society due to the large-scale induction of Chinese and Indian immigrants for employment in specific economic sectors. As a result, the ethnic groups in Malaysia at that time were sharply divided in terms of economic activity with the *Bumiputera*<sup>24</sup> located in rural areas in smallholder agriculture but heavily involved in government and the armed forces; the Indians being assigned in the plantation sector and railways and government utilities; while the Chinese controlled trade and commerce in urban centres (United Nations Development Programme, 2005). This fuelled racial discord between the commercially successful Chinese and the economically disadvantaged Malays in urban areas such as Kuala Lumpur, Pulau Pinang and Johor Baharu. This culminated in the 13<sup>th</sup> May 1969 race riots that began in the nation capital of Kuala Lumpur and later spread to other parts of Malaysia (Abdullah, 1997).

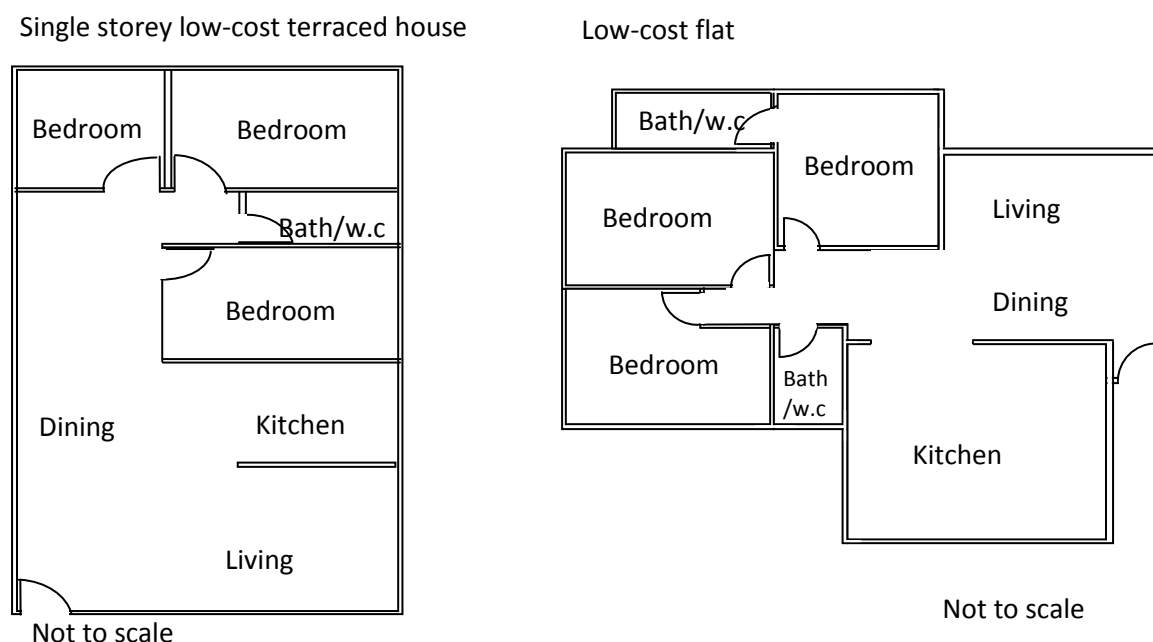
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<sup>24</sup> Bumiputera which literally translates into 'son of the earth' indicates indigenous people of Malaysia including the Malay and Orang Asli and ethnic groups from Sabah & Sarawak.

In the past four decades, Malaysia has embarked on a socio-economic restructuring of its society to promote wealth distribution amongst its multi-ethnic population. An affirmative action policy to promote a more equitable Malaysian society was introduced in 1970 (Agus, 2002; Drakakis-Smith, 1977). Low-cost housing was identified as one of the mechanisms to achieve the wealth redistribution objective. It is a type of ‘no-frills’ housing meant for the low-income group. In the 1960s and 1970s, the low-cost units were priced from RM5,000 to RM7,000 (Malaysia, 1966). The price ceiling was revised several times over the years to reflect inflation rates and housing cost increments. Based on the last revision in 2002, the ceiling price is currently fixed at RM42,000 in major cities and RM25,000 in smaller towns (MHLG, 2002). Since 2002, there has been no further review of the low-cost housing price ceiling.

Figure 4.1 shows the floor plan of a typical low-cost unit. Each unit has a minimum floor area of 63 sq. m. with three bedrooms (according to Islamic law, a room each for the parents, the male children and the female children), two bathrooms, a living room and a kitchen to comply with the Low-cost Housing Standards<sup>25</sup>. Terraced and detached housing types are normally found in small towns and rural areas where land is cheap and abundant in supply, whilst flats are usually built in city or town areas with high land costs.

**Figure 4.1: Typical floor plan of a low-cost unit**



Source: HDSSO housing files (Ref Nos.: 1121/6/3/1 Vol. 2 and 1121/3/22)

<sup>25</sup> CIS 1 (Landed Type) and CIS 2 (Flats).

### 4.3.2 Malaysian housing system and housing development process

The current Malaysian housing system favours home ownership with a home ownership rate of 85%, public housing of 7% and private rental housing of 5.5%, as recorded in 1998 (RICS, 2008). The general housing delivery system adopts the “sell-then-build” model whereby developers offer houses for sale prior to construction (Sufian & Ab. Rahman, 2008). The current housing stock currently stands at approximately 4 million units (RICS, 2008). Private sector developers have been noted to cater mainly for the high and medium income housing (Yap, 1991) but the government has increasingly relied on the private sector to construct low-cost housing (Yahaya, 1989). This dependence on the private sector to provide housing for low-income groups is reflected by the low rate of publicly owned housing, which stood at just 9.8% in 2000 (RICS, 2008).

The typical housing development process in Malaysia is shown in Figure 4.2. The detailed processes in Figure 4.2 can be divided into the initial stage, the plan-preparation stage and the construction and disposal stage. At the initial stage, the developer begins by identifying a suitable site. Whilst large west coast developers with background in plantations keep land banks in the form of former rubber and oil palm estates (Yap, 1991), established developer firms in Terengganu keep smaller land banks acquired earlier when land was relatively cheap (Developer 7, Personal Communication, September 6, 2010). In addition, Terengganu developers may also propose a ‘privatisation’ scheme to the State Authority on state land (Interviewee 1, Personal Communication, October 4, 2009). In this thesis, ‘privatisation’ refers to a housing PPP between the state and the market, with the land provided by the state and development by the private sector. Housing PPPs are also available in other States under various conditions and arrangements (Wan Abd Aziz, Hanif, & Musa, 2007).

The next stage involves plan-preparation and approval. It commences with the developer preparing a preliminary plan for ‘approval in principle’ from the Local Authority planners (LAPs) (i.e. approval in land use change, proposed population density, type of development, etc). At this stage, developers can meet with LAPs for planning advice and also negotiation (Planner 4, Personal Communication, August 4, 2010). Following this, a professional consultant will prepare the development proposal report containing the layout plan, building plan, infrastructure plan, landscape plan, etc. to obtain the development order. It is crucial for developers to submit documents that are complete and fulfil all planning criteria as incomplete documents can be rejected at the onset and planning non-compliance may cause rejection later in the review process (Developer 2, Personal Communication, November 19, 2009). These rejections cause potential delays in housing development activities.

Prior to 2007, developers had to obtain approvals from technical agencies such as various departments at the Local Authority, the Sewerage Department and the Department of Irrigation and Drainage. This bureaucratic system was reported to be highly problematic to developers (Agus, 2002). After 2007, the streamlined housing delivery system saw a One Stop Centre (OSC) established at each Local Authority to accept development applications, distribute them to relevant agencies and monitor the progress of the applications. Bigger Local Authorities have a separate OSC unit from its planning department, whilst smaller Local Authorities may combine the OSC with the planning department. For developers, the organisational capacity of a Local Authority can determine the speed of the development application process (Developer 7, Personal Communication, September 10, 2010).

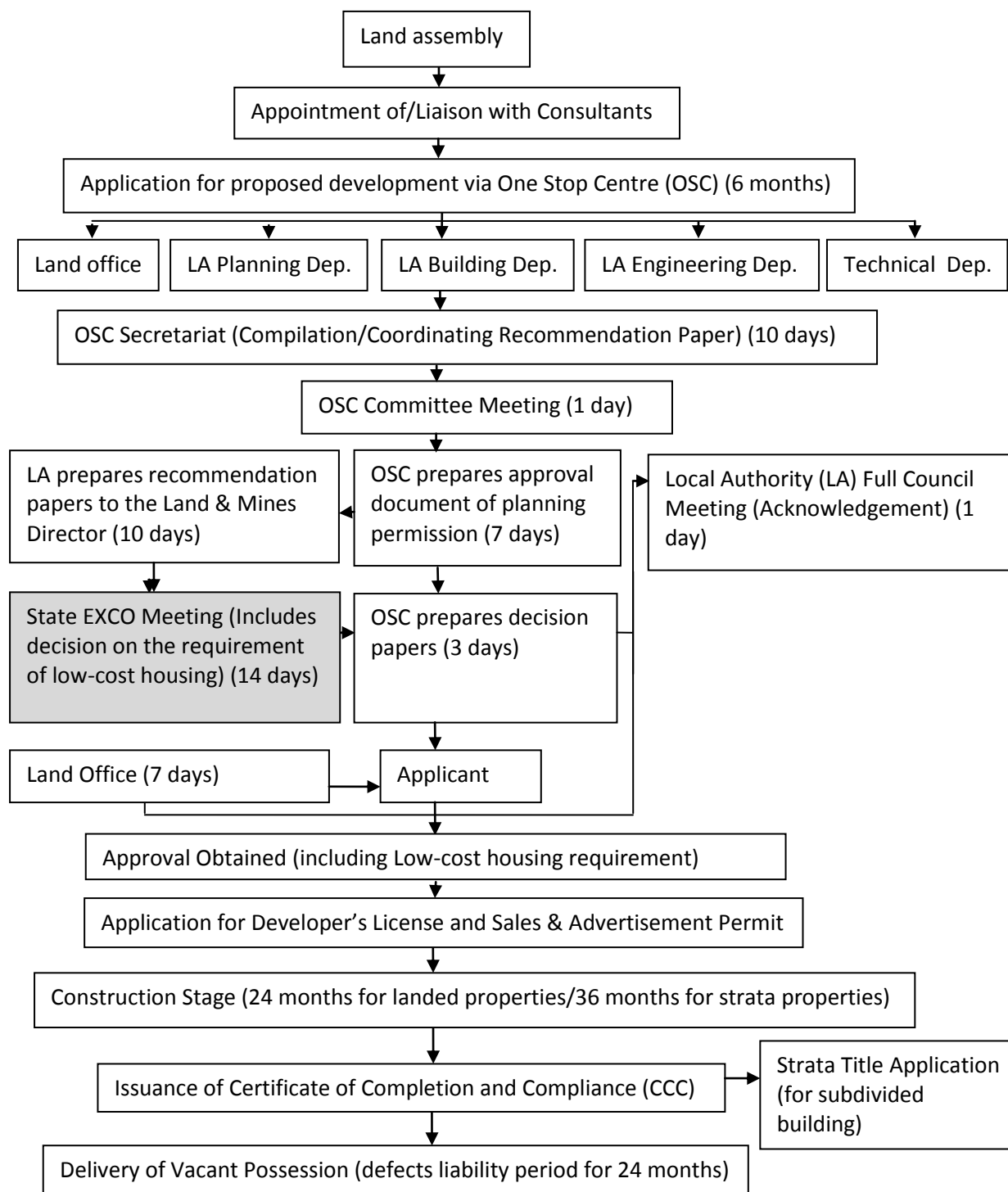
As indicated by Figure 4.2, the low-cost housing quota requirement can be imposed on developers as part of the condition of the development approval. The highlighted box in Figure 4.2 identifies the point where the low-cost housing quota requirement may be imposed by the State Authority. Although the concept of the Malaysian low-cost housing quota is similar to the UK's Section 106 affordable housing requirements, in practice the implementation of the Malaysian low-cost housing is different from the Section 106's planning-based system. In Malaysia, the State Authority, rather than planners, plays a substantial role by setting the quantum of the quota and the minimum development size to be implemented by the quota.<sup>26</sup> An appeal against the quota details may be made by developers directly to the State Authority.

In the final stage of development (i.e. the construction phase), 'landed' properties (terraced, semi-detached and detached houses) must be completed within 24 months, whilst strata properties (flats and apartments) must be completed within 36 months according to law (see Figure 4.2). Newly completed buildings must be certified under the Certificate of Completion and Compliance (CCC) system before occupation is allowed. For landed property, land titles are issued under the buyer's name. For strata property, strata titles are issued. Prior to 2007, certification of the completed building was the responsibility of the Local Authority. However, problems of delay and limited public resources have resulted in the new CCC system, whereby the 'principal submitting person' (i.e. project architect, engineer or draughtsman) will certify the completed building. As shown in Figure 4.2, the building is guaranteed after 24 months of its delivery to the buyer under the defect-liability period.

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<sup>26</sup> In the study area of Terengganu, developments above 3 hectares may be required to build a minimum of 25 % low-cost housing.

**Figure 4.2: The flowchart showing the property development process in Malaysia**



Source: Adapted from the REHDA website <http://www.rehda.com/industry/pdp/index.html> accessed on 10 May 2011.



Information from various interviewees stated that the process applies to both private and public developers. A Local Authority planner stressed that the system would go “haywire” if a double standard is practiced (Planner 6, Personal Communication, August 8, 2010). However, the development application for vital government projects may gain a ‘green-lane’ status. Another Local Authority planner who headed the One Stop Centre (the development secretariat) at a Local Authority indicated that ‘green-lane’ projects receive priority in the development approval process and take a shorter approval time (Planner 7, Personal Communication, August 15, 2010). It is usual for a government project with 100% low-cost component to be conferred a ‘green-lane’ status. Private low-cost housing normally forms a component of a mixed-type housing development and may take longer to be approved.

In conclusion, the above discussion revealed that planners and developers are the key actors determining the production of low-cost housing. Notwithstanding the State Authority’s control over low-cost housing quota implementation, most development control activities (such as the development application process and the implementation of planning standards) are still overseen by planners. Additionally, several mechanisms have been institutionalised in the development system by the state to facilitate the production of low-cost housing. These mechanisms include the imposition of a low-cost housing quota requirement, promoting housing PPPs and streamlining the development approval process, generally for all housing developments including low-cost housing and specifically for public low-cost housing projects.

### **4.3.3 Programmes and key organisations in low-cost housing provision**

Over the years, the Malaysian government has directly provided low-cost housing through a number of programmes. In addition, a mandatory low-cost housing requirement can be imposed on private housing developments above certain sizes. This section presents the structure of the low-cost housing provision in Malaysia based on a review of previous Malaysian studies, government publications and websites.

### 4.3.3.1 Public low-cost housing

A number of institutions and programmes have been dedicated to achieve the government's low-cost housing objectives. Out of various public housing programmes, only the Public Low-cost Housing (PLCH) scheme and the Public Housing Programme (PHP) involve regulations and procedures similar to private low-cost housing. Both PLCH and PHP produce low-cost housing for ownership through rental purchase or outright sale. However, PLCH units are meant for all low-income groups whilst PHP units are mainly for squatter relocation. Indicative of this objective, the majority of PHP units were built in Kuala Lumpur to address its serious issue with squatters. From 2001 to 2005, 24,654 units out of 37,241 units (66.2%) of PHP houses were built in Kuala Lumpur (Malaysia, 2006).

The current PLCH model, shown in Table 4.1, was set in February 2002 (MHLG, 2009a). Before that, the PLCH programme was implemented by the State Authority and financed by Federal Government loans. Starting from 2002, the PLCH scheme is directly controlled by the Federal Government under the National Housing Department (NHD) of the Ministry of Housing and Local Government. A more flexible pricing regime was also introduced in Peninsula Malaysia with a price range between RM25,000 to RM42,000. The type of public low-cost housing to be built in an area, which includes flats, terraced and cluster houses, is determined based on the land price (Table 4.1). Besides the Federal low-cost housing programmes, State Authorities can produce low-cost housing under State-funded programmes and partnerships with the private sector.

**Table 4.1: Prices of PLCH according to area and type\***

Price per unit (RM)	Location/area (Land Price per sq. m.)	Type of housing to be built
RM42,000	A: RM45 & above (Cities and Major Towns)	Flats above 5 storeys
RM35,000	B: RM15 – RM44 (Major Towns and Town Fringes)	5-storey flats
RM30,000	C: RM10-RM14 (Small Towns)	Terraced and cluster
RM25,000	D: Below RM10 (Rural Areas)	Terraced and cluster

Note: \*Applies to Peninsula Malaysia only

Source: *Guideline for the implementation of new low-cost housing price (Amendment) 2002 (MHLG, 2002)*

The Ministry of Housing and Local Government (hereafter known as ‘MHLG’) plays a vital advisory role and provides policies and framework for housing development by considering land allocation, population density, layout plans and overall physical development (MHLG, 2009b). As a key Federal agency, the ministry facilitates and coordinates interaction between public and private sectors in the housing industry to ensure smooth implementation of housing policies and strategies drawn up in Malaysia Plans (MHLG, 2009b). Among its responsibilities are project planning and site selection, applying for budget allocation, site assembly through purchase and land acquisition, project implementation and the delivery of completed projects to the State Authority or Local Authorities.

Another Federal agency supplying public low-cost housing is the National Housing Corporation Ltd (*Syarikat Perumahan Nasional Berhad* or ‘SPNB’), established in 1997 under the Ministry of Finance (*Syarikat Perumahan Negara Berhad*, 2009). SPNB’s initial objective was to provide low-cost houses but now has also incorporated low-medium and medium cost housing types to reflect the organisation’s enhanced role in the implementation of the national housing policy. Other institutional players involved in housing development include State Governments, various State Economic Development Corporations (SEDCs) and Land and Development Authorities (MHLG, 2009b).

#### **4.3.3.2 Private low-cost housing**

Although the government was the sole supplier of low-cost housing in the 1960s’, during the next decade the responsibility was slowly transferred to the private sector. In 1982, the government implemented the mandatory low-cost housing requirement, known as the ‘low-cost housing quota’, in private housing schemes (MHLG, 2001). The low-cost housing quota component (20% to 30%) and the minimum size of the housing development to which the quota is applicable were determined by each State Authority. The low-cost housing quota requirement and implementation procedure have not significantly changed since then.

Consequently, private sector involvement in low-cost housing production increased exponentially in the 1980s' to match the public sector output (Agus, 2002). Furthermore, the privatisation policy of the Malaysian government in the late 1980s' boosted public-private partnerships (PPPs) in housing, with the government supplying land and the private sector (both government-linked companies and pure private enterprises) constructing the houses (Agus, 2002). The Malaysian government, similar to other developing countries, has adopted an enabling strategy since the 1990s' to facilitate private sector activity in meeting low-income housing demand (Wan Abd Aziz & Hanif, 2005). Among recent improvement in 2007 was a streamlined housing approval system through the 'One Stop Centre' (OSC).

Private sector developers dominate housing production in Malaysia (Agus, 2002). The economic activities of a housing developer that simultaneously constructs more than four units of housing accommodation are controlled by the Housing Development Act 1966 (HDA). Such housing developer must obtain a licence from the MHLG, which is attached with statutory conditions and requirements such as, *inter alia*, placing a RM200,000 deposit with the Housing Controller and submitting project progress reports every six months.<sup>27</sup> According to Salleh (2008), private sector housing developers in Malaysia consist of private developers, co-operative societies and individuals or a group of individuals.

The study by Yap (1991) provided the first insight into the characteristics of Malaysian housing developers. He found two discernible types of private housing developers namely the speculative developer and construction companies. The former produced the majority of private housing construction in Peninsula Malaysia, providing the organisation, capital and entrepreneurial skills required in residential development, and undertook the land purchase, conversion and subdivision. The latter developer category consisted of construction firms undertaking property construction on contract tendered by private developers, and employed specialised building tradesmen. For financial and taxation reasons, most speculative developer firms were private companies. These private companies had better access to finance, augmented by the fact that most belonged to diversified group of companies investing in primary national products such as tin, rubber and oil palm.

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<sup>27</sup> Sections 5 and 6, Housing Development Act 1966.

Yap also identified three structural features of the housing development industry. Firstly, production was dominated by large, highly capitalised firms. Secondly, developer firms were normally held under a parent or holding company with sources of finance coming from the mining and plantation sectors; this indicated the highly speculative nature of housing developers. Finally, location and activity-wise, firms were concentrated in the west coast 'core' States, particularly Selangor. The structural features of private developers were argued to contribute to their highly speculative nature and spatial concentration in the west coast of Peninsula Malaysia.

Although the above study provided a helpful perspective of Malaysian private developers, no distinction was made with regard to regional differences caused by varying Local regulations, technology level, labour market, demography and politics. An important variable is the *Bumiputera* status of the developer company, an integral point of national economic strategies since 1970.<sup>28</sup> A later study comparing the entrepreneurial characteristics between *Bumiputera* and non-*Bumiputera* housing developers reported that the majority of its *Bumiputera* respondents came from Terengganu, Kelantan and Kuala Lumpur whilst non-*Bumiputera* came from Selangor, Pahang and Perak (Jaafar et al., 2007).

The private sector housing developer in Peninsula Malaysia is represented by the Real Estate and Housing Developers' Association Malaysia (REHDA). Besides the national council that represents the collective interests of private housing developers, a REHDA branch is established in each State to address specific issues faced by developers in that State. According to its website accessed in May 2011, REHDA's current membership stands at over 1,000 developers throughout Malaysia (Real Estate and Housing Developers' Association Malaysia, 2011). More recently, the organisation has lobbied for the cessation of the private low-cost housing quota requirement and asked for the government to fully assume the responsibility for building low-cost housing in the country (Damodaran, 2011).

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<sup>28</sup> According to the Malaysian Companies Act 1965, the *Bumiputera* status is given to a company comprising at least 51% *Bumiputera* of the shares are held by the Malays, and the majority of the company's Board of Directors are Malays.

#### **4.3.4 Commentary on the role of private and public developers in low-cost housing provision**

In Malaysia, both public and private developers share the responsibility in providing low-cost housing. Whilst regulations controlling developers' activities may be similar across the country, the "organisational structure" of developers may differ by region due to economies of scale, market factors, information asymmetries, regulation and risk as argued by Ball (2003b). In practice, there exists a substantial gap between housing markets in Peninsular Malaysia, with the west coast being more developed than the east coast. Although the national low-cost housing achievements under each Malaysia Plan did not state the regional outputs, it may be deduced that the public/private low-cost housing contribution vary regionally due to the above institutional factors.

#### **4.4 National development planning and low-cost housing policy (1957-2010)**

This section outlines the progression of Malaysia's low-cost housing policy within general development planning. From 1957 to February 2011, there was no separate formal policy document on housing. Instead, housing policy has been subsumed in the Malaysia Plans which comprise both generic and physical housing targets for both the public and private sector. However, in February 2011, the National Housing Policy (NHP) was launched. Although this thesis examines the impact of regulations under the pre-NHP system, the new policy shall also be included in this chapter to provide the most up-to-date housing policy available in Malaysia. An analysis of various Malaysia Plans was undertaken to produce the summary and sequencing of the pre-NHP housing policies within development plans (Table 4.2) and the achievements of both public and private sector under each plan (Table 4.3). The objective of this exercise is to identify at a macro-level, the significance of low-cost housing in Malaysian national policy and the comparative performance of both the state and the market in providing low-cost housing. Reference to Table 4.2 and Table 4.3 will be made throughout this section. All housing figures refer to Table 4.3 unless stated otherwise.

**Table 4.2: Overview of Malaysia public housing policy before the implementation of National Housing Policy**

Period	Development strategy	Key documents	Main objectives of policy	Housing strategies, particularly for low-income groups
1960-1970	Pre-NEP	First Malaysia Plan (1MP) (1966-70)	<ul style="list-style-type: none"> <li>•To continue the colonial government policies.</li> <li>•To improve of basic infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>•Emphasis on housing especially for low-income groups in urban areas.</li> <li>•Introduce regulation of housing developers.</li> <li>•Public sector meeting housing needs of low-income groups whilst private sector supplying medium and high income groups.</li> </ul>
1971-1990	New Economic Policy (NEP) OPP1	Second Malaysia Plan (2MP) (1971-5), Third Malaysia Plan (3MP) (1976-80), Fourth Malaysia Plan (4MP) (1981-85) and Fifth Malaysia Plan (5MP) (1986-90)	<ul style="list-style-type: none"> <li>•To eradicate poverty and re-structure society.</li> <li>•To develop a <i>Bumiputera</i> Commercial and Industrial Community (BCIC).</li> <li>•To move the economy from low-productivity to higher-productivity sectors.</li> </ul>	<ul style="list-style-type: none"> <li>•Priority given to housing for low-income groups.</li> <li>•Setting the ceiling price for low-cost housing at RM25,000 in 1982.</li> <li>•Establishment of state agencies and statutory bodies to facilitate housing provision.</li> <li>•Implementation of the human settlement concept in housing development.</li> <li>•Private sector as main provider of housing including low-cost housing by introducing mandatory low-cost housing requirement.</li> <li>•Implementation of the <i>Bumiputera</i> quota in new housing schemes to promote national unity.</li> <li>•Introduce regulation of housing construction.</li> </ul>
1991-2000	National Development Policy (NDP) OPP2	Sixth Malaysia Plan (6MP) (1991-95) and Seventh Malaysia Plan (7MP) (1996-2000)	<ul style="list-style-type: none"> <li>•To continue NEP's basic objective i.e. growth with equity.</li> <li>•To eradicate hard-core poverty.</li> <li>•To further promote BCIC.</li> <li>•To place a greater reliance on the private sector to generate economic growth and income.</li> <li>•To emphasise human resource development.</li> </ul>	<ul style="list-style-type: none"> <li>•Ensuring decent housing for all strata of society regardless of income, with priority for low-income groups.</li> <li>•Achieving zero squatters by 2005.</li> <li>•Introduction of sustainable development concept in housing development.</li> <li>•Continuing emphasis on the private sector as main producer of housing.</li> <li>•Implementation of new laws and guidelines to ensure the quality of housing.</li> </ul>

Period	Development strategy	Key documents	Main objectives of policy	Housing strategies, particularly for low-income groups
2001-2010	National Vision Policy (NVP) OPP3	Eighth Malaysia Plan (8MP) (2001-05) and Ninth Malaysia Plan (9MP) (2006-2010)	<ul style="list-style-type: none"> <li>•To maintain and further extend the efforts of the NEP and NDP in achieving economic competitiveness, equitable society, unity and political stability.</li> <li>•To facilitate Vision 2020 whereby Malaysia aims to be a fully developed country by 2020.</li> <li>•To promote ICT and steer Malaysia towards knowledge-based economy.</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•Promotion of sustainable urban development and adequate housing for all income groups.</li> <li>•The private sector to spearhead economic growth, while the public sector to work alongside as facilitator and enabler.</li> <li>•The government as key player in low-cost housing production and the private sector for low medium, medium and high cost housing.</li> <li>•Establishment of new housing institution National Housing Corporation Ltd.</li> <li>•New pricing model for low-cost housing.</li> </ul>
2011-2020	New Economic Model (NEM)	Tenth Malaysia Plan (10MP) (2011-2015)	<ul style="list-style-type: none"> <li>•To continue previous plans' basic objectives by transforming Malaysia into a high income country with inclusiveness and sustainability being its core drivers.</li> <li>•To promote high-skilled human capital, efficient public services, a reinvigorated private sector and equal opportunity for all Malaysians.</li> </ul>	<ul style="list-style-type: none"> <li>•Implementing National Housing Policy (NHP), i.e. providing affordable housing for the bottom 40% of households.</li> <li>•Thrust 1 of NHP calls for the provision of adequate housing based on the specific needs of target groups, especially low-cost houses for low-income groups.</li> </ul>

*Sources: Analysed from various Malaysia Plans, United Nations Development Programme (2005) and National Economic Advisory Council (2010)*

#### Summary of low-cost housing policy documents based on Table 4.2 :

- From 1970 to present time, 4 long-term Outline Perspective Plans (OPPs) have been implemented: New Economic Policy (NEP) (1970-1990), National Development Policy (NDP) (1991-2000), National Vision Policy (NVP) (2001-2010) and New Economic Model (NEM) (2011-2020)
- From 1966 to present time, 10 five-yearly Malaysia Plans have been implemented within the OPPs, from the First Malaysia Plan (1966-1790) to the Tenth Malaysia Plan (2011-2015).
- For the purpose of this thesis, Table 4.2 divides the post-independence economic periods into five distinctive periods: Pre-NEP, NEP, NDP, NVP and NEM.



**Table 4.3: Low-cost housing achievements during each Malaysia Plan<sup>1</sup>**

Malaysia Plan	Budget allocation	Actual expenditure	Public sector low-cost housing			Private sector low-cost housing		
			No. of units planned	No. of units built	% achievement	No. of units planned	No. of units built	% achievement
1MP (1966-70)	RM162.5mil	RM99.79mil <sup>1</sup>	-	22,522 <sup>2</sup>	-	-	-	-
2MP (1971-75)	RM98.24mil	RM91.19mil	-	13,244	-	-	-	-
3MP (1976-80)	RM640.09mil	RM441.56mil	62,100 <sup>3</sup>	39,490 <sup>3</sup>	63.6	-	-	-
4MP (1981-85)	RM1712.22mil	RM1,659.06	176,500	71,310	40.4	90,000	19,170	21.3
5MP (1986-90) <sup>4</sup>	RM374mil	RM345mil	42,880	26,172	61.0	130,400 (o)	4,937 (o)	3.4 (o)
						240,000 (s)	83,940 (s)	35.0 (s)
6MP (1991-95)	RM394mil	RM228mil	24,430	10,669	43.7	44,080 (o)	80,678 (o)	183.0 (o)
						171,620 (s)	131,325 (s)	76.5 (s)
7MP (1996-2000)	RM1,208mil	RM1,204mil	29,000	45,583	157.2	137,000	127,514	93.1
8MP (2001-2005)	RM1,980mil	RM3,242.3mil	175,000	81,108	46.3	39,000	94,029	241.1
9MP (2006-2010)	RM2,256.5mil	N/A	67,000	42,300	63.1	80,400	53,500	66.5
<b>TOTAL</b>			<b>576,910</b>	<b>352,398</b>	<b>61.1%</b>	<b>932,500</b>	<b>595,093</b>	<b>63.8%</b>

Source: Extracted and compiled from various Malaysia Plans

Notes:

<sup>1</sup> Where there is data discrepancy between two MPs, the information in the subsequent MP is adopted in this table.

<sup>2</sup> For Peninsula Malaysia only.

<sup>3</sup> For the period 1971-1980.

<sup>4</sup> In 1986, the Special Low-cost Housing Programme (SLCHP) was introduced as an economic stimulus effort involving the private sector. Information on this programme was not contained in the previous MP. Here, (o) denotes ordinary low-cost housing and (s) denotes special low-cost housing.

Summary of low-cost housing production in Malaysia based on Table 4.3:

- Total public low-cost housing produced between 1966 and 2010 is 352,398 units.
- Total private low-cost housing produced between 1982 and 2010 is 595,093 units (including SLCHP).
- Total low-cost housing produced between 1966 and 2010 is 947,491 units, with the public sector contributing 37.2% and the private sector contributing 62.8% respectively.

From 1957 to 1970, the Malaysian economy was solely guided by five-year plans. After the 1969 ethnic riots, short-term plans were set within longer-term plans. Thus, the current system comprises the five-yearly Malaysia Plans, set within longer-term Outline Perspective Plans (OPPs), with annual plans used to fine-tune and adjust the five-year plans to reflect changes in circumstances (United Nations Development Programme, 2005). Since 1971, Malaysia has implemented four OPPs beginning with the New Economic Policy (NEP) (1970-1990), National Development Policy (NDP) (1991-2000), National Vision Policy (2001-2010) and New Economic Model (NEM) (2011-2020) and ten Malaysia Plans. Currently, the Malaysian economy is directed by the New Economic Model (NEM) (2011-2020) with the development vehicle being the Tenth Malaysia Plan (10MP). For the purpose of this thesis, Table 4.2 divides the post-independence economic periods into five distinctive periods: Pre-NEP, NEP, NDP, NVP and NEM.

A review of various Malaysia Plans revealed that Malaysia has practised central planning since mid-1970s to supply low-cost housing. In theory, the low-cost housing demand for each State is projected using the number of housing applications and squatters awaiting relocation, but a recent Malaysian PhD research revealed non-uniformity in methods used by planners to estimate housing supply (Rameli, 2009).

Table 4.3 indicates that 947,491 low-cost houses have been built since the First Malaysia Plan by both public and private sectors. From this total figure, the public sector built 352,398 units from 1966 to 2010 whereas the private sector built 595,093 units from 1982 to 2010. In other words, the private sector outperformed the public sector by building 62.8% of the total low-cost housing produced in the country. The private sector managed this feat during a shorter period of their engagement in low-cost housing construction (28 years) compared to the public sector (44 years). The Federal Government has undertaken to build 78,000 new low-cost housing units throughout Malaysia during the current Tenth Malaysia Plan period, taking place from 2011 to 2015.

Generally, Table 4.2 shows that low-cost housing has always received high priority in the long term development agenda. Analysis also shows the primacy of the private sector over the public sector in terms of units produced since the Fifth Malaysia Plan (1986-1990). Notwithstanding the priority by the state, there has been a general tendency for the production of low-cost housing to miss the planned targets, with three notable exceptions.

First, the private sector exceeded the low-cost housing targets by 183% in the Sixth Malaysia Plan (1991-1995) due to the successful strategy of privatisation, supported by government economic stimulus measures. In essence, private low-cost housing supply increased due to the restructuring of State developers as private companies but with government connections. Second, the actual production of low-cost housing exceeded targets by 157% during the Seventh Malaysia Plan (1996-2000). The Asian financial crisis of 1997 led to capital injections by the government as an economic stimulus measure, one component of which was low-cost housing. The third ‘overachievement’ occurred in the Eighth Malaysia Plan (2001-2005), with the private sector building 241% of planned low-cost housing supply. This was a genuine overachievement on the part of the private sector due to a booming economy and housing market. Because of the booming private market, more low-cost housing was built due to the operation of the low-cost housing quota requirement on new developments.

#### **4.4.1 Pre-New Economic Plan Period (1957-1970): First Malaysia Plan**

A development strategy promoting strong social elements has been adopted since 1970 to improve ethnic equity. As shown in Table 4.3 above, only the public sector was involved in the construction of low-cost housing during the pre-NEP period, building 22,522 low-cost houses. Then, low-cost housing was perceived as a pure public good being the sole responsibility of the government whilst the private developers catered for the medium and high income groups. Besides formal low-cost housing, low-income groups resorted to squatter settlements in urban centres and traditional housing in rural areas.

#### **4.4.2 New Economic Policy (NEP) Period (1971-1990): Second to Fifth Malaysia Plans**

In 1970, the New Economic Policy (NEP) was launched together with the Second Malaysia Plan. The NEP promoted an affirmative action policy aimed at fostering national unity and nation-building through poverty eradication and economic restructuring, severing the link of ethnicity with economic function (e.g. the Malay as farmers, the Chinese in commerce and the Indians as labourers in plantation estates) (see Table 4.2). It was during this period that the Malaysian housing policy assumed a more pronounced social-engineering purpose to reflect its multi-ethnic population. Low-cost housing was viewed as a wealth distribution tool to close the economic gap between the *Bumiputera* and other ethnic groups. However, the public sector still dominated the supply of low-cost housing during the Second and Third Malaysia Plans by building a total of 52,734 units.

The affirmative action policy of the NEP exacerbated housing shortages among the urban poor Malays during its implementation (Agus, 2002; Drakakis-Smith, 1977). In the 1970s, the large scale migrations of impoverished Malays from rural areas to urban centres were unmet by corresponding affordable housing supply, leading to the proliferation of squatter settlements in major cities (Agus, 2002). According to Agus (2002), the 1984 Kuala Lumpur Structure Plan indicated that in 1980 the number of Malay squatters was approximately 80,000, representing 32.8% of the entire Malay population in the city.

During the second half of the NEP, the government introduced the mandatory requirement of low-cost housing in private housing projects, known as the ‘low-cost housing quota’ (Salleh & Choong, 1997). This explains the sudden surge in private low-cost housing in Table 4.3. The low-cost housing quota was followed by the 30% *Bumiputera* quota to correct the income-led racial segregation in housing schemes (Yahaya, 1989). Both the low-cost housing and *Bumiputera* quota were social elements of the NEP, but there was also an equally strong economic incentive to produce low-cost housing. During the economic recession in the mid-1980s, the Special Low-cost Housing Programme was used as part of an economic stimulus mechanism whereby the private sector developer built large-scale low-cost housing with special institutional and financial privileges (Malpezzi & Mayo, 1997).

Comparing the public and private sector performance, the public sector built 136,972 units whilst the private sector built 108,047 units of low-cost housing during NEP. Increased private developer involvement in low-cost housing production resulted from both the low-cost housing quota and also the Special Low-cost Housing Programme (SLCHP) used to stimulate the economy. More importantly, Table 4.3 shows that in the Fifth Malaysia Plan, the private sector significantly outperformed the public sector. This was mainly caused by the SLCHP which was implemented by the government to ensure private developers’ business sustainability during the downturn of the property market during that period.

#### **4.4.3 National Development Policy (NDP) Period (1991-2000): Sixth and Seventh Malaysia Plans**

The National Development Policy (NDP) was implemented from 1991 to 2000 (Table 4.2). Whilst NDP follows the basic tenet of NEP in promoting growth with equity, some NEP objectives were streamlined. There was an increased focus on poverty eradication, including the elimination of squatter settlements by 2005. Low-cost housing continued to receive government priority, aimed to accommodate low-income groups and squatters in urban centres.

The private developers' role in low-cost housing production was further augmented during the NDP, building 339,517 units compared to 56,252 units by the public sector. An explanation of the private sector's exceptional performance was the strategy adopted by States in boosting low-cost housing supply. In the late 1980s, government-linked companies (GLCs) (i.e. private companies with government connections) were formed to undertake privatisation programmes with the strategy of eventually withdrawing all forms of state support to enhance the efficiency and independence of those companies (Wan Abdullah, 2004). The GLCs, combined with low-cost housing quota and Special Low-cost Housing Programme, assured that the private low-cost housing outputs were significantly greater than public low-cost housing.

#### **4.4.4 National Vision Policy (NVP) Period (2001-2010): Eighth and Ninth Malaysia Plans**

Shortly after the Sixth Malaysia plan was launched, the then Prime Minister Tun Dr. Mahathir Mohamad announced 'Vision 2020', aiming at transforming Malaysia into a fully developed nation in its own mould by 2020 (ILBS, 2010). In working towards this aim, the National Vision Policy (NVP) succeeded the NDP. Reflecting the changed landscape of Malaysian socio-politics in the late 1990s, NVP added political stability alongside social equity and unity as its objectives. Whilst low-income groups continued to receive priority during this period, other housing sub-sectors also received further government attention particularly low-medium cost housing. The low-medium cost housing in particular was seen to relieve some pressure from low-cost housing. In theory, low-cost housing occupants who have experienced income improvements can upgrade their dwellings to the low-medium cost type (Malaysia, 2001).

The private sector continued to outperform the public sector in the construction of low-cost housing; 147,529 units were built by the private developers compared to 123,408 units by the public sector. The private sector's performance was not attributable to any special economic stimulus package such as those offered during the Fifth and Sixth Malaysia Plans. More remarkably, the private sector surpassed the planned target during the Eighth Malaysia Plan by 241.1%, building 12,921 units more than the public sector. This output deviates from the original plan which planned for the public sector to construct 136,000 more low-cost units than the private sector. This significant performance of the private sector continued into the next Malaysia Plan whereby the private sector built 11,200 units more than the public sector.

#### **4.4.5 New Economic Model (NEM) Period (2011-2020)**

With Vision 2020 being the ultimate goal, a framework of four pillars has been adopted in transforming the nation since 2009. The pillars include the 1Malaysia concept, the Government Transformation Programme, the Economic Transformation Programme and the 10<sup>th</sup> Malaysia Plan. Under the Economic Transformation Programme, the New Economic Model (NEM) was implemented to guide the country's development planning until 2020. NEM presents a shift in the affirmative action policy from ethnic-based to needs-based, whereby the focus is on providing affordable housing for the bottom 40% of households (National Economic Advisory Council, 2010).

The current Tenth Malaysia Plan reflects this aspect and further clarifies that the government aspires to enhance the quality of affordable housing (Malaysia, 2010). The focus on providing affordable housing of good quality for low-income groups is reflected in the proposed amendment to the Uniform Building By-Laws 1984 to increase minimum specifications (Malaysia, 2010, p. 293). The Tenth Malaysia Plan further indicates a new focus on the management aspect of low-cost housing provision. For instance, the plan has established the 1Malaysia Housing Fund for the repairs and maintenance of private low-cost housing in Kuala Lumpur (Malaysia, 2010, p. 279).

#### **4.4.6 National Housing Policy**

The new National Housing Policy (NHP) aims to provide a direction for both the state and the market in the planning and development of the housing sector (MHLG, 2011). Since independence and until February 2011, the housing industry was not guided by a separate national housing policy, causing uncertainty and disharmony due to constitutional divisions of Federal-State authority in housing. Under the NHP, the government's main housing goal is "to provide adequate, comfortable, quality and affordable housing to enhance the sustainability of the quality of life of the people" (MHLG, 2011, p. 75).

With regard to low-cost housing, the NHP aims to resolve issues of inadequate supply, low construction quality, weak housing delivery system, ineffective control, implementation and enforcement of housing regulations and quota provisions (MHLG, 2011). The housing needs of low-income groups, defined as those earning household incomes of less than RM2,500 per month, are afforded priority under the NHP (MHLG, 2011). Both the public and private sector will continue providing affordable houses for sale or rental. Furthermore, the State Authority is urged to be more flexible in implementing the low-cost housing quota based on location suitability and local demand. Details of NHP are contained in Appendix 3.

#### **4.4.7 Commentary on the low-cost housing achievements under various national economic plans**

There was explicit priority for low-cost housing throughout the five economic periods. In total, 900,000 units of low-cost housing were built since 1960. Almost two thirds of the low-cost housing production came from the private sector. Generally, there was mixed results of low-cost housing achievements under various Malaysia Plans. Often the planned targets were not achieved by both private and public sectors. Nonetheless, exceptional results were also shown by both sectors, with private developers increasingly leading supply. Institutional supports have contributed to these ‘overachievements’, for instance the implementation of the Special Low Cost Housing Programme during the economic downturn to ensure the business sustainability of developers. Additionally, the supply of low-cost housing increased tremendously during the housing boom in the 2001-2005 period due to the implementation of the low-cost housing quota requirement on new developments. Clearly regulations play a role in ensuring the supply of low-cost housing, controlling the operations of developers and increasingly, ensuring the quality of low-cost housing.

#### **4.5 Chapter conclusion**

This chapter has firmly established the significance of low-cost housing in the Malaysian national housing policy agenda. It shows how the Malaysian government has implemented direct and indirect intervention measures to achieve the housing targets for low-income groups. An important mechanism to secure private sector participation in producing low-cost housing is the low-cost housing quota, whereby each State Authority can require the provision of a certain percentage of low-cost housing in new housing developments. The analysis of low-cost housing achievements in various Malaysia plans showed the significant success of the low-cost housing quota system at the national level, with the private sector even outperforming the public sector in producing low-cost housing.

The nationally constituted structure of low-cost housing provision in Malaysia is influenced by regional socio-economic circumstances and characteristics of the local property market (i.e. developer and land market characteristics). These institutional factors influence the manner in which national policies on low-cost housing are implemented at the State and Local levels. The next chapter provides the State context where the research was undertaken.

## Chapter 5: Terengganu: The State context

### 5.1 Introduction

In the context of this thesis, the examination of the effects of regulations at the regional level supports the notion of the disaggregation of housing markets. According to Adams, “there is no single market, but rather a series of linked submarkets” (Adams, 2008, p. 4570). In most countries, various institutional factors such as the legal structure, geography, local economic conditions and resources result in a generally disaggregated housing market at the regional or local level. Ball (2003b) argues that these institutional factors affect the characteristics and practices of the housebuilding industry, resulting in unique housing markets between countries. This thesis extends Ball’s argument to the regional level (i.e. the institutional variations result in distinct housing markets within the country).

This thesis argues that the operations of the regulatory environment are internalised differently at the regional level due to behaviours of key agents (their ‘habits’ and interactions with other agencies) and the influence of pre-existing institutions (i.e. legal, government and political institutions). The current trend within the international literature also indicates that examinations of planning control at the local level enhance the understanding of planning issues (Ball, 2010b; Bramley & Leishman, 2005b; Burgess & Monk, 2011; Monk & Whitehead, 1999). Bramley & Leishman (2005b) have illustrated that the different planning strategies applied in two economically opposite areas (i.e. ‘high’ and ‘low’ demand States) indeed result in different market outcomes. Therefore, this thesis sets to examine the effects of low-cost housing regulations at the regional level.

This chapter provides the State context of the thesis. A significant element of this chapter represents elements of analysis of primary and secondary data obtained from the pilot study and fieldwork. Terengganu was previously neglected in Malaysian housing studies due to its perceived unimportance. Nonetheless, recent economic growth and rapid urbanisation in the State has led to increased low-cost housing demand. Consequently, there is a need to better understand how state intervention has affected the local low-cost housing provision in the State. Structurally, this chapter begins by providing the State background (i.e. its geography, history, demography, politics and administration and economy). Following this, the manner and condition of the State’s low-cost housing provision is discussed. To conclude, it reflects on how the policy and methods of low-cost housing provision in the State have influenced its regulatory environment.

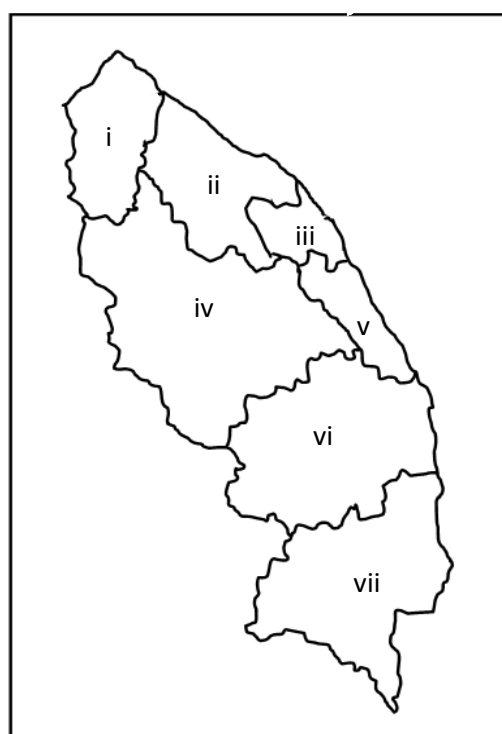


## 5.2 State background

### 5.2.1 Geography

Terengganu is a State located on the east coast of Peninsula Malaysia. This State shares its north and north-west boundaries with Kelantan and its south and south-west boundaries with Pahang. It encompasses an area of approximately 1,295,638.3 hectares (State Authority of Terengganu, 2010). Current land use is dominated by forest reserve (42%), others (32.7), agriculture (21.9%), building (2.8%) and industrial (0.5%) (State Economic Planning Unit, 2009). The State is composed of seven districts namely Kuala Terengganu (State capital), Kemaman, Dungun, Marang, Hulu Terengganu, Besut dan Setiu. Figure 5.1 shows the districts and corresponding areas. The east coast is separated from the west coast by the Titiwangsa Mountain Range. This region is also affected by the North-east Monsoon at year end which brings heavy rain and floods. Until recently, these geographical factors have affected transportation and commerce in the State, contributing to the slow economic development of the region compared to the west coast of Peninsula Malaysia.

**Figure 5.1: Map of Districts in the State of Terengganu**



Note:

- i District of Besut – 123,368 ha
- ii District of Setiu – 130,436 ha
- iii District of Kuala Terengganu – 60,528 ha
- iv District of Hulu Terengganu – 387,463 ha
- v District of Marang – 66,654 ha
- vi District of Dungun – 273,503 ha
- vii District of Kemaman – 253,560 ha

*Source: Kuala Terengganu Structure Plan (State Authority of Terengganu, 2006)*

**Photo 5.1: View of Kuala Terengganu, the State capital of Terengganu**

Source: <http://rahmanis-homestay.blogspot.com/2010/11/places-distance-attractive-things.html>  
accessed on 15 January 2012

### 5.2.2 History

Prior to independence in 1957, Terengganu was part of the Unfederated Malay States together with Johor, Kelantan, Perlis and Kedah. Terengganu was among the first Malaysian States to embrace Islam as depicted by the 14<sup>th</sup> century Terengganu Inscribed Stone. The strong Islamic identity, fortified by a solid autonomous rule by a hereditary *Sultan*, resulted in tenacious resistance to British political control (Khoo, 1974). Terengganu was among the last Malay States to receive a British Adviser and one of a few States with recorded anti-British uprising events (Khoo, 1974). This independent character persists within the present socio-political climate, whereby the Terengganu people have shown resistance to interference by outsiders, including rejecting a Federal-leaning Chief Minister in 2008 (J. Tan, 2008).

### 5.2.3 Demography

Terengganu's population currently stands at 1,012,900 (Department of Statistics, 2010), with an urban-rural population ratio of 54:46 (State Economic Planning Unit, 2009). With the State population comprising 3.6% of Malaysia's total population of 28.25 million (Department of Statistics, 2010), the State's population growth rate in 2008 (2.0%) was slightly higher than the national rate (2.4%) (State Economic Planning Unit, 2009). Table 5.1 shows the population by ethnicity, whereby *Bumiputeras* comprise 96.7% of the total population of the State and the remainder comprising the Chinese and other ethnic groups. The ethnic composition has significant implications for State housing policy (i.e. the existence of a non-*Bumiputera* housing quota in private housing as opposed to the *Bumiputera* quota in west coast States).

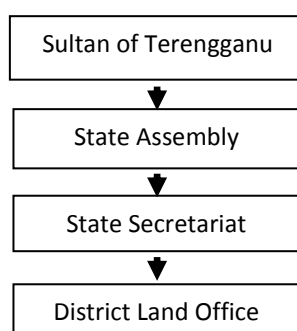
**Table 5.1: Estimated population according to ethnicity, Terengganu, 2006-2010.**

<b>Ethnic Group</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Malay	926,200	937,500	949,400	961,800	974,800
Other <i>Bumiputera</i>	3,200	3,300	3,400	3,500	3,500
Chinese	26,700	27,000	27,200	27,600	27,900
Indian	2,200	2,300	2,300	2,400	2,400
Others	3,600	3,800	4,000	4,100	4,300
<b>Total</b>	<b>961,900</b>	<b>973,900</b>	<b>986,300</b>	<b>999,400</b>	<b>1,012,900</b>

*Source: Table 2.13. Principal statistics, Terengganu (Department of Statistics, 2010)*

#### 5.2.4 Politics and administration

Figure 5.2 sets out the administrative structure for Terengganu. Similar to Malaysia, the State is under a constitutional monarchy system with the Sultan being the supreme ruler (ILBS, 2010). The executive and legislative power is vested with the State Assembly, led by the Chief Minister (ILBS, 2010). The formation of the State Assembly and appointment of Elected Representatives<sup>29</sup> of constituencies are preceded by a general election every four to five years (ILBS, 2010). Terengganu is one of the States forming ‘the Malay belt’ together with Kelantan, Kedah and Perlis where the struggle for power has always been between two political parties, namely the United Malays National Organisation (UMNO) of the National Front coalition and the Pan-Malaysian Islamic Party (PAS) of the opposition coalition (Jabar, 2006). After the 2008 General Election, the State government has been controlled by the National Front coalition.

**Figure 5.2: Administrative structure for the State of Terengganu**

*Source: Adapted and translated from 'Ensiklopedia Undang-undang dan Pentadbiran Perancangan Bandar dan Desa' (Federal Department of Town and Country Planning, 2007)*

<sup>29</sup> Elected Representatives at the federal level are Members of Parliament whilst Elected Representatives at the state level are State Assemblymen.

The conservative mindset characterising the socio-political landscape of the State still persists. Whereas the National Front alliance has controlled the Federal government since independence, the National Front has been defeated twice at the State level, a feat surpassed by only one other State (Jabar, 2006). The defiance against outside control also manifested in the 2008 crisis over the re-appointment of a previous Chief Minister. Deemed too “Federal-minded”, the previous Chief Minister was rejected by the Sultan of Terengganu over a locally favoured politician (J. Tan, 2008). Since then, the State Authority has endeavoured to bring development closer to the grassroots level. The slogan “*Merakyatkan Pembangunan*” has been adopted, loosely translated as ‘Bringing development to the people’ to signify the interest of the Terengganu people above the Federal Government. The word *rakyat* (‘people’) has wider connotations than its literal meaning, now seen to ensure political sustainability in the State. Housing is an area that can ensure political sustainability in the State.

Administratively, Terengganu adopts a three-tier system namely State-District-Local, with the Sultan being the official head of State and the District Land Office overseeing District administration (Figure 5.2). Despite the conferment of official authority, the highest executive power actually lies with the Chief Minister who leads the State Assembly. The State Assembly, also known as the State Executive Council (‘State Exco’), is empowered to legislate on matters contained in the State List in the Federal Constitution, which includes land and Local government. The District Officer is the administrator at District level whilst the President of the Local Council is the administrator at Local level. Land related matters such as alienation, subdivision, transfer and lease are handled by the District Land Office and the State Registry of Lands and Mines.

In matters of low-cost housing, the Housing Department of the State Secretariat Office (HDSSO) is the highest administrator of State low-cost housing policy. State low-cost housing policies are kept and disseminated by the HDSSO to District Land Offices and Local Authorities. The administrative structure indicates that the implementation of low-cost housing policy at the State level involves different tiers of government (i.e. Federal-State-Local) and also various State agencies.

### 5.2.5 Economy

Traditionally, Terengganu's economy used to depend on agriculture and fishery. However, in 1976 petroleum was discovered off the southern shore of Terengganu. Since then, a robust petro-chemical industry has developed in the District of Kemaman at the south of the State (see Photo 5.2). According to the 'Basic data for the State of Terengganu', Terengganu contributed 44.38% towards the mining and quarrying sector in Malaysia in 2008 (State Economic Planning Unit, 2009). The mean monthly household income in the State at RM3,017 (about USD996) per month is well below the national level of RM4,025 (about USD1,328) in 2009 and is the fifth lowest in the country (Economic Planning Unit of the Prime Minister's Department, 2011). It could be deduced that although petroleum has contributed to economic growth in Terengganu, not all households enjoy benefits from the petroleum dollars. Some households still lag behind in terms of income and proper housing.

**Photo 5.2: The integrated petrochemical complex in Kertih, Terengganu**



Source: <http://biz.thestar.com.my/news/story.asp?file=/2011/6/11/business/8878819> accessed on 15 January 2012

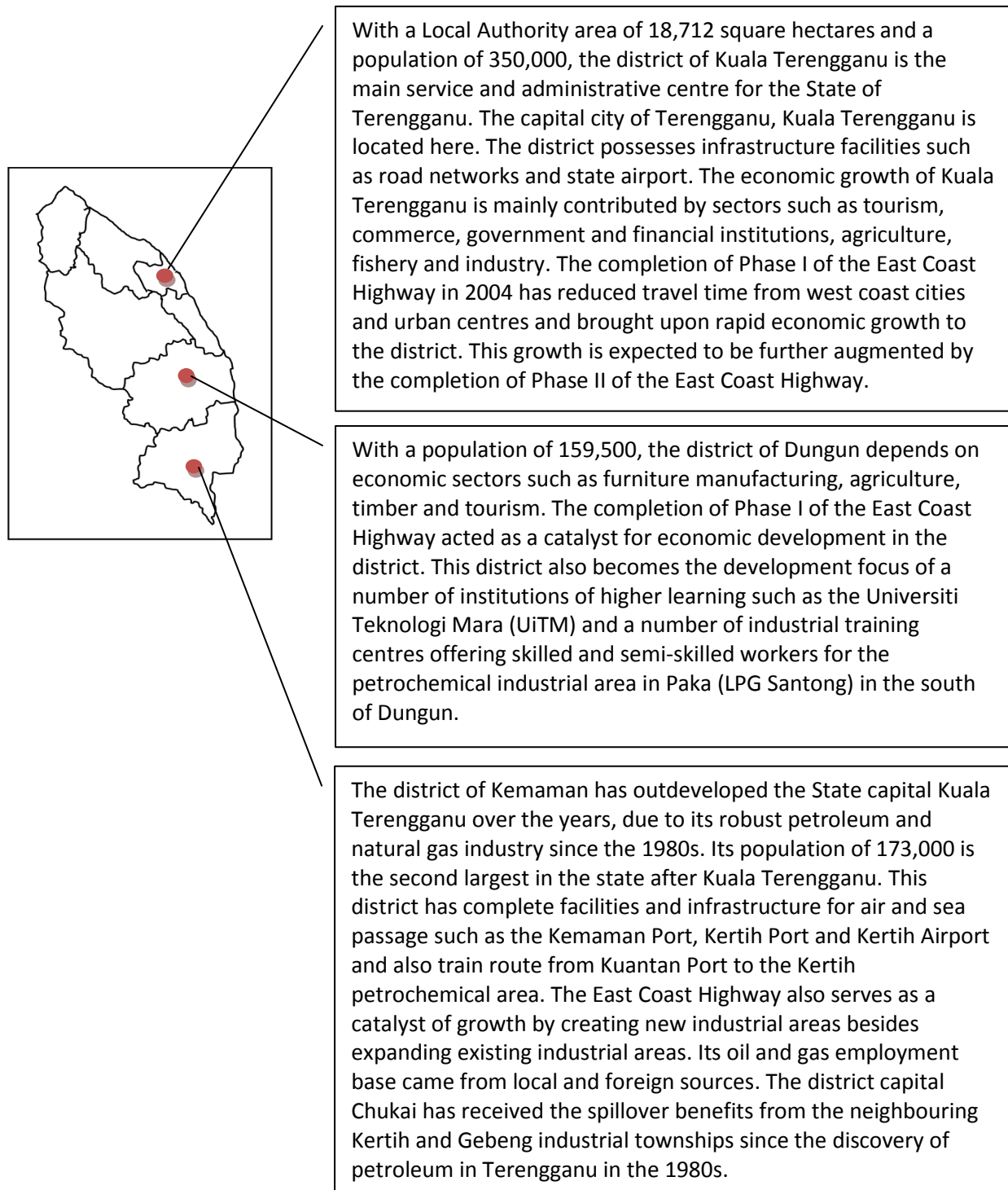
Terengganu is expected to attain a ‘developed State’ status by the year 2020 (State Authority of Terengganu, 2006). The State’s economy is expected to significantly grow since the establishment of the East Coast Economic Region (‘ECER’) in 2007 comprising Terengganu and three other States (ECER Development Council, 2009). Following the conception of ECER, the State capital Kuala Terengganu was upgraded to city status in 2008 (Murali, 2008). The ECER Master Plan, to be implemented by the ECER Development Council, endeavours to create 560,000 jobs in the next 12 years as a result of PPPs between the government and the private sector. The ECER Development Council is composed of Federal and State government representatives namely the Prime Minister, the Deputy Prime Minister, Finance Ministers and Chief Ministers of the States. The private sector is currently represented by the national petroleum company, Petronas, which undertakes its offshore activities mainly off the Terengganu coast and is a major property developer.

In sum, the petroleum industry and the Federal Government’s continuous measures to close regional economic gaps have brought economic development to Terengganu. There is no empirical data on the effects of the above developments on housing affordability and low-cost housing adequacy in the State. Based on the author’s own observation and anecdotal evidence, it can be deduced that low-cost housing demand has substantially risen alongside the State’s economic growth.

### **5.3 Micro markets under study**

This thesis focuses on the activities of low-cost housing actors in three districts namely Kuala Terengganu, Kemaman and Dungun. High economic growth and employment opportunities in these three districts have led to rapid population growth in urban centres and increased the need for housing, especially for low-income groups. Based on the Terengganu Structure Plan 2020, and supplemented by information from key informants, brief descriptions of the three districts and locations are provided below.

There are distinct factors behind the economic growth in the three districts (Figure 5.3). As the State capital, Kuala Terengganu developed naturally as the commercial and administrative centre for the State. Kemaman’s growth was mainly due to the petro-chemical industries. On the other hand, Dungun’s growth can be attributed to the spillover effects from both districts.

**Figure 5.3: Housing sub-markets under study**

Source: Derived from interviews, Local Authority websites and the State of Terengganu Structure Plan 2020

## 5.4 Low-cost housing provision in Terengganu

The focus of this thesis is on the production aspect of low-cost housing provision. This section clarifies the low-cost housing policy, the demand and supply of low-cost housing and the regional operation of the structure of low-cost housing provision in Terengganu. For the first time, characteristics of local private housing developers in Terengganu are presented. This section is based on primary fieldwork data obtained from interviews with key officers at various Federal, State and Local government agencies and housing files at the HDSSO. Secondary data from Malaysian housing literature and government websites is also used to support the analysis.

### 5.4.1 State policy on low-cost housing

The State policy on low-cost housing was obtained from the HDSSO website and a policy document from a HDSSO file. Generally, the State housing objectives as set out in Table 5.2 are closely aligned with national policies. However, the affirmative action policy favouring the *Bumiputera* is redundant in Terengganu as the State population has always comprised mostly ethnic Malays. The State Authority even reversed the national trend by imposing a non-*Bumiputera* quota in housing schemes to promote ethnic integration in the State (Planner 2, Personal Communication, November 17, 2009). Nonetheless, this non-*Bumiputera* quota did not extend to low-cost housing; according to State Authority policy (State Executive Council Meeting 9/2001 dated 4 April 2001), currently all low-cost housing must be sold to *Bumiputera*. In contrast, the review of national housing policies in Chapter 4 found no mention of the ethnicity of the low-cost housing recipient. The implementation of non-*Bumiputera* quota in conventional housing schemes and all-*Bumiputera* quota for low-cost housing in Terengganu reflects the prerogative of State Authorities in drawing low-cost housing policies that reflect the characteristics of the local housing market.

The Terengganu State Authority strongly supports home ownership (see Table 5.2). All private and part of public low-cost schemes are sold outright to qualified low-income groups. Whereas, public rental low-cost units in the State operate on the basis of either rental-purchase or transit housing (i.e. short term tenancy while the occupant applies for and successfully purchases a low-cost housing elsewhere). This consumption arrangement ensures that low-income groups in Terengganu have access to home ownership.



**Table 5.2: State policy on low-cost housing**

<p><b>Housing objectives</b></p> <ul style="list-style-type: none"> <li>• Provide the opportunity to all <i>rakyat</i> (State population) so they can enjoy the facilities and comfort of home ownership in an orderly and planned environment.</li> <li>• Create and ensure home ownership opportunities that are tied to the affordability level of all <i>rakyat</i>, especially low-income groups.</li> <li>• Reduce existing and new squatter areas.</li> <li>• Restructure society via housing distribution.</li> </ul> <p>Source: Translated from HDSSO website <a href="http://perumahan.terengganu.gov.my">http://perumahan.terengganu.gov.my</a> accessed on 8 June 2011</p>
<p><b>Housing strategies</b></p> <ul style="list-style-type: none"> <li>• Restructure the society and increase quality of living through the provision of housing to the low-income group.</li> <li>• Encourage housing development via privatisation and set the quota or condition for the construction of low-cost and affordable housing.</li> <li>• Increase low-cost and affordable housing projects and identify areas which are suitable to be developed.</li> <li>• Facilitate and expedite the implementation of housing projects via the one-stop centre mechanism.</li> </ul> <p>Source: <i>Blueprint of State Authority Primary Committees for the State of Terengganu Development Plan 2009-2013</i> (File Reference: 1121/2/84, <i>The State of Terengganu Development Plan 2004-2008</i>).</p>

Although the housing objectives of the State of Terengganu are publically available on the HDSSO website, the strategies of the State Authority in achieving the low-cost housing objectives are unpublished. They are contained in the document “Blueprint of State Authority Primary Committees for the State of Terengganu Development Plan 2009-2013” kept in the housing file (Ref: “1121/2/84: The State of Terengganu Development Plan 2004-2008”) (see Table 5.2). An analysis of the strategies reveals that low-cost housing plays an important role in restructuring and enhancing the wellbeing of society. The State Authority’s central strategy in producing low-cost housing is via ‘privatisation’<sup>30</sup> and low-cost housing quota. The State Authority also aims to identify areas suitable to develop low-cost housing and facilitate the development process by using the One Stop Centre. These strategies indicate that besides focusing on the public sector to deliver the planned supply, the State Authority also adopts an enablement attitude to enhance private low-cost housing production.

<sup>30</sup> In this thesis, the term ‘privatisation’ is used to describe a specific method of low-cost housing development which is essentially a housing public-private partnership between the State Authority and private housing developers (details in Section 5.4.4.3 below). It does not refer to privatisation in the conventional sense (i.e. the sale of public assets to the private sector). ‘Privatisation’ is the author’s best translation of the Malay term *Penswastaan*, used to describe this scheme. The flow chart for low-cost housing ‘privatisation’ is attached as Appendix 4.

#### 5.4.2 The demand and supply of low-cost housing in Terengganu

No systematic database providing up-to-date information on the low-cost housing demand and supply was found during fieldwork. From the researcher's observation during the placement, only information on the status of new public low-cost housing developments was regularly updated at the HDSSO. According to Interviewee 2, the HDSSO did not have adequate resources and staff to update the housing data from each District Office (Interviewee 2, Personal Communication, October 4, 2009). Thus, for this section, the researcher had to use secondary data from another source.

The State Economic Planning Unit (2009) estimated that the State's combined low-cost housing demand was 25,000 units in 2007. Besides this report, the author could not find reliable data for low-cost housing demand for the State of Terengganu. An interview with the Director of the HDSSO indicated that there was no formal procedure to estimate low-cost housing demand (Interviewee 1, Personal Communication, October 4, 2009). This lack of systematic housing demand projection is prevalent in Malaysia. A recent PhD research on planning factors that caused housing oversupply in Johor Baharu revealed generally simplistic projections of local housing demand (Rameli, 2009). Based on information from Interviewee 4, the demand for low-cost housing in each district is inferred from the Open Registration System (ORS) application forms, whereby applicants are required to indicate the preferred district of their low-cost unit in the application form (Interviewee 4, Personal Communication, October 7, 2009). This information is then entered in the ORS software at the HDSSO. The total number of preferences of low-cost housing in a district is deemed the demand for low-cost housing in that district. According to Interviewee 4, any request of the Elected Representative (politicians sitting on the State Executive Council or the Parliament) for low-cost housing in their constituencies is added to the final tally.

Table 5.3 shows the planned supply of public low-cost housing by district for the period 2001 to 2020 obtained from the Terengganu Structure Plan prepared by planners. A simple analysis that was undertaken and shown at the bottom of Table 5.3 indicates that the planned supply of the three districts of Kuala Terengganu, Kemaman and Dungun was at least 60 % of the total planned supply throughout the period. In the last two Malaysia Plan periods (2001 – 2010), the planned supply for low-cost housing in Terengganu expressed as a percentage of the national planned supply has increased from 7.9% to 15.8%. This highlights the increased importance of low-cost housing provision in Terengganu.

**Table 5.3: Planned public low-cost housing supply in Terengganu (2001-2020)**

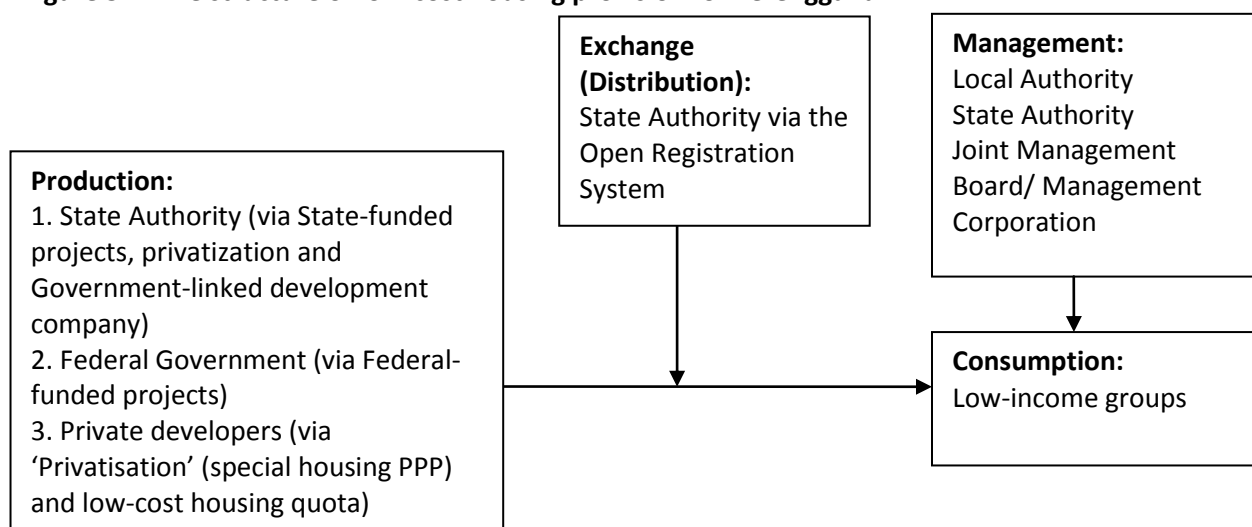
District	2001- 2005	2006- 2010	2011- 2015	2016- 2020	Grand total until 2020
Kuala Terengganu	6,010	7,540	9,550	11,471	34,571
Kemaman	2,571	5,043	5,701	5,585	18,900
Dungun	1,978	2,498	2,964	3,391	10,831
Besut	2,248	2,749	3,292	3,905	12,194
Marang	1,522	2,038	2,419	2,668	8,647
Hulu Terengganu	1,075	1,294	1,529	1,797	5,695
Setiu	850	1,034	1,232	1,455	4,571
<b>Total</b>	<b>16,877</b>	<b>23,257</b>	<b>27,950</b>	<b>31,604</b>	<b>99,688</b>
<b>Percentage of Kuala Terengganu, Kemaman &amp; Dungun from total</b>	<b>62.6%</b>	<b>64.8%</b>	<b>65.2%</b>	<b>64.7%</b>	<b>64.5%</b>

*Source: Adapted from Table 4.15(b), Housing development according to type and phase. Terengganu Structure Plan 2020 (Terengganu State Authority, 2006)*

From 1968 to 2008, a total of 11,323 units of public low-cost housing have been built in Terengganu (Alias, 2008). Recently it was reported that the State Authority of Terengganu plans to build 12,000 more low-cost housing units by 2013 costing more than RM1 billion, out of which 6,500 units have been built to date (Bernama, 2010). According to information obtained in the State housing files, the State Authority projected that the total number of low-cost housing units will be equally provided by both the public and the private sector (Ref: HDSSO File 1121/2/1 “The State of Terengganu Local Government and Housing Committee Meeting”). It can be concluded that low-cost housing production has become more important on the State Authority’s priority agenda and the private sector is expected to bear part of the responsibility to provide housing for low-income groups.

### 5.4.3 Regional variation in the structure of low-cost housing provision

This thesis argues that there are regional variations in any country’s structure of housing provision due to institutional factors. In Malaysia, the differences are caused by economic, legal and socio-political conditions. Thus the economically advanced west coast States in Peninsular Malaysia may share a similar make up of the structure of provision, but the character of institutions may be different from the developing east coast States. Figure 5.4 shows the regional-specific structure of low-cost housing provision for Terengganu. The sets of actors involved are similar across Malaysia. Nonetheless, in Terengganu the main producer of low-cost housing is the State Authority. In contrast, in more developed States the large and highly capitalised private developers have been the main contributor of low-cost housing due to the low-cost housing quota requirement on their large-scale projects.

**Figure 5.4: The structure of low-cost housing provision for Terengganu**

*Source: Author's analysis*

The analysis of the key informant interviews during the pilot study found that the key underlying determinant of housing regulation implementation was the structure of government. The structure of land administration is found to favour the State Authority over the Federal Government in accordance with the constitutional division of authority.

The pilot study found that the State Authority played the most important role in the provision of low-cost housing in Terengganu; acting as developer, administrator, facilitator and distributor via the State housing agency HDSSO. The State Authority's involvement far outweighed the Federal Government and Local Authority. Based on this, it may be said that the success of the Malaysian low-cost housing policy is highly dependent on the State Authority's performance. Notwithstanding this, the private sector's recent involvement in low-cost housing provision has increased in magnitude as part of the State Authority's housing strategies. The different development methods of producing low-cost housing in Terengganu will be discussed below.

#### 5.4.4 Low-cost housing development methods in Terengganu

There was no official housing statistics on the breakdown of public and private low-cost houses in Terengganu. Interviews indicated the public sector contributed to the bulk of low-cost housing supply. The public sector's role as the main low-cost housing producer in the State began with the establishment of the State Housing Trust in the 1960s (Alias, 2008). From 1972 to 1996, the responsibility of developing and managing public low-cost housing was given to the State Economic Development Corporation (SEDC) (Alias, 2008). Starting from 1996, the MHLG's National Housing Department is the sole implementer of public low-cost housing programmes in Terengganu.<sup>31</sup>

Based on fieldwork, there were currently five methods of low-cost housing development in Terengganu (Table 5.4) (i.e. State-funded projects, Federal-funded projects, 'privatisation', low-cost housing quota imposed on new development and government-linked development company). Both the State Authority and the Local Authority played a role in low-cost housing regulation. The State Authority was the sole organisation distributing the completed units via the HDSSO (Table 5.4). The private sector is involved in most of the construction activities including in public low-cost housing by a system of tendering, a characteristic of the Malaysian housing market (Yap, 1991). These development methods will be briefly described below to identify the main actors involved in low-cost housing provision.

**Table 5.4: Matrix of low-cost housing production in the State of Terengganu**

Development method	Role of housing agent						
	Initiator	Project Management	Regulator	Project funding	Construction	Distributor	End-financing
State-funded projects	SA	SA	LA SA	SA	PS SA	SA	PS SA
Federal-funded projects	FG SA	FG SA	LA SA	FG	PS	SA	PS
'Privatisation' (housing public-private partnerships)	PS	PS	LA SA	PS	PS	SA	PS
Low-cost housing quota imposed on new development	PS	PS	LA SA	PS	PS	SA	PS
Government-linked development company	PS	PS	LA SA	SA	PS	SA	PS SA

*Source: Derived from fieldwork*

**Note:**

LA – Local Authority SA - State Authority FG – Federal Government PS – Private Sector

<sup>31</sup> However, the management of completed public low-cost housing comprising distribution, collection, transfer, enforcement and maintenance is still under SEDC.

#### **5.4.4.1 State-funded projects**

The State Authority is involved in all development stages from project initiation to end-financing of the completed units. Sites are identified based on low-cost housing demand, subject to the availability of State land and the State annual housing budget allocation. It is very rare for the State to acquire private lands through compulsory purchase in urban areas as it may be cumbersome and expensive. Nevertheless, exceptions such as the Ladang Gemilang low-cost housing project in Kuala Terengganu city are made due to an urgent need to improve neighbourhood sanitation and living standards.

The HDSSO coordinates and monitors all low-cost housing projects by the State. Additionally, the department also vets and approves house buyers. The State Economic Development Corporation (SEDC) assumes most of the role of the developer including obtaining planning and building plan permission and project management. The SEDC also undertakes property management and maintenance of State rental low-cost housing.

#### **5.4.4.2 Federal-funded projects**

The Federal programmes are available through the Public Low-cost Housing (PLCH) and Public Housing Programme (PHP) programmes. The budget allocation for low-cost housing is announced annually in the Malaysia Budget by amount and State. The State Authority is required to propose suitable sites on State lands. The State Authority and the Federal Government have to constantly liaise with the Project Implementation and Monitoring Branch (PIMB) of the National Housing Department who is the coordinating agency. Project management will be jointly assumed by PIMB and SEDC. Construction of Federal projects is via open tender, favouring local *Bumiputera* contractors. The HDSSO vets and selects house buyers. Upon completion, the project will be handed over to the State Authority. The SEDC will be responsible for property management and maintenance of rental units.

#### **5.4.4.3 ‘Privatisation’ (housing public-private partnerships)**

It is worth reiterating that ‘privatisation’ in the context of this thesis refers to a scheme known as *Penswastaaan* in the Malay language, which is translated to ‘privatisation’ in English. Therefore, specific to this thesis, ‘privatisation’ is a low-cost housing development scheme involving a partnership between the State Authority and private housing developers. It must be pointed out that this scheme does not involve the sale of public assets, such as State land. Under this scheme, house buyers are conferred leasehold titles for a term of either 60 or 99 years.

In this scheme, the private sector is normally the initiator by submitting a housing development proposal on State land to the HDSSO. After undergoing a rigorous vetting process and obtaining approval from the State Executive Council, the successful applicant undertakes all the responsibilities of a developer. The developer obtains project financing from commercial banks and normally outsources the project management and construction functions from contractors. Low-cost housing supply is derived either as a component based on the low-cost housing quota or being a 100% low-cost project. Low-cost housing via ‘privatisation’ is normally meant for outright sale to the low-income group. The State Authority facilitates the ‘privatisation’ project by simplifying the land alienation process and providing the house buyers. The flow chart for housing ‘privatisation’ in Terengganu is attached as Appendix 4.

#### **5.4.4.4 Low-cost housing quota imposed on private developers**

The low-cost housing quota requirement secures private low-cost housing supply. Any proposed private land development above 3 hectares must obtain endorsement from the State Authority whereby, based on the decisions of the State Executive Council Meeting 8/1985, 26/1989 and 9/2001, a minimum of 25% low-cost housing must be built. The private sector developer bears all the risks and receives all the profits from this development type, with reasonable assistance from the authorities to ensure project viability. The HDSSO provides the developer with the list of buyers for low-cost units.

Interviews with both public and private sectors suggested that the characteristics of the Terengganu housing market had impeded the low-cost housing quota in two ways. First, the local private housing developers are small-scale in nature and secondly, there is lack of large private land parcels in the State. In addition, a strong political will was important in developing low-cost housing and interviews with both planners and developers revealed a tendency for the State Authority to allow private developers to substitute low-cost housing with the higher priced low-medium cost type in new developments. This has repercussions for low-cost housing provision in Terengganu, as discussed in the analysis chapters.

#### **5.4.4.5 Government-linked development company**

A government-linked development company (GLC) was established in 1996 to achieve the low-cost housing objectives set out in the Seventh Malaysia Plan, whereby the State Authority endeavoured to build 16,000 low-cost houses from 1996 to 2000. The Housing Consortium of the People of Terengganu, better known as its Malay acronym KOPERAT, was a consortium of four existing State companies involved in property construction. KOPERAT was instructed to build 10,000 low-cost housing units under the Seventh Malaysia Plan. There was no record in the HDSSO file on KOPERAT's achievement in the matter.

#### **5.4.5 Commentary on the role of the State Authority in influencing low-cost housing provision in Terengganu**

In sum, the State Authority has adopted a strategy of enablement whereby private developers are becoming more integral to low-cost housing provision in Terengganu. The 'privatisation' scheme and the low-cost housing quota requirement are two methods that will engage the market into producing low-cost housing. Accordingly, how developers behave within this policy environment determines the success of the State's low-cost housing objectives.

### **5.5 Characteristics of private housing developers in Terengganu**

As mentioned in the Methodology Chapter (Chapter 3), an interview with the President of the Terengganu chapter of the Real Estate and Housing Developers Association (REHDA) was undertaken to establish the characteristics of local private developers. The interviewee was well-versed with the local housing development industry due to his experience and many interactions with key industry players. The interview revealed that REHDA Terengganu had eighteen members, four of whom were associate non-developer members (Interviewee 9, Personal Communication, November 19, 2009). The interviewee stated that the majority of housing developers in Terengganu were *Bumiputera* companies.

To supplement the above, an analysis was undertaken of registered private developers in Terengganu obtained from the MHLG website. Although some information was incomplete and outdated, this was the only systematic database on Terengganu developers found. The list contained information of each individual developer, such as company name, address, project file reference number and number and name of projects undertaken. More importantly for this study, the project information disclosed the low-cost housing component. The summarised result of the analysis is shown in Table 5.5.



**Table 5.5: Summary of Private Housing Developers Registered with MHLG as at 13 December 2010**

<b>Breakdown according to districts:</b>	<b>Nos.</b>
Kuala Terengganu	66
Kemaman	17
Dungun	3
Besut	2
Hulu Terengganu	2
Marang	2
Setiu	0
<b>Total licensed private developers</b>	<b>92</b>
<b>No. confirmed involved in low-cost housing</b>	<b>6 (6.5% of total)</b>

*Source: Analysed from information acquired from MHLG website*

Table 5.5 indicates that the highest number of registered developers was in Kuala Terengganu (66), followed by Kemaman (17) and Dungun (3) from a total of 92 registered private developers, who had undertaken 405 housing projects of various types and sizes from August 2002 to December 2010.<sup>32</sup> From the list, only two developers were stated to have constructed low-cost housing. However, the interview at REHDA revealed four more prominent developers from the list who were known to have built low-cost housing in the past. Therefore, there were a total of six developers from 92 developers with confirmed involvement in low-cost housing. Five out of the six developers were based in Kuala Terengganu. All of these developers were interviewed in this study.

Further analysis indicated that the private housing developers in Terengganu ran small operations. A total of 78 of the registered developers (85%) undertook 10 or less projects whilst only 14 developers (15%) had undertaken more than 10 housing projects. This analysis further indicates that currently the public sector is the primary provider of low-cost housing in Terengganu whilst the private sector's role is to supplement low-cost housing supply. Notwithstanding the status quo, the above analysis of State policy has revealed how the State Authority is now increasing its dependency on the market to deliver low-cost housing units in Terengganu.

<sup>32</sup> The definition of a housing project is taken to refer to the statutory definition of "housing development" under the Housing Development Act 1966, i.e. any undertaking that causes to be built more than four housing units.

## 5.6 Chapter conclusions

Whilst the analysis of national plans (see Chapter 4) has shown that the private sector has been the main producer of low-cost housing nationally, this thesis found that the characteristics of the Terengganu housing market has rendered the State Authority as the largest producer of low-cost housing. Interviews with both public and private sectors indicated that the quota requirement has limited usage in the Terengganu housing market, which is characterised by small private land parcels.

Notwithstanding the above, it is clear that the State Authority of Terengganu has increasingly supported a policy of private sector enablement. The Malaysian government structure confers significant control to the State Authority in the matter of the implementation of low-cost housing policy at the regional level. In Terengganu, the State Authority has moved away from the direct provision of low-cost housing to indirect intervention measures (i.e. facilitating the private sector's involvement in low-cost housing provision via 'privatisation' and low-cost housing quota requirement). This is part of the State Authority's housing strategy for increasing low-cost housing supply in the State in the future. Therefore, private developers will increasingly have an important role to play in the provision of low-cost housing in Terengganu despite the characteristics of its land market.

The government policies on low-cost housing discussed in Chapter 4 and this chapter give rise to an external regulatory environment that frames the operations of key actors (i.e. planners and developers) involved in the provision of low-cost housing. This institutional environment plays an important part in influencing the behaviour of these actors. Therefore, institutional considerations have a substantial role in shaping the interactions between regulations and processes in low-cost housing provision. The next chapter provides an examination of the regulatory environment at the macro-level.

## **Chapter 6: Macro-level analysis of the regulatory environment**

### **6.1 Introduction**

The regulations controlling low-cost housing in Malaysia had been evaluated previously by the World Bank in 1988 (see Bertaud & Malpezzi, 2001; Hannah et al., 1989; Malpezzi, 1990, 1999; Malpezzi & Mayo, 1997; Mayo & Sheppard, 1996). In general, overregulation and excessive development standards were reported to inflate the costs of developing low-cost housing. It was argued that despite the strong demand of low-cost housing “on balance government regulations have still cost the developer money, raised costs and reduced supply” (Malpezzi, 1990, pp. 1002 later in Malpezzi, 1999, p.1836).

However, the regulatory environment not only comprises “formal instruments” but also the “organisational arrangements” (Adams, 2008, p. 4571) that influence the operation of the housing regulations in the land and property market. The regulatory environment for housing differs by region due to the operation of institutions. The legal, government and political structures result in different sets of housing regulations being adopted in each individual State. To date there has been no effort to compile the various regulations that control low-cost housing provision in Terengganu. Furthermore, there has not been any Malaysian research that examines the effect of regulation on low-cost housing provision using an institutional framework. In contrast, there have been institutional literatures from other countries showing how regulations can engage the market in the provision of public goods such as affordable housing and infrastructure, which would not be provided under pure market processes (Burgess & Monk, 2011; Crook et al., 2006; Healey, 1998; Keivani et al., 2008).

The main contribution of the current analysis is the production of a database of low-cost housing regulations that brings together the full range of regulations from multiple sources. The full database is attached as Appendix 3 (“Database of the Main Regulations Controlling Low-cost Housing Provision in Terengganu”). Regulations relevant to this thesis concern development control, quantity-based planning conditions and building standards. It is worth reiterating that prior to this thesis, there has been no effort to compile regulations controlling low-cost housing provision at Federal, State and Local levels in Terengganu. The author’s review of the Malaysian literature also found no such database in any other States in Malaysia.

This chapter provides an analysis of the regulatory environment controlling low-cost housing. It examines how the operations of low-cost housing regulations have been shaped by pre-existing institutions (i.e. political, social and legal institutions) at the macro-level. Structurally, this chapter may be divided into three sections. The first section examines the low-cost housing regulations at the Federal, State and Local level. For each administrative level, the aim of analysis is to reveal the institutional factors that influence the low-cost housing regulatory environment. The second section examines the incorporation of the regulations in the planning system. The final section reduces the various findings into a summary of findings before this chapter concludes with the implications of the regulatory structure on the organisations involved in low-cost housing provision.

## **6.2 Analysis of Federal low-cost housing regulations**

This section provides the overall legal framework that controls the provision of low-cost housing in all States in Malaysia, excluding Sabah and Sarawak. This involves a two-step analysis. The first section provides an overview of the legal and government institutions in Malaysia and examines the position of low-cost housing regulation within it. The second section examines Federal regulations controlling low-cost housing provision.

### **6.2.1 The legal and government institutions in Malaysia**

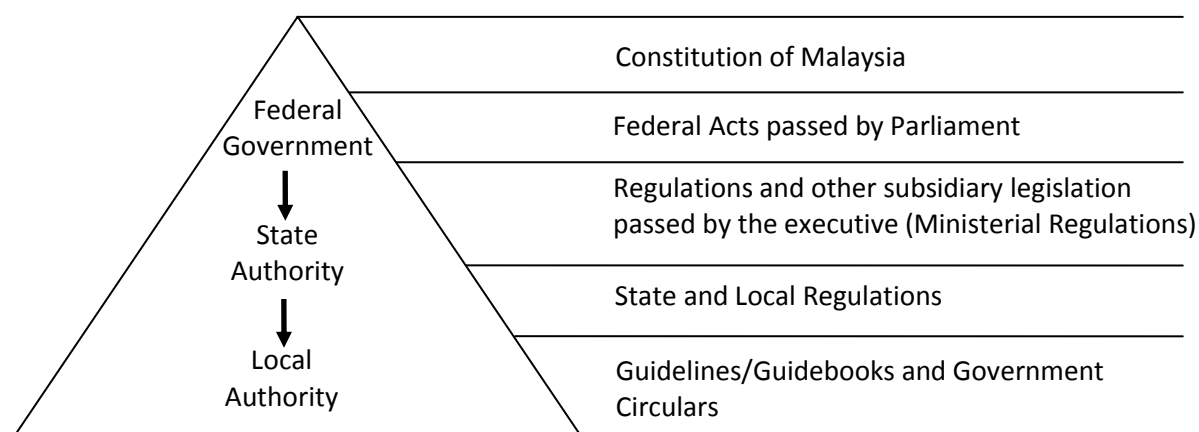
From preliminary analysis of pilot study interviews, the legal and government institutions were identified as two main institutions that have substantial influence over the regulatory environment controlling low-cost housing provision. The legal institution comprises the multiple sources of law and the authority assigned by the regulations. The examination of the Malaysian legal system was based on law textbooks,<sup>33</sup> interviews and the researcher's own knowledge of the Malaysian housing law. At the same time, the administration of low-cost housing policy involves the Malaysian government system comprising the three tier Federal-State-Local administration.

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<sup>33</sup> Maidin, A. J., Syed Abd Kader, S. Z., Haji Mobarak Ali, B. B., Mohamad, N. A., Sufian, A., Rosli, R. A., et al. (2008). Principles of Malaysian land law: Lexis Nexis and Buang, S. (2007). Malaysian Torrens System (Second ed.): Dewan Bahasa dan Pustaka were used for reference.

The examination of the legal and government institutions helps to clarify how the different sources of law and the multiple tiers of government can affect the implementation of low-cost housing regulations at the macro-level. Figure 6.1. shows the hierarchy of the government system comprising, in order of importance, the Federal Government, the State Authority and the Local Authority against the hierarchy of the various sources of regulations used to control the provision of low-cost housing. Nonetheless, this seemingly linear government arrangement is found to be complicated in practice by the division of Federal/State powers under the Constitution of Malaysia. Items in the Malaysian Constitution were agreed upon by all States that formed the new nation preceding the modern Malaysia in 1957 (Maidin et al., 2008).<sup>34</sup> Thus, the Constitution forms the primary source of Malaysian formal written law and takes precedence over all other formal written law.<sup>35</sup>

**Figure 6.1: Hierarchies of the Malaysian government system and the formal written law**



*Source: Author's analysis*

<sup>34</sup> The modern Malaysia comprising Peninsular Malaysia (former British Malaya), Sabah and Sarawak was established on 16<sup>th</sup> September 1963.

<sup>35</sup> Besides formal written law, the Malaysian property law also recognises customary law which is based on the Malay culture and Islamic practices. A precedent case in property law was *Kiah bte Hanapiah vs Som bte Hanapiah* [1953] 19 MLJ 82 which decided that Malay timber houses being unfixed to the ground are chattels.

These government levels have various legal instruments at their disposal, as shown on the right of Figure 6.1. These legal instruments vary in strength and scope. The authority decreases from the top down. As stated by Interviewee 10, the primary source of written law in Malaysia is recorded materials from the law-making authorities including statutes (Federal Acts and State Enactments) and subsidiary legislations (Orders, Regulations, Rules, By-laws, Proclamations and Notifications) (Interviewee 10, Personal Communication, August 3, 2010). Notably, there is no specific Federal legislation governing low-cost housing in Malaysia. Instead there are a number of Federal and State legislation and policies on housing that control different aspects of low-cost housing provision. The large number of legal instruments often gives the impression of overlapping, non-compatible and inefficient set of regulations concerning low-cost housing provision.

The legal authority over low-cost housing is set out in the Constitution of Malaysia. As explained in Chapter 4, pre-colonial Malaysia was comprised of individual sovereign States. The establishment of the Federated Malay States that preceded the modern Malaysia saw the assignment of legislative powers set out in Federal, State and Concurrent Lists of the Malaysian Constitution. The Federal Government has absolute legislative authority over the Federal List items; similarly the State Authority has total control over the State List items. Items under the Concurrent List are jointly legislated by the Federal and State governments.

Table 6.1 shows the constitutional control over land development elements in Malaysia. Land which is an important factor of production is placed under the State Authority. Similarly, the Local Authority as the regulator of land development at the ground level is controlled by the State Authority. Although town planning and housing fall under the joint authority of the State Authority and Federal Government, the State Authority's dominance over land development in the State is guaranteed through its control over land development and the Local Authority. This control is further strengthened by the Malaysian town planning legislation which states that "the State Authority shall be responsible for the general policy in respect of the planning of the development and use of all lands and buildings within the area of every local authority in the State... (and may give) any local planning authority directions of a general character not inconsistent with the provision of this Act".<sup>36</sup>

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<sup>36</sup> Section 3, Town and Country Planning Act 1976.

**Table 6.1: Constitutional control over land development elements in Malaysia**

Item	Legal provision
Land	Item 2, State List
Local Authority	Item 4, State List
Town planning	Item 5, Concurrent List
Housing and provisions for housing accommodation; improvement trusts	Item 9C, Concurrent List

Source: *The Malaysian Constitution*

The State Authority's power over land development within the State was confirmed by Interviewee 10:

*“These are two most important issues to the State Authority: Land and Local Authority. How do you keep control (of land issues) in the State? Through the Local Authority.” (Interviewee 10)*

The comment by Interviewee 10 was set within the above historical context of Malaysia. Although Malaysia is now a federation of States, the Malaysian Constitution confers legal rights over land and the Local Authority to the State. Measures to promote uniformity in land development have been implemented. For example, the National Land Council and National Local Authority Council were established during the country's Independence to coordinate land and Local Authority matters whilst national guidelines are regularly issued to various government agencies (Wan Abdullah, 2004). However, the division of authority shown in Table 6.1 suggests dominance by the State Authority in land policy at the State level (including in low-cost housing matters) and the State Authority is protective over this prerogative, with implications for Federal low-cost housing regulations.

## 6.2.2 Federal low-cost housing regulations

While the State Authority is the key regulatory authority in land development, the Federal Government exercises considerable influence over low-cost housing policy. This section aims to provide a general overview of key Federal statutes that govern the activities of actors involved in low-cost housing provision. These acts, regulations and guidelines are publically available in the form of published law books and online resources. This task is important because there is no individual statute controlling low-cost housing provision. These regulations were individually reviewed to glean the main stipulations pertaining to low-cost housing provision and how they affect low-cost housing. Details of the findings are provided in Appendix 3. However, the findings are summarised in Table 6.2 below to facilitate the discussion in this chapter and throughout this thesis.

**Table 6.2: Summary of selected Federal regulations controlling low-cost housing provision**

Area of control	Federal regulations	Significance to low-cost housing provision
Administration (Developer)	Housing Development Act 1966	Controls developers by outlining the obligations of the private developer in license conditions. Protects house buyers in Schedules G and H, which set the standard contract between developers and house buyers (Sale and Purchase agreement).
Administration (Local Authority)	Local Government Act 1976	Outlines the functions, rights and obligations of the Local Authority. This includes describing the power of the State Authority over the Local Authority in giving directions and law-making in the Local Authority area.
Land development	National Land Code 1965	Controls land ownership, land use and land dealings. Prevents speculative activities in low-cost housing by inserting “Restrictions in interest” (written consent by the State Authority in land dealings) and “Express conditions” (land to accommodate only low-cost housing).
Building code	Street, Drainage and Building Act 1976 Uniform Building By-laws 1984 Fire Services Act 1988 Sewerage Services Act 1993	Provides minimum building standards for low-cost housing for purposes of health, safety and welfare of occupants. Requires the principal submitting person (architect, engineer or draughtsman) to monitor and certify the building from its construction to completion by following the Certificate of Completion and Compliance (CCC) procedure. This is part of quality control of completed low-cost housing.
Planning	Town and Country Planning Act 1976	Requires planning permission for land development activities, including land sub-division and physical land development.
Environmental considerations	Environmental Quality Act 1974	Requires the Environmental Impact Assessment (EIA) report to be prepared and submitted for proposed housing development of 50 acres and above.
Strata property	Strata Titles Act 1985 Building and Common Property (Maintenance and Management) Act 2007	Controls the ownership, dealings, construction and maintenance and management of low-cost flats.

*Sources: Derived from various statutes*

In the absence of key single legislation governing low-cost housing provision, an analysis of all acts and regulations governing low-cost housing development was undertaken. This analysis aims to compile a comprehensive list of all regulations and statutes that directly influence low-cost housing provision. The full list of regulations is set out in Appendix 3. A total of 22 Federal regulations of different statutory powers and objectives were identified, ranging from the Malaysian Constitution ascribing the authority over low-cost housing provision, to the non-mandatory construction standards over low-cost housing.



Table 6.2 offers a summary of the key regulations affecting low-cost housing. Issues controlled by these statutes are developer and Local Authority administrations, land development, building code, planning, environmental considerations and strata properties. Although each regulation has its own purpose in controlling low-cost housing provision (see the far right column in Table 6.2), the number and complexity of regulations point to a potential minefield of issues in low-cost housing provision.

Federal guidelines are issued that specify the minimum building standards for low-cost housing. These standards are based on minimum specifications as prescribed in the Uniform Building By-laws 1984. The National Housing Standards for Single and Double Storey Low-cost Houses (CIS 1-1998) and the National Housing Standards for Low-cost Flats (CIS 2-1998) provide guidelines in terms of size, building material and building layout. However, according to the State of Terengganu Town and Country Planning Department website, both standards have not been endorsed by the State Executive Council (State of Terengganu Town and Country Planning Department, 2011). This indicates that Terengganu adopts different low-cost housing standards. A comparison between Federal and State low-cost housing standards is provided in the summary section of this chapter.

The analysis of Federal regulations produced a number of issues. First, the analysis revealed that most regulations were couched in legal jargon that seemed generic and difficult to understand. The second issue was the large number of Federal regulations that must be arbitrated by different authorities, including planners. Finally, it was observed that the sheer volume of provisos in these different regulations have led to overlaps. For instance, there are similar development control provisions in two key statutes, namely the National Land Code and the Town and Country Planning Act. On the surface, these issues suggest an opaque and complicated regulatory system, with potential for inefficiencies among regulators (including planners) and uncertainties in the development process for developers.

Nonetheless, the same ‘opaque and complicated’ regulations can also be positively construed. The generic nature of legal provisions gives planners sufficient room to manoeuvre so as to avoid a rigid interpretation and implementation of regulations on developers, whose involvement in the low-profit low-cost housing provision was mandated rather than voluntary. Evidently, the flexibility in the regulations has enabled interpretations that facilitated the production of over 900,000 low-cost houses throughout Malaysia. Additionally, despite the outward appearance of stringent regulatory environment, not all Federal regulations are implemented at the State level. For instance, the CIS 1 and CIS 2 were not endorsed in Terengganu. Similarly, interviews with planners indicated that they have the discretion in determining the outcomes of regulatory discrepancies. Therefore, it is the manner of implementation of Federal regulations (if the Federal regulations were implemented at all) at the State and Local levels that determine low-cost housing provision, rather than the regulations themselves.

In conclusion, Federal statutes controlling low-cost housing provision in many ways are aspirational in nature and are subject to Local Authority practices. The State Authority may choose not to endorse Federal regulations, as evident in the non-implementation of CIS 1 and CIS 2 (low-cost housing standards) in Terengganu. The Federal Government does maintain some control over developers and Local Authorities by virtue of the Housing Development Act and the Local Government Act. However, Federal control over developers and Local Authorities in the matters of low-cost housing provision is made less substantial by the current legal and government systems.

### **6.3 Analysis of State low-cost housing regulations**

Based on a constitutional arrangement that favours the State Authority, the above section highlights the potential for regional differences to arise in the implementation of low-cost housing regulations. The State Authority could decide to wholly or partly adopt Federal low-cost housing regulations at the State Level. This enables ‘local capture’ by the State Authority (i.e. the formulation and implementation of low-cost housing policies at the State Level that reflect the needs of the local low-income groups).

The Federal statutes analysed in the previous section were published and easily available. However, the fieldwork revealed that State policy documents were not publically circulated and were kept in various housing files at the Housing Department of the State Secretariat Office (HDSSO). State regulations, passed by the State Executive Council, were contained in documents known as ‘State Executive Council Meeting Decisions’. Other sources of regulations included circulars from State agencies such as the Terengganu Public Works Department and Terengganu Drainage and Irrigation Department for implementation in Local Authority areas. State regulations relevant to this thesis were statutory documents that provided a detailed guide to low-cost housing provision in Terengganu and address issues outside the existing national regulations. The classified status of these documents was based on their sensitivity. Only non-classified documents were discussed in this thesis. The classified documents mainly deal with budgetary issues which were unrelated to the study.

This section offers an insight into the previously unexamined State-level regulations controlling low-cost housing in Terengganu. The main contribution of this section is the examination of State-level regulations in a previously unstudied but substantial market in Malaysia. It presents results from the compilation, classification, translation and analysis of non-published State-level regulations on low-cost housing provision undertaken during the placement at the HDSSO.

Details of State-level regulations which are central to this study are provided in Appendix 3. Among others, the State policies reflect the details of low-cost housing quota, pricing, subsidy, building and infrastructure specifications and distribution policy in Terengganu. The majority of these State policies serve to clarify the more generic Federal regulations. Examples are the low-cost housing quota policy based on the State Executive Council Meeting 9/2001 that specifies the land area and percentage of low-cost housing required and also the *Bumiputera* quota for low-cost house buyers in Terengganu. Other State policies provide the strategy to ensure low-cost housing production in the State. A review of the State policies revealed a growing tendency on the market to produce low-cost housing through the low-cost housing quota on new developments above 3 hectares, ‘privatisation’ (housing public-private partnership) schemes and the government-linked developer KOPERAT. Finally, State-level regulations seek to ensure the standards of low-cost housing in the State. This is through the imposition of minimum building specifications for low-cost housing and infrastructure requirements that are more attuned to the needs of local house buyers.

The State-level policy that has the most significant ramification for low-cost housing provision in the State is the “Policy on application for the change of land use above 3 hectares based on the State Executive Council Meeting 9/2001”. Basically, development applications for sites above 3 hectares are to be submitted to the State Authority for approval. The State Authority can then require that a minimum of 25% low-cost housing be built. Having determined that developers provide low-cost housing in new developments, the State Authority controls the distribution of completed low-cost housing units to low-income groups.

Two observations can be made regarding the State’s local low-cost housing regulations. First, these regulations mostly concerned the supply side of low-cost housing, including the number of units required based on the land size, pricing, land titles, subsidy per unit, building and infrastructure specifications and the primacy of State standards over Federal standards. Second, most regulations were produced by the State Executive Council, who normally meets to decide on issues arising and not in anticipation of possible issues. In short, State-level low-cost housing regulations were supply-focused and reactive in nature.

The supply-centric and reactive nature of State-level regulations can have positive implications on low-cost housing provision. The focus on supply shows the commitment of the State Authority in providing adequate quantity of low-cost housing. This aligns with the overall national housing policy. As reflected in various Malaysia Plans, the quantity produced is the main indicator of national low-cost housing achievement. In this matter, the State Authority is found to exercise its constitutional authority to support the production of low-cost housing. As for the reactive nature of the State-level regulations, the resultant regulatory environment is one that can quickly respond to changes in socio-economic conditions. Quick policy fixes can be undertaken to resolve any problems in the low-cost housing delivery system at the State level, thus avoiding lengthy review process at the national level.

Overall, the analysis of State regulations revealed a focus on the low-cost housing supply, i.e. the quantity and quality of building and housing scheme. The State Authority achieved ‘local capture’ by implementing standards tailored to the housing needs of local low-income groups. This suggests that the State Authority has used its constitutional power to enhance the well-being of low-income house buyers in Terengganu by ensuring units that suit the local demography. The State-level regulations can be described as informal because the regulations are not published. Local developers accumulate practical knowledge of State low-cost housing through their own experience, knowledge-sharing with other developers and, to a certain extent, through seminars conducted by REHDA. This informal system enables the policies to be implemented case-by-case basis, taking into consideration developers’ profit margins and the local economic conditions.

## **6.4 Analysis of Local low-cost housing regulations**

The above regulations must be interpreted and implemented at the ground level by agents of the state. The planning system represents the state in the control of low-cost housing provision, whereby Federal and State low-cost housing policies are synthesised in the Malaysian planning system and applied at the local level by Local planners. This section presents the analysis of Local low-cost housing regulations being implemented by Local Authority planners (LAPs) in the districts of Kuala Terengganu, Dungun and Kemaman. Structurally, this section begins with an overview of the Malaysian planning system before briefly outlining the powers of the Local planning authority. Next, it highlights the difference in the administrative structure of the Local planning authorities under study. Finally, an analysis of the Local low-cost housing regulations in the three districts is provided.

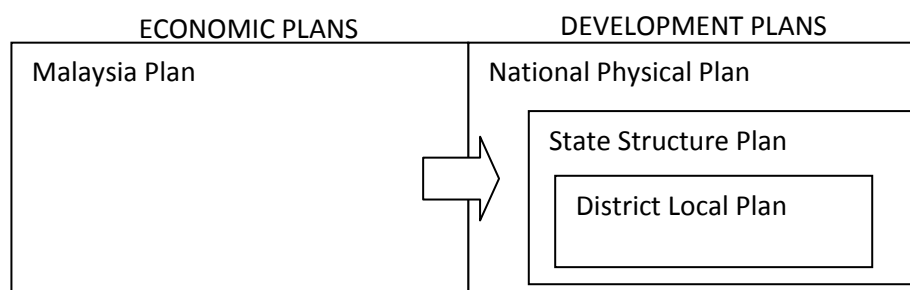
### **6.4.1 Malaysian planning system**

Being a former British colony, Malaysian town planning is similar to the UK planning system. Fundamentally, Malaysian development planning places spatial considerations alongside social, economic and environmental issues. The primary town planning legislation is the Town and Country Planning Act 1976 (henceforth known as ‘TCPA’), closely modelled on the UK’s Town and Country Planning Act 1947. TCPA provides the legal framework within which the institutional structure of planning is placed.

Since 1976, town planning in Malaysia is carried out at three administrative levels; Federal, State and Local government levels. At the Federal level, the Federal Town and Country Planning Department of the Ministry of Housing and Local Government formulates and oversees national town planning policies. At the State level, the State Department of Town and Country Planning plays an advisory role to the State Authority. At the Local level, the TCPA gives the Local planning authority extensive powers to execute Local plan functions.

Planners are responsible for implementing the national housing policies at the State and Local levels. The housing policies are implemented by the three-tier development plans under the TCPA comprising the National Physical Plan, the State Structure Plan and District Local Plan, as indicated in Figure 6.2. As shown in Figure 6.2, the National Physical Plan containing long term national spatial policies and general directions regarding physical development,<sup>37</sup> is drafted alongside the five-yearly Malaysia Plan at the macro-level. The State Planning Committee then formulates the State Structure Plan, consisting of broad policy statements on socio-economic issues including housing. Finally, the State policies are translated by Local Authority planners (LAPs) into Local Plans, which contain detailed planning specifications such as plot zoning and local building standards.

**Figure 6.2: Relationship between economic and development plans**



*Source: Derived from analysis of economic and development plans*

Figure 6.2 indicates that the spatial development plans run concurrently with the economic development plans. At the national level, currently the Tenth Malaysia Plan is being implemented alongside the National Physical Plan. During this Tenth Malaysia Plan period (2011-2015), the State of Terengganu Structure Plan and individual District Local Plans control both spatial and social development at the State and District level respectively. The above situation reflects that the Malaysian planning system is designed to incorporate various socio-economic issues alongside the physical aspects of planning. With regard to low-cost housing, Malaysian planning undertakes to ensure social stability through the provision of adequate housing for the urban poor (Agus, 2002).

<sup>37</sup> Section 6B, TCPA 1976.

### 6.4.2 Functions of planners

Town planning in Peninsular Malaysia has always been tied with Local Authority administration. Although the legislation controlling the Local Authority<sup>38</sup> engenders no planning power, the TCPA empowers the Local planning authority to regulate, control and plan the development and use of all lands and buildings within its area.<sup>39</sup> This is facilitated by the planning permission process guided by statutory development plans.<sup>40</sup> The Local planning authority has wide-ranging functions pertaining to development, chief of which is the control of land development within the Local Authority area. Other functions of the Local planning authority include the capacity to advise and to assist the State Planning Committees in national policy matters; to produce the Local Plan and to monitor the implementation of related regulations and procedures. Local planning authorities in smaller towns also form the One Stop Centre which is the development secretariat that monitors the progress of development applications.

In Terengganu, the Local planning authority is headed by the Local Authority planner (LAP). Although the scope of work of the LAP may differ depending on the organisational requirements of the Local Authority, the LAP's main responsibility is to ensure that all developments within the Local Authority area conform to the Local Plan.

Three Local Authorities were identified for the purpose of this thesis; the Kuala Terengganu City Hall, the Kemaman City Council and the Dungun City Council. The status of Local Plans in the three Local Authorities under study is shown in Table 6.3, whereby both the Kemaman and Dungun Local Plans have been officially implemented in the districts. At the time of fieldwork, the Kuala Terengganu Local Plan has not been officially gazetted although the Local Plan has been approved in principle. The gazette is a mere formality, as in practice this indicates the Plan is ready for implementation.

**Table 6.3: Status of district Local Plans in Terengganu**

Local Plan	Status
District of Kuala Terengganu Local Plan 2008-2020	Publicity completed, awaiting gazette
District of Kemaman Local Plan 2003-2015	Gazetted vide Presentation No. 52. Vol. 60 Fol. 3
District of Dungun Local Plan 2007-2015	Gazetted vide Presentation No. 1464 Vol. 62 Fol. 27

*Source: Town and Country Planning Department website*

[http://www.townplan.gov.my/epublisiti/muat\\_turun/web\\_pelanRTD\\_Mac2011.pdf](http://www.townplan.gov.my/epublisiti/muat_turun/web_pelanRTD_Mac2011.pdf) accessed on 28

May 2011

<sup>38</sup> Local Government Act 1976.

<sup>39</sup> Section 6(1)(a) of TCPA.

<sup>40</sup> Section 22(4) TCPA: "No development shall contravene any provision of the development plan".

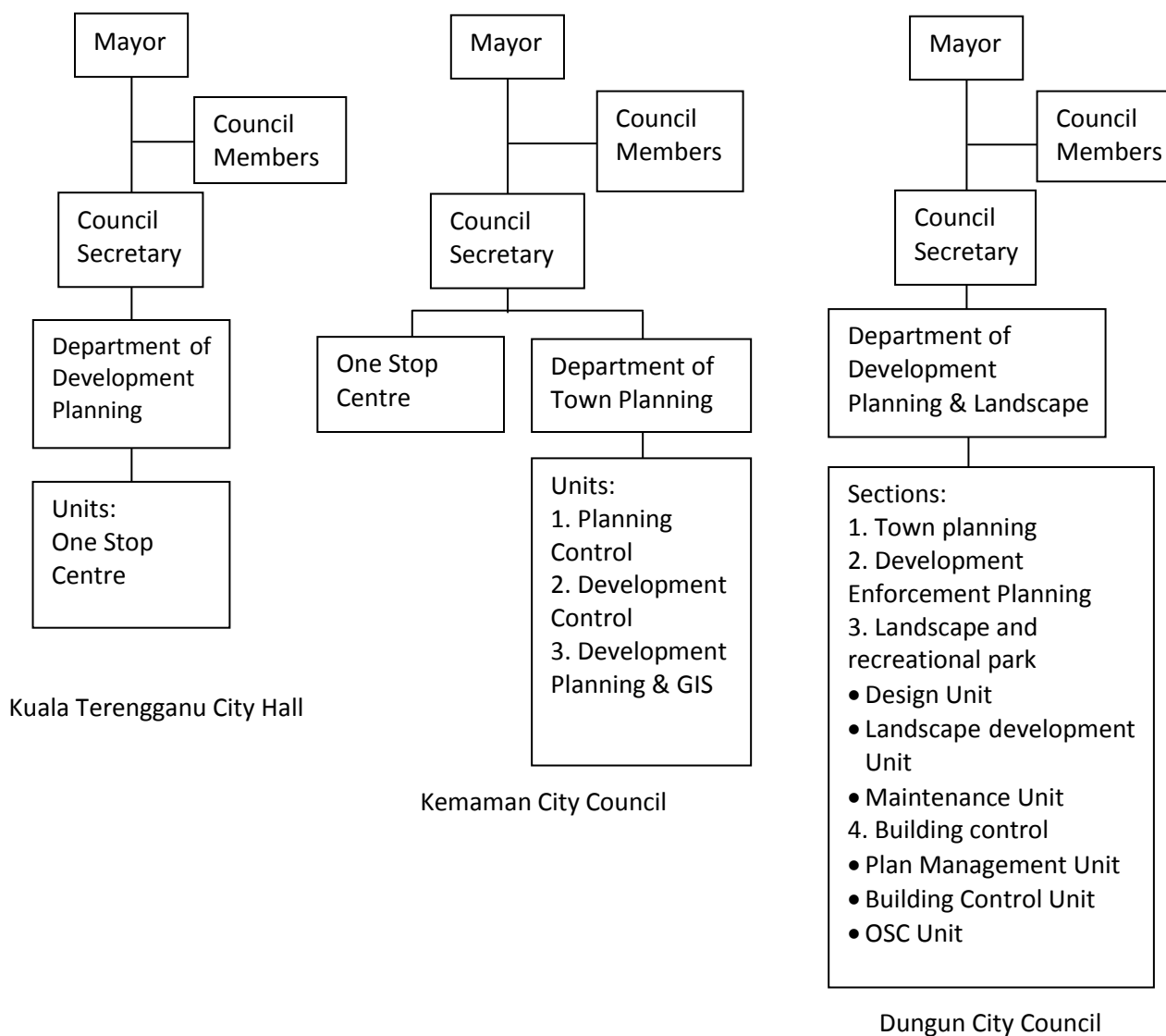
The organisational structure of the Local planning authority is determined by the size and resources of the Local Authority. In turn, the Local planning authority's organisational structure can influence its institutional capacity in administering low-cost housing regulations and negotiating with developers. The next section describes the institutional structure of the three Local planning authorities to point out factors that can cause regulations to be implemented non-uniformly at the ground level.

### **6.4.3 Influence of the administrative structure on the Local planning authority**

The administrative structure of the Local Authority determines the capacity of the Local planning authority. The organisation charts, showing the position of the Local planning authority within each of the Local Authority under study, were extracted and translated from Malay to English from the respective Local Authority websites (see Figure 6.3). Since the Local planning authority is the implementer of housing regulations, it is argued that variations in their organisational structure can influence the housing regulatory environment. This supports the thesis argument that institutional factors, including the organisational arrangement of key actors in the structure of low-cost housing provision, have a significant influence over the outcomes of housing regulations.

Figure 6.3 indicates that the Local planning authorities were represented by different departments at the Local Authorities. The Kuala Terengganu City Hall was represented by the Department of Development Planning, the Kemaman City Council was represented by the Department of Town Planning and the Dungun City Council was represented by the Department of Development Planning & Landscape. The largest local planning authority of the three, the Kuala Terengganu planning authority has a much specialised scope of work in contrast to the smallest local planning authority, namely the Dungun planning authority. Kuala Terengganu's local planning authority comprised only one unit (the One Stop Centre), compared to Kemaman's local planning authority that comprised three units (Planning Control, Development Control and Development Planning & GIS). However, Dungun's local planning authority was responsible for four sections (Town Planning, Development Enforcement Planning, Landscape & Recreational Park and Building Control).



**Figure 6.3: Organisation chart of the related Local Authorities**

*Sources: Derived and translated from Kuala Terengganu City Council, the Kemaman City Council and the Dungun City Council websites accessed on 28th May 2011*

The difference in the above organisational structure may be explained by the Local Authority characteristics. The Kuala Terengganu City Hall, a Local Authority in the rapidly developing State capital, possessed the resources and needed to have a highly specialised planning department. The Kemaman City Council similarly had a planning department focused on development control and planning. This specialisation was facilitated by the high development rate in Kemaman caused by its petro-chemical industry. At the other end of the spectrum, the Dungun City Council was a moderately sized Local Authority located between the Districts of Kuala Terengganu and Kemaman. The economic development in the district was mainly spillover from the two more prosperous districts. Being a less developed district, the Dungun City Council planning department must assume a number of responsibilities to economise its operation.

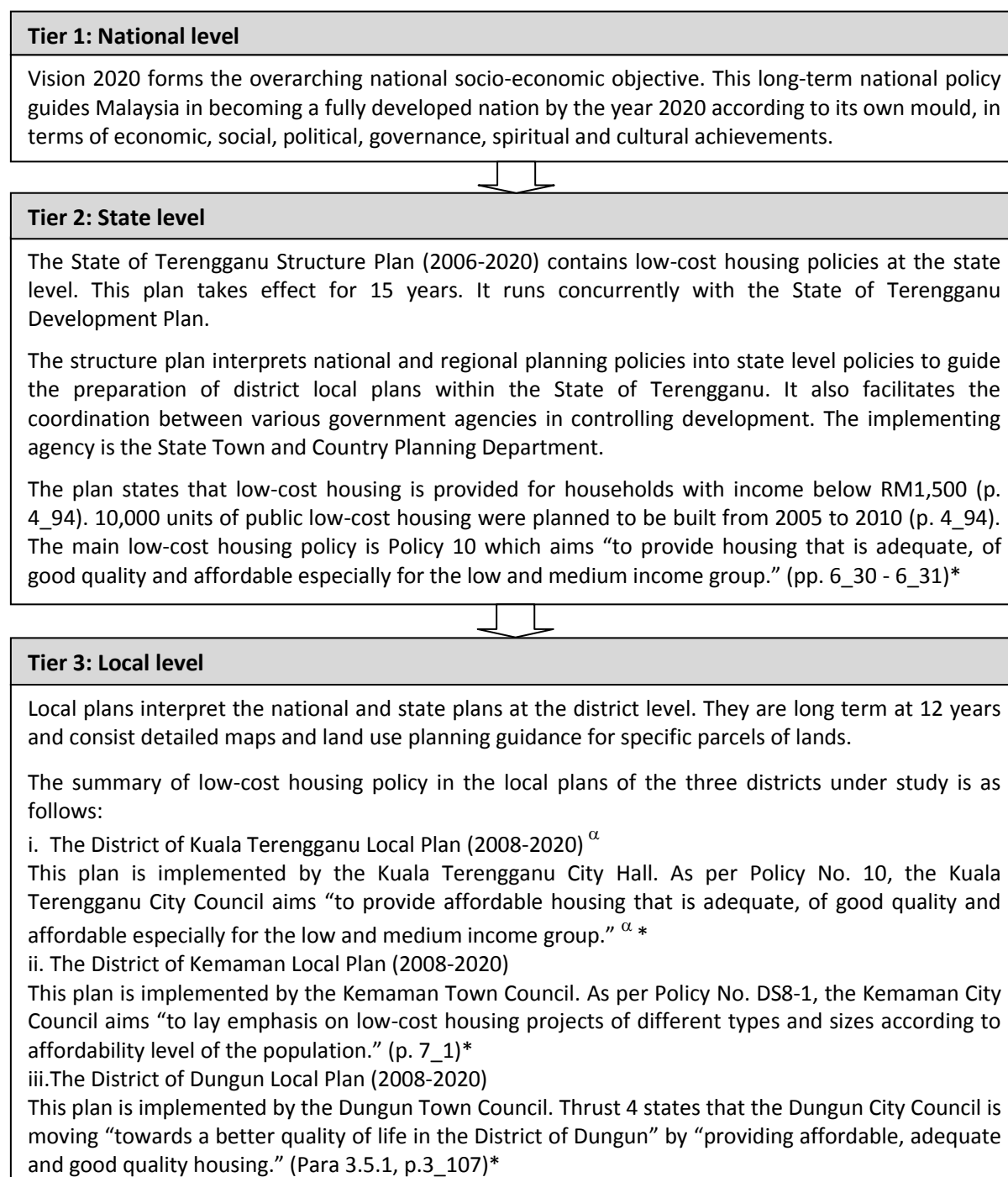
Figure 6.3 also reveals the hierarchy of control within Local Authorities as laid out in the Local Government Act. The Mayor holds supreme power in the Local Authority, with inputs from elected Council Members. These Council Members were often established persons within the community. They came from various backgrounds, encompassing professionals and non-professionals. The advice from Council Members carries significant weight in development decisions. Although well-regarded, these Council Members sometimes possess no technical, educational or professional background in the areas that they advise on.

In conclusion, the scope of work of the local planning authorities was varied despite the basic statutory provision of their functions under TCPA. Factors contributing to this variation are the size of the Local Authority and its resources. Accordingly, the institutional capacity of the local planning authority in controlling low-cost housing provision may be similarly affected. The local planning authorities at larger Local Authorities, in this case Kuala Terengganu and Kemaman, specialise only in development control and can dispense of their functions more efficiently compared to the Dungun local planning authority, which oversees more activities being in a smaller Local Authority. Additionally, decisions by LAPs could be moderated by advice from Council Members, who may not have proper knowledge of development matters. Instead of being based on planning principles, some development decisions may be politically-motivated, made to satisfy certain quarters. Indeed, other Malaysian studies have reported evidence of political input in the provision of low-cost housing, particularly during the distribution process (Agus, 2002; Wan Abd Aziz & Hanif, 2005), whereas this thesis confirms political influence in the low-cost housing development decision. It is argued that the above factors could promote non-uniform implementation of housing regulations at the Local level. This issue will be explored in the next chapter that analyses planner behaviour.

#### **6.4.4 Low-cost housing policy in statutory development plans**

Planners are responsible to implement the socio-economic objectives by the Federal Government in statutory development plans at State and Local levels. This section presents an examination of the interpretation of national low-cost housing policy by Local planners. Figure 6.4 shows the interaction of various statutory development plans that guide planners in low-cost housing provision in the Districts of Kuala Terengganu, Kemaman and Dungun. The review in this section found that the National Physical Plan, being focused only on spatial development, did not contain a separate policy on housing, including low-cost housing.

**Figure 6.4: An overview of low-cost housing policies contained in the statutory plans guiding planners in the study area**



*Source: Derived from various statutory plans*

Notes:

<sup>α</sup> As per State Town and Country Planning Approval Ref No. “JPN Bil. 3/2010 (8 Nov. 2010)”, the District of Kuala Terengganu Local Plan was approved in November 2010 subject to minor amendments (non-housing). Only the executive summary of the draft document was available to the public at [http://www.terengganu.gov.my/maxc2020/appshare/widget/pu\\_img/1/RINGKASAN%20EKSEKUTIF%20\(180210\)\(1\).pdf](http://www.terengganu.gov.my/maxc2020/appshare/widget/pu_img/1/RINGKASAN%20EKSEKUTIF%20(180210)(1).pdf) accessed on 10 March 2011. Based on the Federal Town and Country Planning Department website [http://www.townplan.gov.my/epublisiti/muat\\_turun/web\\_pelanRTD\\_Mac2011.pdf](http://www.townplan.gov.my/epublisiti/muat_turun/web_pelanRTD_Mac2011.pdf) accessed on 28 May 2011, the publicity process had been completed. The document was currently awaiting official gazette notification.

\* Translated from Malay to English from the original document. The page numbering format follows exactly the format in the original documents to facilitate reference.

Another finding is that the State and Districts were generally guided by the development principles contained in Vision 2020, essentially a mission statement outlining the aim and strategies guiding Malaysia to become a fully developed country by year 2020. By the year 2020, the country is envisioned to achieve sustained economic development and social cohesion, with the bottom third on the income ladder provided with ‘essential shelter’ (Office of the Prime Minister of Malaysia, 2011). As explained in Chapter 4, this overarching long-term national socio-economic objective has subsumed various concepts since its inception, the latest being the 1Malaysia concept.

Figure 6.4 shows that the two planning tiers at State and District (Local) levels contain common policies to provide housing that is “affordable, adequate and of good quality” for low-income groups, echoing the national housing policies set out in the Malaysia Plans. Furthermore, the State-level Structure Plan stated that the State Authority will ensure that “each family owns a dwelling unit which is of quality, affordable for the low and medium income households in terms of purchase or rent and at the same time resolves the issue of squatters” (State Authority of Terengganu, 2006, p. 280). The State-level planning policy supporting low-income home ownership resonates with the State Authority’s housing objectives. Overall, the Local and State-level regulations reflect the broader national aspiration of adequate and proper housing for low-income groups.

Although the building and construction specifications of low-cost housing were controlled and provided by the State Authority, the local planning authority may stipulate planning specifications such as provided by the Dungun City Council. Section 6 (Planning Standards) of the District of Dungun Local Plan (2007-2015) contains, among others, planning specifications such as lot size, density, number of floors, gross floor area, ‘plinth’ area and building setback for single and double storey low-cost terraced house and walk up and lift low-cost flats. Details of the planning specifications are contained in Appendix 3. These detailed low-cost housing specifications provide developers undertaking developments in Dungun with a clear guidance when preparing their development approval documents. The author’s examination of Kuala Terengganu and Kemaman Local Plans found that these two plans did not contain similar detailed low-cost housing building specifications. By not specifying the details, Local planners are able to be less rigid in determining low-cost housing specifications, as long as developers submit development plans that comply with the minimum requirements under the Uniform Building By-Laws (UBBL). The other side of the argument is less certainty for developers compared to detailed building specifications, such as contained in the Dungun Local Plan.

In conclusion, Figure 6.4 shows the multi-tier plans of the Malaysian planning system. It suggests that the existence of multiple levels of review processes introduces potential delays into the planning system and a higher degree of uncertainty into the development process. The provision of detailed planning specifications for low-cost housing in the Dungun Local Plan is an example of how certainty can be enhanced in the development process.

## **6.5 Summary of macro analysis of low-cost housing regulations**

The above macro-level analysis of regulations illuminated how the country's legal system and the government structure have influenced the implementation of national low-cost housing regulations at the regional level. The interaction of the legal and government institutions with the multi-tiered low-cost housing regulations has not been explored previously. This section provides an overall summary of the macro analysis of regulations.

### **6.5.1 General characteristics of low-cost housing regulations**

The compilation and review of the Federal, State and Local low-cost housing regulations has yielded a large array of low-cost housing regulations which gave the impression of a dense low-cost housing regulatory environment. Despite the assortment of regulations, there is no individual low-cost housing regulation at either the national or State levels, which results in occasional contradictions and overlaps in the multitude of provisos in different regulations. This can result in uncertainty and inconsistencies in the regulatory system (i.e. which regulation to follow, which agency should implement and which aspect needs to be regulated).

Despite the appearance of an opaque and complicated regulatory environment, generally regulations contain broad provisions that have enabled flexibility in interpretation. Additionally, it can be argued that the lack of a formal State regulation system has enabled a system which is pro-development or at least sympathetic to developers. This is the same regulatory environment that has produced more than 900,000 low-cost houses in Malaysia. Therefore, the review of regulations only shows part of the picture and the manner of regulatory implementation will provide a more complete view of the effects of regulations.

### **6.5.2 Effects of the Malaysian legal, government and political structures on the regulatory implementation**

The Malaysian Constitution has given rise to an institutional arrangement in low-cost housing regulatory implementation which favours the State Authority. Consequently, the final decision whether to implement all or sections of Federal regulations rests with the State Authority. Despite the nationally planned supply of housing, the State Authority holds the final control over the land and Local Authority. Given that the local planning authority is contained within the Local Authority structure, the powers of Local planners as on-the-ground implementers of housing regulations are also subject to State Authority policy. The legal system results in a restricted authority among planners with regard to the implementation of low-cost housing quota requirement.

As a result of this influence of legal and government institutions over low-cost housing policy, the State Authority seemed to supersede the Ministry of Housing and Local Government (MHLG) in low-cost housing regulation. In practice, the constitutional power of the State Authority has diminished the statutory power of the MHLG given by the Housing Development Act (HDA). Although developers generally have to comply with HDA's licensing conditions, the State Authority may dispense other housing development related procedures which have bigger impacts on developers. For instance, in Terengganu all development applications on land measuring above 3 hectares must be brought into the monthly State Executive Council (EXCO) meeting for endorsement. It is during this meeting that the low-cost housing quota requirement and other conditions (e.g. the *Bumiputera* quota) may be imposed by the State Authority. Thus, it is argued that the State Authority rather than the MHLG has more substantial power over development activities.

Notwithstanding this division of power, Local planners can still enforce planning standards at the Local level. This can ensure that new low-cost housing developments meet the collective goal of the society (i.e. dwelling units that not only fulfil the needs of the occupants but also low-income settlements that are orderly and conducive to the working population's health). Additionally, despite the myriad regulations, all levels of government are guided by the overarching aspirations of long-term national goals. In the case of low-cost housing, these authorities observe the spirit of Vision 2020, which is to achieve the developed nation status by the year 2020 whilst ensuring social cohesion amongst multi-ethnic groups. Low-cost housing for owner occupation is seen as a wealth-creation and wealth-redistribution mechanism that can promote national unity and thus must be supported at all levels of government.

### 6.5.3 The State Authority’s substantial role in low-cost housing regulation

The above analysis found that legal and historical factors have conditioned the roles of actors in the structure of low-cost housing provision. The above analysis found that the State Authority has substantial constitutional authority over low-cost housing policy at the State-level. Based on this power, the State Authority can influence both the supply of low-cost housing and the quality of low-cost housing produced in the State.

The State Authority, instead of planners, has statutory control over the low-cost housing quota requirement. According to the Terengganu State policy, any proposed development on sites above 3 hectares must be submitted to the State Authority whereby a low-cost housing quota may be imposed as a development condition. Any appeal by the developer regarding the low-cost housing quota is made to the State Authority instead of planners. Moreover, the State Authority may introduce State-level building standards that reflect the local housing needs instead of adapting Federal standards (see Table 6.4). For example, State standards in Terengganu specify a bigger third bedroom but a smaller kitchen. The State Authority can make additional requirements to suit local conditions, for instance, a car porch for each unit in areas with poor public transportation systems and where the car is a major mode of transportation.

**Table 6.4: Comparison between Federal and State low-cost housing standards**

<b>Specification</b>	<b>National Housing Standards for Single and Double Storey Low-cost Houses (CIS1-1998)</b>	<b>The State of Terengganu single storey low-cost terraced standard</b>
Minimum floor area	60 sq. m.	60 sq. m.
Minimum bedroom nos.	3	3
Minimum area		
Bedroom 1	11.7 sq. m.	11.15 sq. m.
Bedroom 2	9.9 sq. m.	9.29 sq. m.
Bedroom 3	7.2 sq. m.	9.29 sq. m.
Kitchen- Minimum area	5.4 sq. m.	4.5 sq. m.
Bathroom	1.8 sq. m.	1.8 sq. m.
W.c.	1.8 sq. m.	1.8 sq. m.
Living/dining, store and lounge	22.2 sq. m.	Separately or jointly provided based on interior layout area

*Source: “National Housing Standards for Single and Double Storey Low-cost Houses (CIS1-1998)” and “Low-cost Housing Specifications” obtained from HDSSO (copies available with author)*

The influence of the legal and government institutions over the implementation of low-cost housing regulations gives primacy to the State Authority. This presents a form of local capture by the State Authority. It can be argued that that the State Authority can better anticipate local housing needs compared to Federal policymakers located 400km away in the nation's capital. Therefore, the local capture by the State Authority has enhanced the well-being of local low-cost housing buyers as they received the additional features without having to pay more.

#### **6.5.4 Effects of the Malaysian planning system on the regulation of low-cost housing**

From the analysis undertaken, it is clear that while town planning is a joint Federal-State item under the Malaysian Constitution, land matters are solely under the State Authority. By virtue of State regulation, development applications for lands above 3 hectares must be submitted to the State Authority for endorsement and imposition of a low-cost housing quota. Thus, Malaysian planners do not possess the authority to impose a quantitative low-cost housing requirement, unlike the UK planners' Section 106 powers (see Burgess et al., 2011). Furthermore, it is observed that the multiple-level planning tiers give rise to a number of statutory plans which take time to prepare and review. This may introduce delays and uncertainties in the development process.

Notwithstanding the above, it is concluded from the analysis that Local Authority planners (LAPs) as the on-the-ground implementers of housing regulations have substantial influence over low-cost housing quality in their preparation and implementation of statutory plans. Additionally, LAPs also hold considerable enforcement power over the development activities in their areas, including monitoring low-cost housing construction. Therefore, planners still have a significant role to play in regulating the process of low-cost housing development.

## **6.6 Chapter conclusions**

This chapter has highlighted the complicated regulatory structure governing the provision of low-cost housing. The legal control over low-cost housing, involving regulations and institutions at the Federal, State and Local levels, presents a potential source of conflict. Notwithstanding national-level policies that guide low-cost housing development in general, the State Authority, with its constitutional and statutory powers, may implement only those regulations that suit local conditions. However, this arrangement also fosters discretionary implementation that may sympathise with developers and promotes the well-being of local low-cost housing buyers.



The macro analysis of low-cost housing regulations in this chapter revealed substantial inputs from the legal, government and political institutions. The legal and government structures somewhat diminish the planner's role in securing the market's involvement in low-cost housing provision, as the power to impose the low-cost housing quota rests with the State Authority. However, the quota is only one way to obtain low-cost housing supply. Moreover, notwithstanding planners' reduced role with respect to the low-cost housing quota, substantial control over the development approval process and housing quality still belongs to planners. Thus, planners, especially LAPs, still have significant control over the provision of low-cost housing in Malaysia. It is their interaction with developers that determine the outcomes of the regulatory environment of low-cost housing. Political inputs were evident in low-cost housing decisions such as Local Council members' influence overriding Local planner decisions. Evidence of political inputs is also found in planner and developer interviews.

Having identified the complex multi-tiered nature of the regulatory environment over low-cost housing, it is pertinent to explore how this complexity is managed by key actors. While the formal policies at Local level are somewhat opaque, it is clear that planners and developers are actively engaged in producing new low-cost housing in the study region. The next two chapters present results from interviews with planners and developers to provide an insight into how the external policy environment is internalised in the operations of key actors involved in producing low-cost housing.

## Chapter 7: Meso-level analysis of planner interviews

### 7.1 Introduction

The macro-level analysis of low-cost housing regulations in the previous chapter has illustrated how the Malaysian legal system engenders a complicated regulatory environment with potential for tensions. Nevertheless, whilst the legal structure has given the State Authority a substantial amount of power over low-cost housing policy implementation, planners still administer development control and planning standards on new low-cost housing developments. Therefore, notwithstanding the complex regulatory environment and limitations from the legal structure, it is planners who possess considerable control over the implementation of low-cost housing regulations. In the context of Malaysia, any land development must be preceded with planning permission and undertaken according to the attached planning conditions.<sup>41</sup> In theory at least, planners as agents of the state have the power to shift market outcomes in the current social, economic and political climate.

As on-the ground implementers of government policies and regulations, Malaysian planners must arbitrate the low-cost housing regulations to ensure the achievement of overarching national socio-economic objectives. This includes interpreting regulations in a way that does not present undue burden to developers who contribute to economic activities whilst at the same time providing adequate low-cost housing to promote social cohesion.

This chapter examines the perception, experiences and actual practices of planners in implementing the regulations which were assessed in the previous chapter. It is based on results of semi-structured interviews with senior planners from Federal, State and Local levels. The main contribution of this chapter is in revealing the behaviour of planners in regulating low-cost housing, a segment of the housing market with low-effective demand which necessitates mandatory market provision. In this chapter, the analysis of the interviews according to themes is presented, followed by a summary of the overall findings. The concluding section discusses the implications of the planner interview findings on the provision of low-cost housing in Terengganu.

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<sup>41</sup> As per Section 2 of the Town and Country Planning Act 1976, development is “the carrying out of any building, engineering, mining, industrial, or other similar operation in, on, over, or under land, the making of any material change in the use of any land or building or any part thereof, or the subdivision or amalgamation of lands”.

## 7.2 Planner interviewees

Seven senior planners were interviewed comprising one Federal planner (Planner 1), one State planner (Planner 2) and five Local planners (Planners 3 to 7). All interviewees held senior management and decision-making posts, but administered different tasks and responsibilities. The Federal planner (Planner 1) formulated and oversaw national planning policies. The State planner (Planner 2) advised the State Authority in planning matters. Local Authority planner (LAP) interviewees (Planners 4 to 7) prepared and executed Local Plan functions, including deciding on planning applications of lands below 3 hectares<sup>42</sup> and enforced planning regulations in their Local Authority area. Planners 5, 6 and 7 were also heads of the One Stop Centre (OSC) which is the development secretariat at the Local Authority. All LAPs had direct interactions with developers.

**Table 7.1: Details of planner interviewees**

Interviewee	Current organization level	Current position in organization	No. of years working experience	Level of working experience
Planner 1	Federal	Assistant Director	22	National and State
Planner 2	State	Manager	20	State
Planner 3	Local	LAP	5	National and Local
Planner 4	Local	LAP	25	Local
Planner 5	Local	LAP	9	Local
Planner 6	Local	LAP	27	Local
Planner 7	Local	LAP	6	National and Local

Seven interview themes guided the planner semi-structured interviews. In the next seven sections, results of the planner interview are provided according to these themes, i.e. (i) the perception of their role in the provision of low-cost housing; (ii) the perception of general government intervention tools; (iii) the perception of the current regulatory environment; (iv) the perception of the low-cost housing policy; (v) the perception of deregulation; (vi) experience with developers and (vii) the actual practice in implementing regulations. The themes were chosen to elicit information from planners that can offer insights into how the external regulatory environment was internalised in planner behaviour.

### 7.2.1 Perception of the role of planners in the provision of low-cost housing

Interviewees were asked to elaborate on how they viewed their role in the provision of housing, with a particular focus on low-cost housing.

<sup>42</sup> Terengganu state regulation states that any development applications for lands above 3 hectares are to be decided by the State Authority.

The majority of interviewees viewed Malaysian town planning as a ‘top-down’ process in that the decision of the lower tier of town planning must follow the upper tier and more senior agencies. Interviewees indicated that their authority over low-cost housing was somewhat secondary to the State Authority, in terms of mandating market involvement in providing low-cost housing. According to current State policy, any development application on sites above 3 hectares will be decided by the State Authority and not the LAP.<sup>43</sup> As on-the-ground implementers of housing regulations, this restricts the planners’ influence over new private low-cost housing. As stated by one LAP interviewee with over 20 years’ experience in town planning:

*“If we go back to the laws, at Local Authority level we are governed by Act 171,<sup>44</sup> Act 172,<sup>45</sup> Act 133,<sup>46</sup> UBBL<sup>47</sup> and other bylaws. As you can see, we are not bound by the policy set by the State government although we have to be aware of State policy. So in considering any proposed development whether subdivision or building plan, the Local Authority can only depend on the three main Acts. Act 171 is administrative in nature, it does not involve any technical matter or development control. So the main Acts are 172 and 133. In these two Acts, there has never been a mention of the percentage of low-cost housing to be constructed. Only in UBBL it was outlined the building specification for low-cost housing namely the floor area. But it never indicated how many low-cost units to be built in a housing scheme. So in the first place, we have no provision to ensure that the land must be developed with low-cost houses.” (Planner 4)*

The above comment by Planner 4 encompassed the reality of the local planning practice as shaped by the Malaysian legal system. Planners’ authority in low-cost housing provision in Terengganu is somewhat restricted as the authority to impose the low-cost housing quota lies with the State Authority.

The Federal planner interviewee was asked to clarify the development approval procedure when he indicated that planners can only advise the committee on the matter of low-cost housing quota imposition. As confirmed by Planner 1:

*“Yes, just as advisors... We give technical advice but the decision remains with the Exco (State Executive Council)...” (Planner 1)*

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<sup>43</sup> State Executive Council Meeting Decision 9/2001.

<sup>44</sup> Local Government Act 1976.

<sup>45</sup> Town and Country Planning Act 1976.

<sup>46</sup> Street, Drainage and Building Act 1974.

<sup>47</sup> Uniform Building Bylaws 1984.

However, notwithstanding the reference by the above comments regarding the State Authority's significant level of control over low-cost housing production, Malaysian planners are given substantial statutory powers by the Federal town planning legislation to enforce development control and impose planning standards on new developments. This discretion can and has been used to ensure a net-benefit to different stakeholders, including developers. Planner 1, a Federal planner, and Planner 6, a LAP, explained:

*“Planning is control and monitoring. To approve planning permission we monitor if they correctly follow the guideline. Developers who are not monitored may do something else, build not according to scale or whatever.” (Planner 1)*

*“We at the government sector, we look at the interests of the development stakeholders. If developers see profit as their main objective, we as government officials see both sides - developers, house buyers and surrounding people... Open space, how much must they allocate and we have to ensure that they provide it. In terms of public facilities such as ‘musolla’ (small mosque), public hall, car park, shops we have to ensure all of these in their proposed development. All the required components must be provided. But we don't require drastically above that, even though we have the guideline (to back us up) we have the flexibility there. When they provide other facilities such as TNB (electricity sub-station) and sewerage reserve, we can take part of those as part of open space to prevent the project from becoming non-viable. So it's balanced.” (Planner 6)*

The foremost consideration of planners is the welfare of the future low-cost housing occupants. As low-cost housing is synonymous with low profitability, private developers will try to reduce costs where possible, including selecting cheap land with an inferior location or quality. Here, planners have the responsibility of ensuring that the low-cost housing quality is not sacrificed for profit by building on unsuitable sites. According to Planner 6:

*“In town planning, we are involved from the site selection stage. Although it involves low-cost housing, we don't want the site to be water retention area, disaster-prone area, areas that may be vulnerable to erosion... We don't want that. Or they reclaim rubbish dumpsite or solid waste dumpsite. From the site selection process, we do not want to give low-cost housing sites which are unsuitable or rejected, low quality sites, sites which are located far in rural areas, sites with no infrastructure and facilities.”(Planner 6)*

It is clear that planners used their statutory power to produce developments which observe planning standards but at the same time remained profitable for the developer. The comments by Planner 6 also indicate that Terengganu planners do exercise quality control over low-cost housing in terms of accompanying amenities and suitable location. This corresponds with the international literature reporting the public interest motivation among planners (Campbell & Marshall, 2000).

Interviewees elaborated on the quality aspects of low-cost housing which they aimed to provide. The following remarks indicate how planners guarantee that low-income groups enjoy comparable standards of living compared to market buyers.

*“The important thing is communal space that contains community facilities. In the Malaysian context, ‘musolla’ which is place of worship, hall or community hall, kindergarten, children’s playground, open space for the adult. Those things play a role. This means, you can’t have the open space here if it prevents those communal facilities. So in SEDC planning we put priority for low-cost housing to be close to those things. Because we feel that they don’t own cars, they have to go on foot (laughs).” (Planner 2)*

*“In the case of low-cost housing, we ensure for State government projects 10 percent green areas and road facilities as per standard. That is all from the planning aspect where we can guarantee the comfort of the low-cost housing occupants.” (Planner 4)*

Interviewees saw the provision of communal space, open space and good access network as important elements in ensuring the wellbeing of the low-cost housing occupants. Although these elements are standard facilities in housing schemes, they are sometimes eliminated by developers who want to improve the profitability of the low-cost housing component of the project. Thus, planners are positioned by regulations to safeguard the quality of living of future low-income occupants that could otherwise be compromised if left to pure market conditions.

Overall, the interviews indicated that although the role of planners was restricted by the legal and government structures, planners still retain significant control over development control and the quality of low-cost housing. According to the present institutional arrangements, the State Authority had more control over low-cost housing policy in the State. However, the town planning statute allows planners to monitor proposed developments and to interpret statutory development in a manner that confers net-benefits to the society. Based on a public interest motivation, interviewees enforced planning requirements such as place of worship and community hall, and at the same time ensured that low-cost housing is built in suitable locations. This discretion had also been used in favour of developers. For example, Planner 6 mentioned the practice of combining the electric sub-station and sewerage reserve to represent some proportion of open space for the proposed scheme.

### 7.2.2 Perception of government intervention tools

Unchecked market forces in property development can give rise to undesirable externalities including slums and squatter settlements. Thus state intervention is necessary to curb those negative market outcomes. In Malaysia, the government tempers the negative effects of market operations and the failure of the market to supply public goods through the use of planning, regulations, subsidies and taxation. Interviewees were asked to provide their views on general government intervention tools, with a focus on planning and regulations.

Most national development and economic policies in Malaysia have been geared towards achieving social cohesion since 1970, underlined by the Vision 2020 mission statement for Malaysia and its various accompanying policies. The current planning system also reflects this socio-political underpinning. One interviewee indicated consideration for racial integration in his decisions:

*“Planning has to be sensitive to these things. If you say you want to integrate Malay, Chinese, all these (ethnic groups) you may use the planning concept itself. We lay (out) the housing in such a way to have a playing area at the centre so their children can interact.” (Planner 2)*

Thus, planning as a mechanism of government intervention is influenced by a broader socio-political principle. In terms of low-cost housing, planners have to be aware of the underlying national aspiration of social integration. In Malaysia, access to low-income home ownership has been promoted as a wealth-redistribution mechanism since 1970 (Agus, 2002). Besides the adequate supply of low-cost housing, a layout that is conducive to social interactions within new housing schemes can also help to achieve the objective of social cohesion.

Similar to the findings of the macro analysis of low-cost housing regulations, planners confirmed that the legal and government structures significantly influence the regulatory implementation. The Malaysian Constitution’s division of powers over land, town planning, housing and the Local Authority has resulted in the primacy of State Authority in housing regulation. The Federal town planning legislation, Act 172, is substantially weakened by the State Authority’s constitutional power over land and also expressly indicated that the State Authority may give directions to the Local planning authority.<sup>48</sup> A LAP interviewee indicated how planners practised selective implementation of the Act 172 due to this conflict:

*“We have the right to choose the provision to be implemented because Act 172 although it’s a statute, but it has no power to be enforced as land is a State matter.” (Planner 3)*

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<sup>48</sup> Section 3, Town and Country Planning Act 1976.

The above comment applies in situations where there are contradictions between the town planning statute and State policy. It can be interpreted that the town planning law is not to be rigidly implemented (i.e. subject to agreement with State policy). For instance, planners may not impose the planning standards in the statutory development plans in the event of overlaps with State standards. Assuming that State standards indeed will benefit the local population, this helps to diffuse potential tensions that may be caused by having a multitude of housing regulations.

Conflicts in housing regulation are not only between town planning and the State Authority, but also between different important laws. For planners, this conflict is most pronounced between the town planning law (Act 172) and the land law i.e. the National Land Code (NLC). In the case of zoning, a zoning provision in the statutory plan under Act 172 may be overridden by the land use expressed in the land title under the NLC. Planners 6 and 7 discussed such legal disagreements and how they handled those disagreements:

*“The Local Plan itself is not rigid. Even though they indicate the zoning, however, we look at the type of land use to determine what activities can be allowed on the land. Under the Land Code, if the title is building we cannot prevent the owner from constructing a building.” (Planner 6)*

*“This is still an issue. Certain school of thought says that certain clauses, for some provisions Act 172 will prevail over NLC. But this depends on our own interpretation.” (Planner 7)*

LAPs are given a degree of latitude in deciding the prevailing statute should a conflict arise. The above ‘certain school of thought’ remark by Planner 7 indicated that there was no hard and fast rule in interpreting the legal contradictions. This enables interpretations and practices that could be governed by planners’ desires to engender net-benefits to the society.

The above comments can also indicate the flexibility available in regulations that enables planners to better serve the ‘people’ [i.e. the public interest argument reported in the literature (see Campbell & Marshall, 2000)]. An interviewee elaborated on the role of planning in safeguarding public interest:

*“Planning is control and monitoring. To approve planning permission we monitor if they correctly follow the guideline. Real developers who are not monitored may do something else, build not according to scale or whatever. That’s why we have to produce plans. They build according to approved plans, follow the required specifications... What planning requires is what is collectively required.” (Planner 1)*



Overall, interviewees expressed awareness and support for the long-term national goal of social cohesion. Planning was seen as facilitating social cohesion in low-income housing by ensuring adequate housing, especially in terms of conducive living environments. Interviewees were aware of the tensions in the regulatory implementation due to the legal and government systems but exercised a discretionary attitude that minimised the effects of conflicts. LAP interviewees also indicated using discretion in interpreting regulations that leaned towards public interest.

### **7.2.3 Perception of the current regulatory environment**

The regulatory environment of the housing market consists of both the regulations and also actors' internalisation of these regulations (Adams, 2008). Faced with housing pressure, planners can be divided into 'accommodationist', planners with a tendency to release more land supply, and 'obstructionist', planners with a propensity to withhold housing land (Mayo & Sheppard, 2001). The Malaysian housing market has been described as 'stringent' (Malpezzi & Mayo, 1997). However, the interviews indicated a more complicated balancing act in meeting stakeholders' needs. Planners often must give in to development pressure at the expense of the environment. Planner 7 explained that despite non-endorsement from the technical departments such as the Department of Irrigation and Drainage (DID), some developments were approved to meet with the demands from the public and politicians:

*"We have to compromise technical departments' comments. We still consider them but we still give some flexibility especially for the investor or developer. Give and take, win-win situation. (Developers are our) client and also part of our stakeholder, we must remember that. My experience in the OSC (One Stop Centre) meeting, sometimes there are certain arguments on how to preserve the part of Kuala Terengganu which is frozen for development being a water retention area [an open area that serves to contain flood water]. Based on DID (the Department of Irrigation and Drainage) comments, they don't endorse such developments but because the demand is there we have to compromise it with the needs of the people and also the politicians." (Planner 7)*

Such a balancing act among actors of property development is not unique to developing nations but has been reported in developed economies (see for instance Campbell & Marshall, 2000). The key enabling feature of such a strategy is flexibility, both in the regulatory structure and also the relevant legal instruments. In the context of interests in a developing economy, the environment usually always takes a secondary place after economic development.

The ‘delegation of authority’ (Evenson & Wheaton, 2003, p. 221) from a higher authority to a lower authority also contributes to variations in how Federal regulations are implemented at the ground level. The rationale of this system is that the lower authorities are better situated to manage externalities at the grassroots level. Most interviewees stated that the State Authority of Terengganu fostered a ‘permissive environment’ in the area of low-cost housing requirements for private housing developers. These interviewees indicated the leniency of the State Authority in implementing the low-cost housing quota on private developers, even waiving the requirement:

*“There has been a tendency by the State government to be more lenient on the low-cost housing requirement which has been in place from the early 1980s. I am not sure if there is any black and white on this matter. Most is caused by factors such as land costs and developer capability.” (Planner 4)*

*“So the trend now shows that if they ask for exemption from providing (low-cost housing), the State gives it.” (Planner 6)*

The State Authority indeed must consider the capability of private developers in Terengganu before imposing any requirement that can cause an economic burden. Excessive requirements on private housing developers may be politically unpopular and also can slow down the Terengganu housing market as a whole. The State Authority therefore has both political and economic motives to maintain a lenient attitude towards private developers.

Whilst flexibility was indicated in the plans and procedures, interviewees identified a resistance to change among their clerical and technical staff. Planner 3 gave an example of the slow acceptance of the new building certification system among the Local Authority staff whilst Planner 5 described his experience facing resistance from senior technicians when he tried to introduce a new low-cost housing type:

*“Because if you see, you have to change the habit, the practice and culture of people who have been in practice for 20 years in such a short time over two years.” (Planner 3)*

*“You have to change the concept because the government is too rigid. If you go to the Town and Country Planning Department, you see senior staff, senior technicians. The people with authority are old. They are rigid. When you talk about low-cost housing, in their head they picture terraced houses. They cannot imagine link houses, or any new ideas. Stereotypes. If I endorse an application (for a new type), at technical department they will say: ‘Oh, we haven’t seen (such a design), it’s not in the guidelines.’ They are not flexible.” (Planner 5)*

From the planners' perspective, the above remarks indicated the unyielding attitudes of support and technical personnel as major impediments to innovation in Local Authorities. Interviewees indicated that these employees, despite having no technical qualifications, were promoted to their current position gradually over the years. The technical department is responsible for examining the proposed plans and can give recommendations to planners. Whilst unqualified staff may have gathered valuable working experience during their employment, they may lack technical knowledge that facilitates the acceptance of new ideas and technologies. The problem of underskilled technical personnel overseeing the development application process in Local Authorities throughout Malaysia was previously reported in the Malaysian literature (Agus, 2002; Sufian & Ab. Rahman, 2008).

Interviewees also indicated weaknesses in the implementation approach, which often seemed improvised and promoted evasion among unscrupulous developers who manipulated the regulatory loopholes. Poor implementation in the Malaysian housing regulation system was attributed to insufficient manpower whereby enforcement by the authority is undertaken "only upon receiving specific complaint" (Sufian & Ab. Rahman, 2008, p. 150). Planner 3 described the general tendency in Malaysia in encouraging new major developments without regard to the statutory plan whilst Planner 1 commented on the loophole in land regulation that prevented an effective imposition of the low-cost housing quota on private housing developers:

*"It's typical to be ad-hoc in Malaysia, when there is problem then you find the solution for it. They never find a way to avoid it in the first place." (Planner 3)*

*"They have many ways to avoid the low-cost housing requirement. For instance, they subdivide the land. If the land is more than 10 acres, they have to go to State level for approval. So they subdivide into 2 acre parcels. There's a loophole there. The law allows that. The National Land Code allows for subdivision, etc. We cannot prevent that." (Planner 1)*

The government structure itself can engender tensions in the low-cost housing regulatory environment. Oftentimes, the actors involved are driven by different and frequently incompatible objectives. The first and second comments below illustrate interdepartmental tensions due to the perceived upper hand of some Federal agencies over the Local Authority. On the other hand, the third observation points out the possible conflicts among the developer, the Local Authority and the State Authority when developers questioned extraneous requirements by the State Authority.

*“That is the problem with State or Federal project. Sometimes they think that they have an upper hand of things so they decide to go against the rules. They may think: ‘Okay, we already have a green light for this so we can’t be bothered by all these procedures.’ We have problems with projects involving government agencies such as the Public Works Department because we need to control the development so that we can fully monitor what’s going on.” (Planner 3)*

*“These issues make it more difficult for us to deal with the government compared to the private sector. Even though you have G2G (Government-to-Government connection), it is cases like this. They build first, they don’t consult us first... The issue with the Telaga Batin project is the site situated across the City Council’s drain reserve. If it’s up to us, we do not endorse it but since they have already done earthwork and all that, we have to endorse it by formality.” (Planner 7)*

*“There are cases of tension between three parties: the State government, the Local Authority and the developer. The developer will maintain his right as given under the act. The Local Authority acts as the middle party to approve and at the same time implement State policy. This is based on my experience. I cannot take State policy as part of my consideration as long as it is not been made mandatory, not made into law. As long as there is no legal backing, there is no Local Authority official who can approve any development without following provisions under the act.” (Planner 4)*

The above remarks illustrate the tensions that can arise first, between government agencies and LAPs and second, between the State Authority, LAPs and developers. In the first instance, interviewees indicated breaches of the low-cost housing development procedure by government agencies that received prior go-ahead from a higher authority. In the second instance, the interviewee cited how LAPs must implement constitutionally legitimate State Authority policies that could be superfluous under the town planning and Local Authority legislations.

Overall, the interviews indicated a mixed regulatory environment with a range of strictness/leniency in different procedural issues. In some cases, planners were even forced to allow developments that contravened statutory plans but were deemed important for the well-being of local low-income groups. Normally, these public projects had received approval from the State Authority. Interviewees described the State Authority as pro-development with political and economic considerations superseding planning considerations in some cases. Interviewees also indicated that the potential for innovation at the Local Authority level was frustrated by inflexible personnel. The interviews revealed weaknesses in the regulatory implementation caused by conflicting organisational objectives and loopholes in the land regulation. Finally, interviewees reported potential conflicts within and between government agencies, LAPs and developers.

#### 7.2.4 Perception of the low-cost housing policy

This section presents a key theme of the thesis. History and culture can significantly determine the direction of a country's affordable housing policy. For instance, Satsangi and Dunmore (2003) stated that the underlying principles of town planning in Scotland and England have historically favoured the preservation of the countryside over socio-economic objectives and thus tend to prevent rather than promote affordable housing in rural areas. Therefore, there is a need to establish the ideology of planners with regard to low-cost housing. Interviewees were asked their views on the current low-cost housing policy in the State, including the minimum building specifications for low-cost housing units and low-cost housing quota requirements in new housing schemes above 3 hectares.

Previous World Bank studies of Malaysian housing concluded that some regulatory provisions regarding low-cost housing had increased housing costs (Bertaud & Malpezzi, 2001; Hannah et al., 1989; Malpezzi & Mayo, 1997). The view of low-cost housing as a burden on developers was acknowledged by some planners, as Planner 6 illustrated:

*“When developers are required to provide low-cost housing, they are a bit uncomfortable because they have to cross-subsidise with other (housing) types. For small projects, it is not viable at all.” (Planner 6)*

However, interviewees generally expounded the social benefits of the current low-cost housing policy, which favoured low-cost home ownership. The assumption of home ownership aspirations among Terengganu people was reflected in the State Authority's housing objectives and strategies outlined in Chapter 5. The comment by Planner 2 typifies the outlook on the main social benefit of the low-cost housing policy:

*“If we look at the transition, previously the low-cost group they didn't have any house. They stayed with their extended family if they're married and had kids. So in my opinion, when we build these houses they get a unit of house.” (Planner 2)*

Low-cost housing building standards have undergone improvements over time to address the social reality and the changing requirements of the occupants. For instance, two-bedroom units are no longer built as such a layout fails the religious requirement of separate rooms for parents, female and male children. Another improvement is the addition of a car porch, as car ownership had become more a necessity rather than luxury. Planner 1 commented on the rising quality of low-cost housing:

*“Design, construction material, car porch... All those things now have changed. Previously, there were no such things in low-cost housing. So the quality has increased.” (Planner 1)*

A significant social benefit of the low-cost housing quota requirement in new housing schemes is social integration. Historically, the low-cost housing quota was implemented in Malaysia to further the goals of racial integration as the majority of urban poor were Malays who could not afford market housing (Yahaya, 1989). It was found that whilst the racial-unity objective was still relevant in other States, the Terengganu population comprised at least ninety percent ethnic Malay with the generally prosperous non-Malay population automatically ineligible for low-cost housing. Therefore, the low-cost housing policy in Terengganu was concerned with integrating different income groups, rather than addressing ethnic-based segregation in housing schemes. The comment by Planner 6 reflects this observation:

*“We should integrate low-cost housing occupants with other communities. Sometimes, if the low-cost housing occupants socialise among each other, their minds will not expand. So it will be hard for them to get out of their low-income shell. If they socialise with high income groups, their mindset will change. They can get out of the low-income trap.” (Planner 6)*

There is a significant literature on public housing policy that focuses on issues of tenure mix (Arthurson, 2002; Tunstall, 2003; van Ham & Manley, 2010; Wood, 2003). Indeed, in the Australian context ‘tenure mix’ policies are implemented in state housing areas. The aim is to ensure a mix of income groups. However, a review of the US literature indicated the promulgation of income and racial segregation, both actively and accidentally, by land use and development control mechanisms (Berry, 2001; Clingermayer, 2004; Nelson, Dawkins, et al., 2004; Nelson, Sanchez, et al., 2004; Pendall, 2000). On one hand, policy may be used to pursue social integration in housing but on the other hand, policy can be used to segregate house buyers according to socio-economic criteria. The interviews revealed that Local planners were aware and supportive of the wider social integration objectives of low-cost housing, but in the local context were more focused on income rather than ethnic integration.

Interviewees also frequently mentioned the State/Federal dichotomy in the implementation of the low-cost housing policy. This corresponded with pilot study findings (see Hamzah, 2010). Planners indicated the prerogative of the State Authority in the final implementation of the Federal policies and guidelines. On the other hand, the Local and State governments being closer to the grassroots were viewed as being able to fulfil local housing requirements. Planner 2 indicated that the low-income house buyers in Terengganu should not be unsatisfied with their units because they received bigger units compared to other areas:

*“In a way most of the people who live in low-cost housing here who may not be satisfied haven’t visited those in KL. For instance, low-cost housing occupants in Seberang Takir (a locality in Kuala Terengganu). They live in terraced units of 20’ x 70’, they don’t know that their friends in KL or Klang Valley only live in 20’ x 60’. They have 10’ extra.” (Planner 2)*

Interviewees indicated evidence of political interference in planning decisions regarding low-cost housing. Inputs from politicians were found to have an effect on the quantity, location, phasing and distribution of low-cost housing. Planner 4 narrated an incident which supported his argument of political influence in the provision of low-cost housing in Terengganu, in this case regarding the distribution of low-cost housing units in his Local Authority area:

*“I was involved in an argument during a meeting on housing. There were two Elected Representatives, ER A and ER B. The project was undertaken in ER A’s constituency but among qualified candidates there were people from ER B’s constituency. So there was conflict there. ‘Why you want to put your people in my area? Find another area.’ That point of view. So don’t just say it’s between two different political parties, (the conflict) happens within the ruling party. They want to protect their own area because they feel that they have more available candidates, which may not be the case at all.” (Planner 4)*

Previous studies have reported evidence of political interference in the determination of low-cost housing supply (Agus, 2002; Rameli, 2009) and its distribution (Agus, 2002; Wan Abd Aziz, 2006) in Malaysia and also in other countries (Campbell & Marshall, 2000).

Overall, interviewees commented on the economic cost, the social benefits and the implementation methods of the low-cost housing policy. However, the social benefits of low-cost housing were seen to outweigh its costs to developers. The present low-cost housing policy was observed as promoting home ownership, better housing quality and social integration among low-income groups. Interviewees indicated that the implementation of low-cost housing policy was substantially influenced by the State/Federal divide and political inputs.

### **7.2.5 Experience with housing developers**

It has been stated that Malaysian planning exists in a vacuum with no regard for market forces and market characteristics (Mohd et al., 2009), a situation that has to improve due to the realities of public sector capacities and capabilities (Cullingworth & Nadin, 2006). Low-cost housing is a public good that requires market involvement in Malaysia. Although the government is mainly responsible for supplying low-cost housing for the urban poor, resource limitations require a policy which promotes private low-cost housing.

As an executor of policy, planners must interact with private housing developers. The interviewees were asked their perception of local private housing developers based on their past experience of working with the group. As expected from the literature (Yap, 1991), planners generally perceived private developers as being greedy and speculative with avoidance tendencies as illustrated by this remark:

*“Based on profit motivation, profit objective they don’t really want to build low-cost housing. But when the policy states that you have to build low-cost housing they have to build it but they, the developers, find a way so that the low-cost housing is subsidised by the State government.” (Planner 2)*

The low-cost housing quota requirement should be acceptable to developers as they obtain profits from the whole of the permitted development. However, interviewees stated how some developers applied to the State Authority to upgrade the ‘low-cost’ category to ‘affordable’. The ‘affordable’ housing type is only slightly larger than ‘low-cost’ houses, but has a ceiling price of RM70,000 compared to RM42,000 for low-cost housing. Therefore, developers can attain higher profits if they successfully appealed to change the ‘low-cost’ type to ‘affordable’ category in their proposed development. Reflective of the widely held view of unscrupulous developers who only seek profit, the inaugural lecture of a Malaysian urban planning academician was titled *“Searching for shelter, seeking the dream house: Colonial neglect, speculator greediness”* as translated from Malay (Agus, 2004).

Interviewees also observed a low level of planning knowledge among the local developers and their consultants. Whilst private developers were seen as profit-motivated, the same could be said about local consultants who competed for clients in a small market such as Terengganu. Planner 4, who had worked in three Local Authority areas during his 25-year employment period, claimed that he had never received a development proposal which was fully planning-compliant. He observed that consultants tended to follow their client’s requirement to secure their contract by manipulating the submission plans:

*“I think in Kemaman, none of the developers are well-versed with our requirements. In fact, most of the consultants involved are not well-versed with the requirements. Both local and outside consultants. Sorry to say but consultancy in Malaysia is more on pleasing the client even if they know (the requirement), they ignore the requirement. Of course the first thing is to get the job. When they have the job, they have secured the job, then only they abide by the requirements of the Local Authority. If the client wants 500 units, they will design for 500 units. If later this is not achievable, then they will play around (with the design). In my opinion, in the State of Terengganu there is not one consultant who really understands, be it architects or town planners, the (planning) requirements on the proposed site.” (Planner 4)*



The incidence and influence of client pressure on property professionals, to the extent that the resulting work was legally and ethically acceptable, had been reported in the literature. Levy & Schuck (1999) described how valuers produce a range of ‘defensible values’ to accommodate client pressure. Developers could influence key elements of the development application documents prepared by consultants, such as the number of low-cost house and its layout. Based on Planner 4’s experience, consultants lacked local town planning knowledge to produce ‘defensible’ planning application documents. Based on procedure, planners must reject or return these non-compliant applications. In turn, this could reduce the supply of low-cost housing.

Most interviewees commented on the avoidance and non-compliant behaviour of private developers especially concerning low-cost housing. Private developers were observed to manipulate the loopholes available under the land law by subdividing the original land parcel into smaller titles of less than 3 hectares before engaging the formal development procedure to avoid the low-cost housing quota requirement. Recalcitrant developers would leave the construction of amenities, such as children’s playground and *musolla*, to the final stage of the low-cost housing phase before completely abandoning them and claiming financial difficulty in meeting the commitment. The following comments illustrate the uncooperative behaviour of private developers:

*“Developers and owners of private lands have the incentive to avoid developments that would require building low-cost units. They subdivide the land to reduce the size of the land, it is that obvious. There is no restriction under the Land Code to do that.” (Planner 4)*

*“In my opinion, there are many developers who avoid the requirements for amenities and infrastructure for low-cost housing.” (Planner 1)*

Indeed, international literature has observed this ‘strategy of avoidance’ among developers (Evans, 2009). This behaviour aligns with the operational strategy of developers, which concerns mostly economic survival in the long run (Ball et al., 1998). The above comments indicated planners’ perception that developers would avoid the low-cost housing requirement if the avoidance risk (being caught manipulating the land-subdivision system) is lower than compliance gain (profits from the whole development).

Overall, interviewees characterised private developers as profit-motivated and possessing avoidance tendencies. Interviewees described local private developers' involvement in low-cost housing provision as a by-product in unlocking potential profits from a bigger project. In itself, low-cost housing was not a viable venture for private developers. Due to this, interviewees observed a trend among developers to appeal and upgrade the requirement to build low-cost housing to the more profitable 'affordable' type housing. The interviews also indicated planner's perception that developers had pressured their consultants to produce non-compliant development application documents.

### **7.2.6 Perception on deregulation**

The Malaysian housing literature has reported the tendency of private developers in Malaysia to only cater for the middle and high income housing (Yap, 1991), which has necessitated the implementation of the low-cost housing quota since the 1980s (Yahaya, 1989). The low-cost housing quota requirement is one way to secure the market provision of low-cost housing. Recently, the Real Estate and Housing Developers Association of Malaysia asked the Malaysian government to review the low-cost housing quota requirement on private developers, arguing that the provision of low-cost housing should be the full responsibility of the state (Damodaran, 2011).

Planners generally expressed disagreement when asked if the low-cost housing quota requirement should be abolished. They strongly believe that the market will not be involved in low-cost housing provision due to its low profits without the quota system. When asked if private developers will build low-cost housing in the absence of the quota requirement, Planner 7 gave this simple answer:

*“I don't think they will build (low-cost housing). They say that the return is low.”  
(Planner 7).*

The above remark by Planner 7 encapsulates the reality of the housing market; low-cost housing is not profitable enough to attain voluntary market involvement. Although in the form of a mandatory obligation, the low-cost housing quota does successfully engage the private sector in providing housing for low-income groups. In the context of Terengganu, the State housing strategy (reviewed in Chapter 5) indicates an increased dependency on private developers to construct new low-cost housing via the low-cost housing quota. Thus the low-cost housing quota is very much relevant in Terengganu.

The earlier World Bank study on Malaysian low-cost housing concluded that overregulation, including generous planning standards contributed to the high low-cost housing costs (Hannah et al., 1989). A later paper based on this study commented that “government interventions were the primary cause” of high housing costs in Malaysia (Malpezzi & Mayo, 1997). Interviewees were asked their views on the relaxation or reduction of low-cost housing standards.

Generally, interviewees disagreed with reducing the current house size to lower the construction and development costs of low-cost housing. The comment by Planner 5 below typifies the protests:

*“To me, the current size is more comfortable than the older ones. We can improve on it by adopting another concept. For terraced, we can adopt maybe townhouse concept for bigger (built up) area. But if you want to reduce the size, can you imagine? One or two rooms for 18’ x 65’. It cannot be done.” (Planner 5)*

Interviewees believe that they have a role in fulfilling the collective requirements of society. This includes ensuring the comfort of low-cost housing occupants by providing dwellings that are adequate in size and equipped with social facilities. Planners have to be sensitive to differences in the local socio-economic characteristics (e.g. demographic and cultural attributes) in order for them to meet the housing requirements of the local low-income groups. Planner 2 described the household characteristics of the low-income group in Terengganu:

*“In Terengganu, or the east coast in general most household size is big. If it’s 5 persons per household for the whole of Malaysia, in Terengganu it may be more than 5 because they have extended families living together. If you go to Ladang Tok Pelam, in a house there may be 2 or three families. When the children get married, they still live with the parents. That’s considered extended family.” (Planner 2)*

The latest population census in 2010 reported that the average household size in Terengganu was 4.78 which was higher national average at 4.31 (Department of Statistics Malaysia Official Website, 2010). As reflected by the above remark by Planner 2, LAPs recognized that generally Terengganu households comprised extended families. This culture could have contributed to the above household statistics. Therefore a smaller low-cost house could not provide comfortable housing for the local population.

The LAP at the smallest Local Authority even remarked that the current type and size of low-cost housing are not comfortable enough for its occupants. He suggested bigger-sized low-cost bungalows instead of the typical low-cost terraced houses, as bungalows provide extra land for the occupants and will enhance their living experience. According to Planner 5:

*“I think the eight units on a bungalow lot are better and faster to be constructed compared to eight terraced house. They have to change the concept. The costs may be higher but we cannot reduce the quality of living. The bigger the space, the higher the living quality, our living standards. What is available now is not sufficient, you must think of a change.” (Planner 5)*

The above remark shows the concerns of planners over the quality of life of low-cost housing occupants. Although economists cite the economic costs of planning standards, planners believe that these regulations help to safeguard the well-being of low-income groups, which will subsequently confer overall positive benefits to society. Based on the arguments regarding the socio-economic costs of slums and the wealth-redistribution properties of low-income home ownership, the planners still view the current low-cost housing regulations as still practical in Malaysia.

Nevertheless, planners had a different view on the long term relevance of the low-cost housing quota. According to Planner 6, the application of the low-cost housing quota should follow the market and economic condition whereby:

*“If our economy is good and there are fewer low-income people whereby the scenario has changed, then there is no requirement for such law. Our market should be more liberal, based on demand and supply. What do the people want? Supply what they want. If there is any need for low-cost housing, then you must supply. We look at our economy. Currently there is a need, there is still a need (for low-cost housing).” (Planner 6)*

Generally, housing needs will change alongside the household income levels. As income increases, low-cost housing will lose its significance. However, low-cost housing is still relevant in the contemporary setting of the Malaysian housing market.

Overall, most interviewees did not support the deregulation of low-cost housing. They believed that the market will not build low-cost housing unless compelled by the State. The current planning standards also help to ensure the quality of low-cost housing. Thus, abolishing current low-cost housing regulations may worsen the housing situation for low-income groups and bring about social costs. However, interviewees opined that the permanence of the low-cost housing quota requirement should depend on the real housing needs whereby any future increase in real incomes together with any corresponding upgrade in house buyers' tastes should phase out low-cost housing. Nevertheless, there was still demand for low-cost housing at present.

### 7.2.7 Actual practice in implementing regulations

This theme was carefully administered during the interviews to avoid any self-promotion bias in the response. It was not possible to ask outright how the interviewees implement regulations in practice. Instead, the actual practice of interviewees in implementing regulations was analysed by giving scenarios such as developers' non-compliance during the planning application process and the treatment of public and private low-cost housing projects. Planners' actual practice was also inferred from their response to earlier questions.

Interviewees displayed a high degree of flexibility in the interpretation and implementation of regulations. This trend in modern planning has been reported in the international literature (Monk et al., 2005; Monk & Whitehead, 1999; Tiesdell & Allmendinger, 2005). Most interviewees indicated a pro-development attitude in their actual practice. Outdated statutory plans have been identified as a factor of delay in new developments in Malaysia (Mohd et al., 2009). Aware of this, planners facilitated development in their areas by adjusting outdated statutory plans to reflect current socio-economic circumstances, as indicated by this interviewee:

*“Zoning? Zoning can be amended. You can apply, re-zone according to your needs. Because planning is dynamic, we are not rigid. It changes according to current needs. That’s why Local Plan will be amended. Before we contain the development at certain areas when there is rapid development, we have to extend the housing area. We do not hinder but we facilitate, re-adjust and monitor” (Planner 1)*

An ‘accommodationist’ attitude is valuable in the planned Malaysian low-cost housing provision, whereby targets are set within the long term economic and development plans. Interviewees also indicated that they practiced negotiation when dealing with developers in their Local Authority area as reflected by these following remarks:

*“We at the Local Authority, we use the negotiation method whereby we explain: When you do this, you must make a social contribution.” (Planner 4)*

*“Here, before the applicant submits the application, they can still come in for negotiation.” (Planner 7)*

Bargaining with developers is allowed under the Malaysian planning system. However, operational differences exist between planners and developers, especially regarding time frames (planner-long term, developer-short term) and objectives (planner-public interest, developer-profit) (Cullingworth & Nadin, 2006). Whilst planners support land use that would benefit the public in the long run, developers aim for returns in the shortest time possible to avoid development risks associated with delays (such as economic downturn and changes in consumer locational preferences).

Planners cannot afford to continually display accommodationist behaviour as it can give a perception of weakness. To avoid such perception, interviewees indicated that their flexibility was tempered with strict enforcement to balance their agreeableness. For example, one interviewee monitored the developer's construction progress to ensure that the low-cost housing component was built alongside commercial housing. There was a risk that the developer would abandon the low-cost housing component once the profitable commercial components were completed:

*“We know that if we leave development phase to the developer, they will build the high cost first. The progress of the low-cost and medium-high cost should be parallel. Don't wait until all the high cost housing is completed and they abandon the low-cost housing. In Kuala Terengganu, we monitor them.” (Planner 6)*

Monitoring is identified as one crucial element in regulatory implementation (Burgess & Monk, 2011). Planner 5 who was a LAP made the effort to be familiar with the local private developers and their activities in the Local Authority area to catch non-compliance early:

*“We can identify the recalcitrant developers because we know local developers here. If we feel that they want to avoid planning requirements, we catch them from early on.” (Planner 5)*

Although there were divisions in the feedback from the interviews regarding different treatments for public and private low-cost housing projects, generally interviewees viewed planning as safeguarding the public against 'greedy speculators' (Agus, 2004). This comment by Planner 4 exemplifies the basic philosophy guiding the actions and decisions of interviewees in the State of Terengganu:

*“When I started working, I have always aimed to protect public interest.” (Planner 4)*

Safeguarding public interest has been reported as planners' main objective of their actions (Campbell & Marshall, 2000). All interviewees had indicated the public interest motivation in different matters in various parts of their interviews. For instance, Planner 6 (LAP) told about ensuring low-cost housing are built early and not last to prevent avoidance by developers and Planner 2 (State Planner) indicated proposing bigger public low-cost houses to reflect the bigger household size in Terengganu.

It has been reported that politics may directly influence planners' decisions (Monk & Whitehead, 1999). Interviews also indicated similar trends whereby the authority of LAPs may be undermined by politicians. Planner 7 described the superiority of the elected Local Council who lacked technical background but had decision-making powers that prevailed over planners:

*“The highest decision making power lies with the Council, the full board of the Local Authority, regardless of their background. We at OSC have no say in selecting them. One of the issues is they don't have the technical background. So the issue is, when it involves Councillors they look on the political side of things. We feel that sometimes our internal departments' comments are moderated. Even though we have our say, but their views do prevail. Because the system is there, and according to Act 171 the Councillor have the right to review. By right in the OSC guideline, the Councillor just can give their social or economic views only but not become part of the decision-making process. Their role is more towards giving input on the area that they represent. However, in meetings they tend to be different, they can influence the outcome.” (Planner 7)*

The above observation shows how the planning process can be sidelined by the administrative structure of the Local Authority. It is argued that instead of being based on planning principles, some development decisions may be influenced by politically-motivated inputs from Council Members.

The tendency to prioritise political over technical or legal considerations is not unique to Malaysia; the planning process is generally a balancing act of different concerns for a large number of interests which must give way to socio-economic realities (Cullingworth & Nadin, 2006; Monk & Whitehead, 1999). However, politics seemed to overtly determine the direction of planning in Terengganu, including low-cost housing provision. The high degree of political influence in the Local planning system is succinctly encapsulated by the following remark:

*“The ones who make decisions are not professionals or experts in this matter but the politicians.” (Planner 3)*

Another limitation of planners' operations in practice is institutionalised by the Malaysian legal system, as expressed by interviewees on numerous occasions. To recap, the powers of the Local Authority and Local planning authority are set out in the Federal Act 171 (Local Government Act 1976) and Act 172 (Town and Country Planning Act 1976) respectively. Act 171 gives autonomy to the Local Authority to govern the gazetted Local Authority area whilst Act 172 empowers the Local planning authority to undertake development control. Based on this, it seems that the Local planning authority has control over housing development within their boundaries. However, the Malaysian Constitution constricts this power by placing the Local Authority under the purview of the State Authority. This effectively reduces some of the Local planning authority's development control decisions.

Overall, the interviewees were found to exercise flexibility in their dealings with private developers by fostering a strategy of negotiation and bargaining. However, their 'accommodationist' attitude was balanced by a degree of strictness especially in monitoring because planners have different organisational objectives from private developer. Planners were explicitly influenced by public interest motivations. Generally, interviewees were divided in expressing special treatment for public projects but were generally more vigilant with private projects. Finally, there were limitations to the authority of planners in the study area due to institutionalised factors such as the prevailing political and legal structures.

### **7.3 Summary of meso analysis of planner interviews**

The behaviour of planners in the low-cost housing regulatory environment indicates various interactions between regulations and legal, government and political structures. Accordingly, these interactions have shaped the institutionalised behaviours of planners. The above analysis has examined these institutionalised behaviours. This section provides a summary of the findings of planner interviews in the context of low-cost housing regulation.

#### **7.3.1 The influence of planning on low-cost housing provision**

The interviewees revealed how the current legal, government and political structures have given rise to specific planning functions in the context of low-cost housing provision and regulation in Terengganu. Whilst all planning tiers play advisory roles to the State Authority, Local Authority planners (LAPs) are empowered to execute planning functions at the on-the-ground level and therefore have significant influence over development control. Thus, although planners are not involved in the implementation of low-cost housing quota, they still have significant influence over the low-cost housing development process and the enforcement of planning standards.



Operating on public interest motivations, planners indicated how they ensured that low-income groups were given access to housing that fulfilled their requirements. Because the State Authority endorses home ownership, in essence this means that planners play a significant role in promoting low-income home ownership in Terengganu. It is also found that planners incorporated wider socio-political principles in their decisions, such as promoting social cohesion in a new housing scheme.

### **7.3.2 The current regulatory environment over low-cost housing provision**

The planner interviews highlighted the complex regulatory environment over low-cost housing. In the absence of a single regulation controlling low-cost housing, planners must consider a number of regulations in dispensing their duties. Planners considered the current array of regulations and standards as adequate to fulfil the housing needs of low-income groups. Although the purpose of each regulation is different, planners indicated potential uncertainties due to conflicts or overlaps between different regulations. An example given is the issue of zoning under the land law and the town planning law. However, planners resolved the conflicts by using flexible interpretations that adhere to the spirit of the law.

Generally, planners exhibited a pro-development attitude, towards low-cost housing. Planners exercised bargaining and negotiating with developers, selectively implementing regulations that can facilitate the development process. However, such leniency was not displayed by planners when the public interest is at stake.

### **7.3.3 Planners' interaction with developers**

Whilst the structure of low-cost housing provision is nationally constituted, institutional factors may influence the operations of planners and developers at a regional level. In implementing development control, Local planners indicated that they considered the economic capacity of local developers in fulfilling planning standards. At the local level, developers were able to negotiate and bargain with LAPs with regard to these non-housing requirements (e.g. the open space requirement). LAPs reported that they had exercised flexibility and discretion in making pro-development decisions.

However, notwithstanding this flexibility, LAPs were stricter with private developers compared to public developers, as the former were deemed as speculative organisations with avoidance and non-compliance behaviours. LAPs reported that private housing developers and their consultants lacked the knowledge of local planning requirements, leading to non-compliance in development application documents. Finally, LAPs exercised strict monitoring to ensure developers build the low-cost housing component punctually because there had been reported cases of developers shirking on their low-cost housing responsibility in the past.

#### **7.3.4 Challenges faced by planners in implementing low-cost housing regulations**

The analysis revealed a number of impediments faced by planners in implementing and enforcing low-cost housing regulations. Firstly, the authority of planners is somewhat restricted by pre-existing legal and government structures. As found in the earlier analysis of the regulatory environment (Chapter 6), the combination of the Malaysian Constitution and the Federal-State-Local system of government has favoured the State Authority in low-cost housing policy implementation. Nevertheless, LAPs still have significant development and planning control at the ground level, securing the role of planning in shaping low-cost housing outputs. The second challenge mentioned by planners related to the context of a developing economy, whereby planning principles (and related environmental considerations) often had to yield to the socio-economic objectives of low-cost housing. Political inputs from politicians and Local Council Members had overruled planning decisions in terms of the location and distribution of low-cost housing. Another restriction was the unyielding attitude of supporting technical staff which had prevented innovation in the development process.

## 7.4 Chapter conclusions

In theory, planners are responsible to mediate and implement the national policy on low-cost housing at the State level. However, the analysis of planners' interview, preceded by a similar finding in the previous chapter, showed that the interaction between planning and the legal and government structures has somewhat reduced the capacity of planners in implementing low-cost housing policy at the regional level. Planning control over low-cost housing was also subject to inputs from politicians and higher government agencies. Nonetheless, notwithstanding these challenges, the analysis showed planners still have substantial control in the quality of low-cost housing in terms of building specifications and the provision of amenities and facilities. The enforcement powers of LAPs over housing developers and development activities in their Local Authority area also ensured that low-cost housing was built on schedule.

Overall, planners still maintained a significant control over aspects of low-cost housing provision at the micro-level. It was observed that Terengganu planners have adopted discretionary flexibility in interpreting and implementing housing regulations in a manner that has benefitted developers (i.e. enabling new housing developments) and also low-income groups (i.e. providing proper low-cost housing of adequate specifications, amenities and facilities). However, planners showed no compromise in the matter of low-cost housing, showing wariness of private developers' speculative tendencies.

As the regulated party, housing developers have their own perceptions and experiences of the regulatory environment. The next chapter presents another meso-level analysis, based on interviews with the main developers involved in the provision of low-cost housing in Terengganu.

## **Chapter 8: Meso-level analysis of developer interviews**

### **8.1 Introduction**

The previous chapter has examined the behaviour of planners (i.e. regulators of low-cost housing). Whilst planners are required to interpret and implement the multi-tiered regulations, developers are the party being subject to the low-cost housing quota, various quality standards and development procedure requirements. Therefore, this chapter captures the perception and actual practices of developers who must operate in the current regulatory environment controlling low-cost housing provision in Terengganu.

Previous studies have shown how the economic behaviour of developers can have a significant impact on the housing market in a country (Ball, 2003b; Coiacetto, 2001; Keivani & Werna, 2001; Monk & Whitehead, 1999). This thesis argues that the economic behaviour of developers is conditioned by their interaction with Local planners or LAPs (i.e. regulators at the local level). In the context of Malaysia, developers who are involved in the provision of low-cost housing include public or government-linked developers building public low-cost housing, public and private developers who have to comply with the low-cost housing quota requirement and private developers who enter into housing PPPs with the state. This chapter focuses on private and government-linked companies to reflect the current housing strategy in Terengganu which relies on the private sector to deliver low-cost housing in the State.

This chapter examines the perceptions, experiences and actual practices of developers in the low-cost housing regulatory environment. The main contribution of this chapter is in reporting previously unexamined economic behaviour of local developers who were mandated to build low-cost housing in a developing region in Malaysia. This chapter begins by presenting results of the semi-structured interviews with major developers who were involved in the provision of low-cost housing. Next, an overall summary of the findings is outlined, before concluding with the implications of the developer interviews on the low-cost housing provision in Terengganu.

## 8.2 Developer interviewees

Seven major developers were interviewed. They represented five out of six firms registered with the Ministry of Housing and Local Government (MHLG) with confirmed experience in developing low-cost housing in the State. Four of the companies were wholly privately owned and one was a State-linked company. These interviewees comprised different levels of the organisation, including two executives and five managerial level personnel. However, all interviewees had direct involvement in the housing development activities of the firm. Therefore, all interviewees had direct interactions with various government departments involved in development control, particularly with the planning department. These developers were involved in all five low-cost housing development methods identified in Chapter 5 (i.e. State-funded projects, Federal-funded projects, ‘privatisation’ (special housing PPP), low-cost housing quota imposed on new development and government-linked development company).

**Table 8.1: Details of developer interviewees**

Interviewee	Current position in organisation	Organisation	Working experience (no. of years)
Developer 1	Manager	Government-linked company	14
Developer 2	General Manager/ Owner	Private company	22
Developer 3	Senior Executive	Government-linked company	12
Developer 4	Junior Executive	Private company	5
Developer 5	Assistant Manager	Private company	20
Developer 6	Manager	Private company	35
Developer 7	General Manager/ Owner	Private company	20

Seven interview themes guided the developer semi-structured interviews. In the next seven sections, results of the developer interview are provided according to the interview themes; (i) the perception of their role in the provision of low-cost housing; (ii) the perception of general government intervention tools; (iii) the perception of the current regulatory environment; (iv) the perception of the low-cost housing policy; (v) the perception of deregulation; (vi) experience with planners (vii) experience with government efforts to simplify the housing development process. The themes were designed to elicit information from developers to explain how they have internalised the external regulatory environment in their practices.

### 8.2.1 Perception on the role of developers in low-cost housing provision

Interviewees were asked to elaborate on how they perceived their role in developing low-cost housing. Consistent with the previous literature's description of private developers in Malaysia as profit-motivated business entities (Agus, 2002; Yap, 1991), interviewees generally indicated being coerced to build low-cost housing due to the non-profitability of the sector. Low-cost housing was viewed as a sector of the housing market with low effective demand and low profitability. Developer 4 provided a typical response shared among interviewees:

*“There is little profit from low-cost housing. If we build it, it is to fulfil the condition and requirement imposed on us.” (Developer 4)*

The ‘condition’ mentioned above is the planning condition that may be attached with planning permission for a new development. The ‘requirement’ refers to the low-cost housing quota requirement which mandates a certain percentage of low-cost housing for developments of a certain size. The low-cost housing quota differs from State to State in Malaysia depending on State Authority policy. In the case of Terengganu, developers may be required to build a minimum of 25% low-cost housing from the total units on a development site above 3 hectares. The interviewees generally perceived their forced involvement in low-cost housing provision as a necessary evil or regulatory hurdle to overcome in order to obtain the overall profit from the master development.

However, some interviewees believed that their involvement in low-cost housing provision really contributed to the bigger socio-economic picture. Developer 5 discussed in length about the increasingly enhanced role of private developers in building low-cost housing in Terengganu. Although forced, private developers believed they provided a considerable contribution to low-income groups considering the ‘risk’ involved, including the often lengthy and inefficient low-cost housing sale procedure by the State. Developer 5 stressed that they had made a contribution to society:

*“The contribution of the developer has been made. Even though it’s marginal, not that big, but it’s there.” (Developer 5)*

This corresponds with the argument that developers were not homogeneous in their operations, even displaying ‘non-maximising’ behaviours (Coiacetto, 2001). For example, Case Study 2 in the next Chapter 9 illustrates how the developer voluntarily increased the low-cost housing tally in the development above the quota requirement by 56 units. There seemed to be negligible economic justification for this act, as there was little profit to be made from the low-cost housing component. However, this could be part of the firm’s organisational strategies, which will be explained in detail below.

The developer’s organisation type may influence the degree of involvement in the provision of low-cost housing. For instance, a State-linked developer may have higher social obligation motivations to produce low-cost housing compared to conventional private developers. As stated by Developer 1 who represented a State-linked company:

*“We as a GLC (government-linked company) have to follow the State’s request. So you have to follow whatever requirements of the State. If the father asks you to do something, you have to obey. For the others, it’s a friend’s request so you are able to negotiate.” (Developer 1)*

The non-maximising behaviours of developers by building more low-cost housing than required and a total compliance to the State Authority’s low-cost housing requirements may form part of its ‘organisational strategies’ as reported in the literature (Ball, 2003b). According to Ball (2003b), firms may adopt strategies to ensure business outcomes (p. 898). In the above examples, the goodwill obtained by the developer in Case Study 2 eventually saved them from being penalised for a breach of sale procedures whilst Developer 1’s company later received financial assistance from the State Authority during a cash flow crisis due to its status as a government-linked company. Therefore, the non-maximising behaviours were beneficial to developers in ensuring positive economic outcomes and also beneficial to the State in that more low-cost housing is produced.

Notwithstanding the organisational type and motivations to build low-cost housing, interviewees insisted that they did not sacrifice quality in the quest for profit. Developers felt that they supplied a good type of shelter for the urban poor. Generally, they showed no discrimination against low-cost housing and ensured that the quality of low-cost housing is on a par with commercial housing. One developer described his hands-on approach:

*“Here you mention low-cost housing quality, how to ensure quality? Basically the contractors themselves don’t like me because I’m very strict. Consultants also don’t like me because I’m also very strict. A lot of people know.” (Developer 2)*

Overall, interviewees provided a number of rationales for their involvement in building low-cost housing, ranging from compulsion to voluntary. Although some of the motivations and actions of developers in low-cost housing provision seemed like non-maximising behaviour, the end result suggested that developers adopted an organisational strategy which sacrificed the profit in the low-cost housing component for bigger overall profits or goodwill benefits to their company. There was also evidence that developers also took pride in their products and gave low-cost housing buyers products comparable with market housing.

### **8.2.2 Perception of general government intervention tools**

Interviewees were asked to discuss how they perceived government intervention tools in housing such as taxes, subsidies and regulations. This provides the first insight into developers' impression of government interference before examining their views on specific policies. The majority of international literatures on government intervention in housing have offered a negative view (Bertaud & Brueckner, 2004; Bertaud & Malpezzi, 2001; Leishman & Bramley, 2005; Malpezzi & Mayo, 1997) with some exceptions that reported net benefits (Burgess & Monk, 2011; Crook et al., 2006; Monk et al., 2005; Whitehead, 2007). Yet the actual perception of housing actors on government intervention has been largely left unexamined.

Government intervention is necessary in correcting externalities caused by the market. Developer 7 acknowledged the health reasons behind the more expensive centralised sewerage treatment system in new developments compared to individual septic tank system in older developments:

*“(The) first (priority) is the centralised sewerage treatment, they (the government) don’t do (shirk on) that. Actually the effect will be long term. If you study the problems in other States, when you don’t treat or build proper sewerage system it will lead to Hepatitis B. That’s a big problem, Hepatitis B, if you don’t treat it (sewerage).” (Developer 7)*

The above remark concurs with the public health rationale of state regulation in housing reported in earlier literature (Ascher, 1947), which is still relevant to this day. Based on this remark, although government intervention may incur economic costs on developers, developers were aware of the wider social benefits of housing regulations. In the case of the sewerage system, a more expensive centralised sewerage treatment system in larger housing schemes is necessary to prevent outbreaks of diseases, such as Hepatitis B. The normal individual septic tanks may be cheaper economically but developers were aware of their inadequacy in protecting public health.



In the implementation of government intervention mechanisms, interviewees commented on the weak communication from regulators of any modifications or additions to existing development procedures. Developers described communication breakdowns in simple matters, such as failing to notify the developer of new procedures. Two interviewees gave examples of this failure in communication between the regulator and the developer. Developer 7 came from a prominent local development company with interstate operating experience and commented on a new planning procedure in the neighbouring Pahang. Developer 2 highlighted the importance of communicating new procedures to avoid non-compliance of development application documents. As they stated:

*“We are not clarified. Normally, the developers are forgotten. When they want to implement something, they just implement it without briefing us or informing us in detail. Sometimes, we only get to know about it when we read the newspaper. That is all. The latest change that we experience is about the TELEKOM’s (national telecommunication company) broadband requirement. Now every project in Kuantan (a district in the neighbouring Pahang) must first be approved by them before the application can go forward... That’s Kuantan, Terengganu will follow suit. It’s like that. When we submitted (an application), we got a surprise: Oh, so there’s a new legal requirement now. I don’t know... It all depends on implementation.” (Developer 7)*

*“When they come up with all the checklist or format, they have to inform all those related to them. They have to give notice.” (Developer 2)*

This corroborates with findings in earlier chapters about the complicated multi-tier housing regulatory structure in Malaysia that often introduced inefficiencies in the development process. Weak regulatory implementation within the development control system caused by insufficient manpower and inadequately trained staff has been reported previously in the Malaysian literature (Agus, 2002, p. 61).

Interviewees expressed awareness of regional housing market characteristics that require adjustments of centrally-formulated development control mechanisms. It has been argued that the characteristics of the local housing market and Local planning authority can influence the housing development rate (Ball, 2003b, 2010b). Developer 7 expressed his opinion regarding the one-size-fits-all strategy of the Federal Government:

*“The problem is, when implementing something new the government immediately implements it nationwide. Kuala Lumpur and Kemaman need different approaches. If you want to implement something new, you may start with Kuala Lumpur or a few States first. Then you find out the problems, improve them and then only implement in other places. You can’t just implement the thing in all States simultaneously, it will cause disruptions in all areas. People in Terengganu and people in Kuala Lumpur think in different ways.” (Developer 7)*

As noted by Developer 7, the regulatory interpretation of regulators in Terengganu may be different from the intention of the policymaker in Kuala Lumpur. The smaller Local Authorities in Terengganu may not have the resources to provide adequate staff training compared to larger Local Authorities in the more developed States. Evidence of problems due to different interpretations of new procedures emerged in the theme discussing developers' actual experience with planners and government agencies below.

Overall, the interviews indicated that developers realised the wider social consideration behind housing regulations. Nevertheless, the implementation of new housing policies or procedures was found to be problematic by interviewees due to poor information flows. Additionally, most developers also opined that any regulatory implementation that ignores regional institutional factors could result in net social or economic cost instead of achieving the objectives of regulations.

### **8.2.3 Perception of the current regulatory environment**

The regulatory environment comprises the sets of regulations and the organisational arrangements administering these regulations (Adams, 2008, p. 4571). In examining the perception of developers regarding the low-cost housing regulatory environment, this theme was guided by previous work which indicated a stringent Malaysian housing market (Brueckner, 2010; Malpezzi, 1999; Malpezzi & Mayo, 1997). This section discusses developers' impression on the existing legal and procedural framework for housing development. Rather than concentrating on any specific law and asking interviewees to give a discrete assessment (stringent/lax or positive/negative), interviewees were asked to discuss the manner in which various regulations were interpreted and implemented by the authorities.

Generally, interviewees did not find any issue with the seemingly complicated array of low-cost housing regulations, even indicating flexibility in the system. However, they were critical of the manner of regulatory implementation. As Developer 4 remarked:

*“It's (the set of regulations) not very rigid. The bureaucracy is more of a problem.”  
(Developer 4)*

An issue that was frequently raised by interviewees was the complicated relationship between the State Authority and Federal Government. In practice, developers may face different sets of legal and procedural requirements from the State Authority and Federal Government, with State-level requirements frequently taking priority over Federal conditions. As interviewees explained:

*“Now we have a problem in Malaysia. The Federal Government some of the times respect the State too much. You (the State Authority) can do whatever you like because they say “This is my State, not yours.” (Developer 2)*

*“As far as monitoring, the State Authority and MHLG are not on the same page. The Local Authority is supposed to be under MHLG but even though MHLG prepare their acts and guidelines, at State level it may be different. They may be changed depending on the State’s own laws.” (Developer 5)*

The State/Federal tensions in housing policy implementation was first noted during the pilot study (Hamzah, 2010). Interdepartmental tensions between authorities controlling housing development in Malaysia have been reported in the literature (Agus, 2002; Sufian & Ab. Rahman, 2008). These comments reflect the common perception among local developers regarding the State Authority’s primacy over housing development in the State. Developer 5’s remark was indicative of the State Authority superseding the Ministry of Housing and Local Government. By inference, and contrary to Federal regulations, all Local Authorities are subsumed by the State Authority. This presents a source of tension for developers who are controlled by Local Authorities under current Federal regulations.

Interviewees elaborated on the erosion of power of the Federal Government’s MHLG that favoured the State Authority. As shown in Chapter 6 (macro analysis of the regulatory environment), the State Authority has constitutional power over land and the Local Authority. It is argued that the State Authority effectively holds the decisive influence over housing development, impeding the licensing and enforcement power of the MHLG. This issue has not been highlighted by previous literature. Interviewees paid particular attention to the transfer of development control powers of the Local Authority, an agent of MHLG, to the State Authority:

*“When we pursue a certain issue with them (MHLG), they will ask us to go to the State, that perhaps the State Authority was the reason. So what is the use of the Local Authority being placed under MHLG if MHLG cannot control it? The Local Authority of each district should be under the control of MHLG.” (Developer 5)*

*“In my opinion, this Local Authority issue, the MHLG as the agency in charge they should control the Local Authority instead of listening to the State Authority. They should have used their power, but now it’s the other way round. When you mention ‘State’, they give in. This is unacceptable. What is wrong is still wrong because the MHLG controls the Local Authority. When they receive any complaints or comments from developers or architect consultants, they have to take action on them. They must call the Local Authority, take action. But when we talk about politics, anything under the State it’s something else. The MHLG has no power.” (Developer 2)*

The above comment reflects developers' perception of the State Authority's ascendancy over the MHLG in housing development control. To understand the source of this tension, we must refer back to the historical background of Malaysia as discussed in the chapter on the country context (Chapter 4). An explanation was given by Interviewee 10, the administrative law expert who was interviewed to clarify on the manner of the implementation of Federal laws at the State level. Interviewee 10 noted that prior to the formation of Malaysia, the different States had individual sovereign rights which shaped the present legal structure. According to Interviewee 10:

*“The mentality. State is State. That is why it is said, we are federated but not united. When you go back to history, we have Federated and Unfederated (Malay States). A lot of the reasoning and justification comes from history.”(Interviewee 10)*

The State Authority's constitutional-backed primacy over housing regulations has been described as 'parochialism' in the implementation of national housing policy (Agus, 2002, p. 58). However, being closer to the grassroots, the State Authority can model and implement housing regulations that suit regional needs and the local demography. It is argued that the State Authority's control has ensured the provision of low-cost housing that fulfils the housing needs of local low-income groups, according to local demographic attributes. In turn, this promotes the achievement of the underlying national long term socio-economic goal of Vision 2020.

Another issue highlighted by most interviewees was the unclear legal procedures and language which sometimes caused confusion and uncertainty amongst developers. The wording and content of the legal documents were often described as generic and vague whilst the development control processes were often described as inconsistent and opaque. An interviewee elaborated on the lack of clarity in the main law governing housing developers (i.e. the Housing Development Act 1966):

*“For example, I always have funny problems with regulations in that... Okay, the right to appeal to the Minister by... permission of Controller (quoting a section from HDA). Then you just give one statement here or two statements here. That doesn't tell the story. You must tell others' functions so it's easier for whoever even the applicant, the Controller himself to make the decision. So people don't want to fight the law, or to offend the law. Everyone abides by the law, play according to the rule. But the rule is not clear.” (Developer 2)*

The direct result of the unclear legal provisions was the augmentation of uncertainties among housing developers. Developer 6 described development control procedures which lacked consistency and reliability when the approving authorities retroactively amended or added development approval conditions:

*“I think the planning permission stage is OK. But what happens after that, after we have undertaken sub-division and about to apply for building plan submission. Sometimes, the conditions for planning permission which has already been given may change suddenly. So that is inappropriate.” (Developer 6)*

A less direct consequence of ambiguous legal parlance and procedures is the increased opportunity for corruption among policy implementers. Indeed, there was a perception of corruption within the housing regulation system among interviewees. The following comment by Developer 2 indicated that the flexibility available under the current housing regulatory system may foster the potential for manipulation, especially concerning the low-cost housing subsector. On the other hand, Developer 7 saw the manipulation as corruption. According to them:

*“So you must fine-tune all these laws in Malaysia. I think it will help everybody. And I think it will get rid of the corruption. That is the main issue of our country now. If the law is unclear, everybody... It’s easier. The staff or the officer won’t have the chance to be corrupt and the private sector also doesn’t have the chance to corrupt the people.” (Developer 2)*

*“When there is a subsidy in the system and when there is a set of rules governing it, then it may be open to corruption. That may be described as a form of manipulation but it is actually corruption. When the government imposes a rigid law and the implementation is not right, then it will be difficult. That is why the Chinese say that it is easy. As long as the ‘Agong’ (the King i.e. slang word for money) can move, there’s no problem. If the Agong cannot move, there’ll be a problem. That’s how the Chinese say it. If you say this to business people, they will understand this. It’s the norm. Corruption is something almost impossible to be eliminated.” (Developer 7)*

Developer 2’s comment on manipulation is perhaps easier to accept than Developer 7’s claim of corruption. However, a cursory review of the main Malaysian English newspaper website (The New Straits Times) by the author found at least two reports on allegations of corruption in low-cost housing provision. One article reported the release of two Local Authority officers in Selangor who allegedly bought low-cost houses despite earning income of more than RM2,500 per month (“Two Petaling Jaya City Council officers cleared from corruption,” 2011) whilst another article reported the investigation by the Malaysian Anti-Corruption Commission on allegations of corruption in low-cost housing distribution in Pulau Pinang (“MACC officers question MP over housing allegations,” 2011). This somewhat supports Developer 7’s claim, but further examination is needed before concluding that the Terengganu housing market is similarly affected by corruption.

Another indirect result of the unclear regulations and procedures was a perception of prejudice against private sector developers. There was a general observation among interviewees that the law and the regulator had the tendency to favour the public sector. A perception of poor transparency of the system led developers to doubt the accountability of the implementing agencies. Developer 2 expressed the sense of injustice among developers due to the opacity of the regulatory environment:

*“We see that the Acts protect, the government protect their own interest. They’re not holistic. In our country, the government has such a law that protects all government departments. So this is a funny thing, how can you protect them? The reasoning (behind it) that I heard is that if you don’t do that nobody dares to be a government servant. I don’t mind... As a private sector we do things, we’re answerable. Then you as the government, you do things you must be answerable too.” (Developer 2)*

The problems associated with unclear regulations in terms of opaque legal jargon and ambiguous procedures have not been reported in any Malaysian literature. This new finding is valuable because it can provide a reason for developers’ regulatory non-compliance. Whilst planner interviews suggested profit-motivated developers intentionally refused to conform to planning requirements, the above showed that local developers were confused by the unclear regulations. The examination of regulations (Chapter 6) supports developers’ views on the unclear language in regulations. Therefore, evidence from Chapter 6 and this chapter somewhat substantiate the claim of poor communication of regulatory requirements to developers.

Finally, contrary to the findings in the planner interviews (i.e. developers tend to manipulate the loopholes in the regulatory structure to avoid building low-cost housing by subdividing large sites into parcels measuring below 3 hectares), a developer indicated that it was the nature of the Terengganu land market which gave rise to that impression. Developer 2 described the private land market as being characterised by small parcels that naturally fall below the 3-hectare limit.

*“No, no, no, no. No such intention. Because the nature (of the private land market) is such (comprising small parcels). Not because you divide it and try to cheat, no. That’s not true. I don’t think it’s true.” (Developer 2)*

It is perhaps premature to accept developers' assertion that private land parcels in Terengganu are small in nature without support from empirical evidence. Furthermore, the negative perception of money grabbing private developers was not restricted to only planners but also other government agency interviewees. Interview 4 who was a senior officer at the State agency that implements the State Authority's low-cost housing policy regarded private developers as "deceitful to the government (and will) manipulate in various ways (including) claiming that they're making a loss and cannot build low cost housing" (Interviewee 4, Personal Communication, 7 October 2009).

Overall, the current regulatory environment in Terengganu was viewed somewhat negatively by interviewees but not as 'stringent' as reported in the literature. Whilst interviewees discerned a lack of reliability, certainty and answerability in the system due to the State Authority's dominance, this arrangement has delivered low-cost housing that fulfils the needs of local low-income groups. Interviewees also cited ambiguity in the legal provisions and procedures, which gave rise to perceptions of unfairness and the potential for manipulation or corruption. However, the source of these negative perceptions is the communication gap between policymakers and developers, which created misunderstandings. Improving this communication gap should alleviate developers' uncertainties and non-compliance and improve developers' impression of the regulatory environment. Bearing in mind the large number of low-cost housing produced by the market over the years, it can be argued that planners must have interpreted the 'unclear' regulations in a manner that has enabled low-cost housing to be produced.

#### **8.2.4 Perception of the low-cost housing policy**

This theme provides a direct insight into how the interviewees really viewed the low-cost housing quota requirement and building standards. Prior to this thesis, it was assumed that developers would not have any positive views on the low-cost housing policy. At the national level, the Real Estate and Housing Developers Association (REHDA) has recently asked for the abolishment of the low-cost housing quota requirement (Damodaran, 2011).

Being entrepreneurs, interviewees naturally saw low-cost housing requirements as a burden as it involves building housing units to be sold below market prices. Low-cost housing was generally perceived not only as unprofitable but also loss-incurring. Views of unprofitable and burdensome low-cost housing requirement are reflected in these comments:

*"We also used the commercial component of the development to bear some of the losses caused by low-cost housing." (Developer 1)*

*“There is no profit because the costs are so high. Even for those units priced over RM35,000, the costs are more than the price. Now the specifications have increased. For instance, for roof, before this they wanted asbestos sheets but now they want roof tiles. They also require fencing.” (Developer 4)*

Private housing developers in Malaysia had been widely regarded as profit-motivated (Agus, 2004; Yap, 1991). Even though both of the above developers mentioned the non-profitability, even loss-making attribute of low-cost housing, Developer 1’s statement describes how developers cross-subsidise the losses with the development’s profitable commercial component. Indeed, the profits from the scheme should be adequate to cover the planning conditions (Dubben & Williams, 2009). Planning conditions, including affordable housing requirement, have been described as a form of betterment taxation on the land value increment enjoyed by the landlord due to the granting of planning permission (Monk et al., 2005).

Developer 4 mentioned increased costs due to the requirement of roof tiles to replace asbestos sheets. In the past, asbestos sheets were popular as low-cost housing roof material due to lower cost and were acceptable before the discovery of associated health hazards. Since then, the more expensive roof tiles are the standard roofing material. Similarly, the requirement of fencing is to ensure the security of occupants. Overall, the new requirements reflect improvements to the living standards of low-cost housing occupants. Therefore, the low-cost housing quota requirement and building standards are supported by planning principles.

Generally, interviewees commented that they would not build low-cost housing in normal market housing projects (i.e. if not required by the low-cost housing quota). To them, a single storey low-cost house is comparable with its medium price counterpart, in terms of building material, size and number of bedrooms. As one interviewee indicated:

*“If you see the low-cost units, they don’t really look like low-cost houses. They’re similar to medium cost houses. Maybe the size (of the low-cost units) is smaller. But if you change the roof, increase the size about 100 sq. feet, we can sell the medium cost (units) at RM115,000 compared to RM33,000 for low-cost units. We are selling single storey medium cost terraced house in the same area at RM115,000. What’s the difference in cost? If we build medium cost (instead of low-cost units), the only cost increment is regarding extending the size by 100 sq. feet. That only involves floor area, the walls remain the same. So if you look at construction, it doesn’t involve wall extension. Low-cost units also have the same walls, the only difference is floor and roof area. So, maximum additional cost is about RM10,000. You can sell the bigger units at RM115,000.” (Developer 1)*



The above comment by Developer 1 reflected the equity argument of the low-cost housing quota requirement in Malaysia in terms of providing increased opportunity for home-ownership for low-income groups. Low-income groups, defined as having a monthly household income of below RM2,500 simply could not afford to buy a house priced at RM115,000 in urban areas in Terengganu under the market system. A comparable low-cost house priced at RM42,000 would improve the welfare of low-income groups in terms of access to good quality housing. Additionally, the increased opportunity of low-income home ownership corresponds with the national goal of wealth-redistribution to promote unity among the different strata of the society.

The international literature has reported on the lack of comprehensive low-income housing policies in developing economies. For instance, Sengupta (2006) stated that one of the factors contributing to the failure of the low-cost housing public-private partnership scheme in Kolkatta, India was the absence of a corresponding finance strategy to support low-income house buyers. Conventional mortgage facilities require formal documentation and income statements which most urban poor are unable to provide. Therefore, the completed units could not be sold to low-income groups who might have the means to pay the monthly mortgage payment but could not produce proper documentations.

A policy that supports low-cost housing production should be accompanied by policies supporting the management, exchange and consumption of low-cost housing. Interviewees criticised the sale procedure of low-cost housing by the State Authority, especially the list of buyers provided by the HDSSO:

*“For the low-cost housing, we asked for the list of buyers but they refused to give us unless the project has reached 35% construction. Isn’t that making things difficult for us?” (Developer 6)*

*“There were not enough viable buyers on the list. There may be a lot of buyers on the list initially. When they go to the banks to apply for housing loans, their applications were turned down. Majority of them had this problem. The banks wouldn’t approve their housing loans. Low-cost housing buyers do not have financially viable jobs. Fisherman, working at restaurants, doing odd-jobs. They need housing. Their only hope is low-cost housing. However, when they go to the banks, they couldn’t show income statement. They couldn’t get the finance. That might be one of the reasons why we couldn’t sell off our units to the buyers on the State buyer list.” (Developer 1)*

The low-cost housing sale procedure was described as lengthy and problematic. Developers must only sell completed units to buyers provided by the State Authority. Although these buyers have met the State Authority's requirements, they may be non-viable to commercial banks. In the past this has resulted in rejected loan applications. As a result, interviewees indicated having to pay holding costs on unsold low-cost houses. Nevertheless, as shown at the end of this section, and in the next chapter, the State Authority did provide some relief to developers facing this problem.

Interviewees described political influence in the process of low-cost housing provision in Terengganu. This supports previous research findings of political interference in the low-cost housing provision in Malaysian west coast States (Agus, 2002; Wan Abd Aziz & Hanif, 2005). Political influence was manifest at different stages of the development process. One developer commented on political influence during the construction stage whilst another developer elaborated upon the political aspect of the distribution process:

*“The issue here is it involves politics. Like in the XYZ project, we experienced change of political ruling party from BN to PAS, and then PAS to BN. During PAS time, they want to do all these things but under BN's time they want to do something else. We have to follow the political situation at that time. That's a problem.” (Developer 3)*

*“There is no political element in housing, except low-cost housing. If you really follow the rules, the requirements, there is no politics in low-cost housing. However, if you consider the application process... A PAS (opposition party) member has to go to an UMNO (ruling party) member to get endorsements, JKKK (Village Development Committee) or YB (elected representative). It will be quite difficult. The process indirectly prevents buyer from opposition party from applying. The process itself is not designed to prevent them from applying. They're just embarrassed to get the endorsement.” (Developer 1)*

Notwithstanding the negative implications for profits, there were some positive views on the low-cost housing policy expressed by interviewees. Interestingly, both conventional and State-linked developers showed the same sentiment in acknowledging the potential benefits of low-cost housing. This somewhat contradicts the image of 'greedy' and 'speculative' developers. Developer 1 went on to acknowledge other social benefits of low-cost housing:

*“On the other hand, if the government does not impose the (low-cost housing) quota there will be other problems. The poor will have more problems. Eventually it will give rise to all sorts of social problems. 'Mat rempit' (illegal motorcycle racers), drugs, the economy... If we look at the wider picture, you can't even buy high-cost housing because (there will be) no good workers. Imagine when there are a lot of 'mat rempits' (illegal motorcycle racers). From developers' point of view, I don't support it because we are profit oriented. But if we study again government policy, it can be a good thing. Good not for developers' economy but for all. If they don't do so, there will be problems.” (Developer 1)*

The above statement reflected a contradiction within Malaysian housing developers. Whilst profits remained the main objective of housing developers, they also acknowledged the wider social contribution of low-cost housing in Malaysia. Social problems such as illegal motorcycle racers and drugs among children in low-income households have been linked to inadequate housing for the urban poor, in terms of quantity and quality. In the end, the mandatory low-cost housing requirement on private housing developers provides a socio-economic climate that is conducive for commercial activities including housing development. In contrast, inadequate housing for the urban poor may create ‘problems’ to the society as stated by Developer 1 which could eventually affect the housing development industry.

Developers who are mandated to build low-cost housing must exercise creativity and make strategic development decisions to ensure the viability of the whole project. To survive in a smaller housing market such as Terengganu, developers must be able to strategise and think outside the box whilst still observing the given legal boundaries. The comment below illustrates the strategic thinking applied by Terengganu developers:

*“When we get the approval, then only we’ll start building... 12 units or 20 units, we’ll build them. There are 12 units in a block. We compile the buyers’ names, then only we build. We don’t have any problem dealing with the State because we will carry out construction of the low-cost. That’s our strategy in reducing the costs incurred by low-cost housing.” (Developer 1)*

The case study chapter (Chapter 9) illustrates the innovation of a developer who adopted the town-house concept for his low-cost housing development. This design has never been implemented in Terengganu and was approved by planners because it still observed density requirements. The above statement and example reinforce the argument of strategic behaviour by developers (Ball, 2003b; Ball et al., 1998). The housing market is unlike normal consumer goods, in that its structure prevents economies of scale besides being highly sensitive to changes in incomes and interest rates. As shown by Ball (2003b), housebuilding is a highly risky business that necessitates an organisational structure that incorporates those risks. This institutional arrangement negates the notion of homogeneous developers (Ball, 2003b). As such, interviewees have adapted their practices to the State’s low-cost housing policy as part of their organisational strategy.

Interviewees perceived the low-cost housing policy implemented in Terengganu as flexible enough to ensure survival. Such flexibility may be necessary in the context of a developing economy such as Terengganu. The small local housing market requires balancing social objectives of housing with economic development objectives. The authorities therefore have to make concessions in situations that may jeopardise developers' survival and negatively impact the wider economy. Developer 1 gave this example:

*“Like us, we have (a high number of) units and at one point we couldn't sell those units. There were no buyers. Then we received approval from the State Authority to open the sale.” (Developer 1)*

Notwithstanding the accommodating policy, certain conditions must be fulfilled before developers are allowed to apply to open the sale of low-cost housing. In the above case, Developer 1 came from a government-linked company that was asked to build a more than 50 percent low-cost housing component compared to the normal 30 percent. The company faced sale problems because the State could not provide enough qualified low-income buyers. The 'open sale' also was controlled by the HDSSO by allowing only State-approved buyers. This system can minimise the potential for manipulation.

Overall, this theme generated a robust discussion among interviewees. On the negative side, developers perceived low-cost housing as burdensome and unprofitable, whilst the corresponding State policies were described as inefficient and politically motivated. Developers indicated that they would not build low-cost housing under pure market conditions. However, there were also positive comments by interviewees, in terms of the equity and social benefits of low-cost housing. In addition, developers mentioned having adapted their practices to accommodate the low-cost housing policy, offsetting low-cost housing losses with the overall development profits and receiving institutional support from the State Authority.

### **8.2.5 Perception of deregulation**

In the past, several studies have reported a stringent housing regulatory environment in Malaysia (Bertaud & Malpezzi, 2001; Brueckner, 2010; Hannah et al., 1989; Malpezzi & Mayo, 1997). Among others, generous building standards and low-cost housing quota requirement were said to inflate housing costs. Accordingly, recommendations for deregulation were made based on argument that supply elasticity and construction costs would be improved. Based on this context, interviewees were asked their opinion if the current specifications regarding low-cost housing were lowered or abolished.

In general, there was no strong evidence in the interviews that indicated developers' support for deregulation. They agreed that regulations are needed to guide development activities. Nonetheless, it is the characteristics and manner of implementation of regulations that developers were more concerned with. This is reflected in the comment by Developer 2:

*“I think the law must be there because human beings need law to guide, don't say to control, but to guide. If you don't know law, then it will be chaotic. I think the law should be clear, very clear and reasonable.” (Developer 2)*

The above comment illustrated that developers had no problem with housing regulations *per se*, as long as the regulations were clear and reasonable and were administered efficiently. Furthermore, developers were aware the low-cost housing quota requirement was implemented by the government to provide assistance for house buyers who cannot afford to purchase conventional housing. Still, it was indicated that the quota requirement should be imposed on a case-by-case basis depending on land price. As Developer 6 reflected:

*“We actually want to ensure the client's satisfaction. We like to see low-cost housing being sold to those who can't afford (conventional housing). However, like I said earlier, it depends on the area. If the land price is very high then it is not suitable to be imposed (with low-cost housing). But if the area has low land price, outside town area then it could be OK.” (Developer 6)*

The “clients” in the above comment refer to buyers of low-cost houses. Whilst seeking to “satisfy” the clients, Developer 6 also wanted a certain degree of flexibility in the imposition of the quota to reflect the land price and preserve the profit margin. Building on this notion, the residual valuation of land means that developers with a high gross development value will pay high land prices. The ‘highest and best use’ principle (i.e. building the mix of property that gives the highest returns as allowed under law) will not support the provision of low-cost housing on such sites, which are normally located in good locations or urban areas. This means that low-cost housing would be restricted to poorer sites which would not be attractive enough for private developers. The state therefore has to undertake low-cost housing development on these inferior sites. Deregulation would therefore prevent low-cost housing provision in urban locations by private developers.

Notwithstanding the general support for housing regulations, it was indicated that certain building requirements were redundant in the current context. For instance, Developer 2 criticised the back lane requirement:

*“But forget about back lane. It’s not used. Low or medium or high cost don’t need back lane. You only create problem. Because in the first place, the rubbish trucks don’t go to the back lane, all the services can be in front. Nobody gives maintenance to the back lane. Yes. Makes it even worse. Maintenance, security...” (Developer 2)*

Developer 2’s comment was reflective of the lack of understanding of the rationale behind building standards. With reference to the back lane requirement, it was seen by developers as a waste of space and reducing security. Nonetheless, the back lane requirement is a vital fire safety consideration especially for terraced housing. An excursion within a typical low-cost terraced housing scheme which has been long-occupied will reveal that most of the units have been fully extended at the rear. Without the back lane to separate parallel rows of low-cost houses, the whole housing scheme could be jeopardised in the event of a fire. Malaysian building standards were implemented to address public health and safety concerns. For instance, the low-cost housing standards CIS1 and CIS2 were formulated to ensure “safety, complete infrastructure, development of health and physical” (Sufian & Ab. Rahman, 2008, p. 146). Although some of the building standards seemed unnecessary to developers, the original purpose for those regulations should not overlooked in any exercise of deregulation.

Significantly, interviewees indicated that they would not build low-cost housing voluntarily. As explained by an interviewee from a private company:

*“If there isn’t any legal requirement then maybe we wouldn’t have the chance to help them because if we only look at profitability without taking into account the conditions then developers would find it a burden to build.” (Developer 6)*

The above comment reflected the reality of Malaysian housing developers’ reluctance to build the low-profit/low-cost housing otherwise mandated. For instance, the national housing developers’ association (REHDA) recently submitted a petition to the government to review the low-cost housing requirement on private developers (Damodaran, 2011). In reality, private housing developers have long opposed the low-cost housing quota requirement. Without the mandatory requirement to provide low-cost housing, it is doubtful that private developers in Malaysia would willingly engage in low-cost housing development.

Overall, there was no strong evidence that interviewees supported any move to deregulate the housing market. Interviewees were generally sceptical of building standards which seemed to stem from their concerns about profit margins. Rather than deregulation, interviewees wanted improvements in the system (i.e. providing clear and reasonable guidance to developers). Additionally, although interviewees generally saw the social benefits of the low-cost housing quota requirement, evidence suggested that they would not provide low-cost housing voluntarily without compulsion from regulations. Indeed, the interviewees strongly indicated that deregulation would not ensure the provision of low-cost housing by the private sector.

### **8.2.6 Experience with planners**

In the current housing development system, developers interact with Local Authority planners (LAPs) who head the One Stop Centre (OSC), an agency responsible to process and monitor the development application. Referring to the development process flowchart in Chapter 4, points of interaction between developers and planners occur at the pre-consultation period (i.e. before the actual submission of documents to the OSC), during submission and periodically throughout the construction stage. It is argued that these interactions have a significant influence over the outcomes of housing regulations. Because the development application procedures for low-cost housing and commercial housing are similar, no distinction of the housing type was made in interviewees' comments in terms of development application.

Generally, interviewees indicated no problem with planners in processing development applications if all the planning and procedural requirements are followed. However, some developers deemed that some planning procedures were too rigid. The following comments exemplify the perceived rigid procedures:

*“If we fulfil all planning requirements, there’s no problem. The problem is only when we fail to meet the requirements... For instance, during building plan submission if you give the correct number and correct type of plans, there will be no problem. But if you don’t fulfil the requirements, for instance, you give them incorrect number and type of documents, you will face problems.” (Developer 1)*

*“Only because there’s one set of plan missing, you say “Go back, then only come again.” I think it’s not fair. Maybe he’s from Dungun, but the project is here. Even from KL (the capital city Kuala Lumpur). Do I have to go back? Bring the whole bundle back? No, open a temporary file. It won’t affect your star rating (the quality-control system implemented in Local Authorities in Malaysia)... Because sometimes you change the procedure. Before it’s six sets. Suddenly now you say seven. You change your conditions, but I was not aware... Sometimes it’s just a matter of missing a colour in a drawing. They just reject. Not just on the missing drawing, but all drawings.” (Developer 2)*

Developer 2 highlighted the previously mentioned communication gap in relaying details of regulations or new procedures. This finding somewhat addresses planners' concerns over developers who were seen as purposely defying regulations and procedures in order to make profit, including shirking on their low-cost housing duties. At least in the plan submission stage, developers mentioned some communication failures regarding procedural requirements that prevent them from full compliance. This somewhat tempers with the image of 'greedy and speculative' Malaysian developers.

Besides poor communication from planners, developers also indicated problems with the support staff of the Local planning authority. In Chapter 6 (analysis of regulatory environment), the analysis of the institutional arrangement of implementing authority shows that the OSC is normally part of the Local planning authority. The Local planning authority (and the OSC) is headed by the LAP who oversees planning functions and supervises technical staff who are responsible for accepting and examining the submitted plans. The interviewees commented on the underskilled technical staff who were resultantly inflexible in their interpretation of procedures, compared to LAPs or planning officers who were more knowledgeable of the purpose of regulations and therefore practiced more flexibility. According to interviewees:

*“Sometimes, maybe the boss understands but the clerk or officer who sits in front will not accept, they will follow whatever is written even though it's something that can be changed. Sometimes it's just a matter of missing a colour in a drawing. They just reject. Not just on the missing drawing, but all drawings. They can't open the file because of that.” (Developer 2)*

*“During plan submission, after checking he (the technical clerk) refuses to accept it but instead asks us to amend it first. By right he should have accepted it first then make a note or an issue an official letter, in black and white, telling us what to amend. That should be the way. They refuse outright. Then we re-submit and they reject it again. The same thing. Then when we submit again, they will say that the boss wants it another way, a different way.” (Developer 6)*

Although the planner analysis in Chapter 7 (see Section 7.2.3) has established how the Malaysian literature has captured the problem of underskilled technical staff in Local Authorities (see Agus, 2002), this section further illuminates on the causes of incompetent technical staff. According to interviewees, it was the weakness of the public sector recruitment and promotion system which has caused a frequent mismatch between skills and/or qualifications and the scope of work of the person involved in decision-making. This is summarised by Developer 5's comment below:



*“This is because the selection process is done unthinkingly. Can he work? Yes. Done. We’ve seen an office boy being promoted to technician. Perhaps that is why when we talk about technical matters, they disparage us as if they understand what we’re talking about when in fact they don’t. That makes things difficult. That’s the culture. This culture is rampant in Terengganu. It is still here, unpurged.” (Developer 5)*

Besides the lack of the right qualification, the above remark by Developer 5 highlighted the role of culture in influencing how the technical staff dispensed their duties. Guy & Henneberry (2000) have argued that the “interrelationship between culture and capital may provide the key to understanding urban development processes” (p. 2413) (i.e. culture can be used to explain the behaviour of property market agents). Interviewees described some public sector personnel as being closed-minded and bullying, which can affect the efficiency of the development application procedure. State-level employees were described as displaying a lackadaisical manner in carrying out their tasks. It is interesting to find if the cultural influence in regulatory implementation exists in other States in Malaysia; this issue will be commented on in the concluding chapter.

However, it is premature to blame only the inadequacy of the technical staff in the cases of developers’ non-compliance of the development application procedure. Developers’ attitude also could be partly blamed for this procedural non-compliance. The REHDA interview revealed that the interest in professional development among developers has been poor; whilst there were about 92 active developers registered with the MHLG in 2010, only 14 developers were REHDA members. Therefore, the problem may also be attributed to the deficiency of legal and procedural knowledge among developers.

Planners in the study area seemed to have a certain amount of discretionary power in carrying out their duties. Developer interviewees indicated that this discretion had enabled planners to practice a rather flexible interpretation and implementation of regulations. The findings in planner interviews (Chapter 7) also confirm this observation. Developers commented that planners have displayed a favourable attitude toward them, by allowing negotiation. As explained by an interviewee:

*“They go by the book. Their planning has to follow the rules. Whether it’s me or anybody else, they have to follow the rules. However, there may be a bit of flexibility. For instance, for a small project the planners will use their own discretion to judge whether it is viable to require the developer to do it (by the book). I think they are aware about the viability of the project. It won’t do if you are too rigid... So both sides. They are open for discussion. The flexibility is there.” (Developer 7)*

Aware that the low-cost housing requirement could present a burden to developers, planners can amend other planning requirements in a way that still confers net benefits to society. An example that was given in the planners' chapter was by combining the requirement for open area with the electric substation area or sewerage reserve. The planner's interpretation of 'open area' still adhered to the spirit of the requirement (i.e. to keep an undeveloped portion of the site).

Overall, interviewees acknowledged that the development process would progress smoothly if all the regulatory requirements (such as correct and adequate documentation) were met. Problems will arise if the any requirement was overlooked. Interviewees indicated that this caused an issue among the technical staff of the Local planning authority when accepting and examining the application documents. Whilst interviewees put the blame on the employment structure and culture, developers' reluctance to continuously upgrade their knowledge could also be a contributory factor. Finally and significantly, developers commented that planners practiced flexibility and adopted a pro-development attitude in implementing planning requirements.

### **8.2.7 Experience with government efforts to simplify housing development process**

As discussed in Chapter 4, the latest major improvements in the housing development system were undertaken in 2007 with the establishment of the One Stop Centre (OSC) to process all development applications and the replacement of the problematic Certificate of Fitness for Occupation (CFO) system with the Certificate of Completion and Compliance (CCC). To date, there has yet been any study on the effectiveness of the streamlined development processes. This section provides the first glimpse into developers' experience with the streamlined system.

Interviewees indicated that little regard was given to regional institutional arrangements in the process of improving housing development procedures. In Chapter 4, it was shown how the organisational structure of Local planning authorities differs in terms of role and responsibilities based on the size of the Local Authority. Thus the one-size-fits-all improvement efforts by the Federal Government could reverse an already well-oiled mechanism at the Local or State level. An interviewee compared what he perceived as a more established old system with the new housing development approval system:

*“The objective (of OSC) may be achieved in certain places which have problems, districts that have problems. The OSC may be helping there. To me the previous system in Kemaman was already fast. So when the OSC came, it was a step backward. If OSC moves at 120 (km per hour), previously Kemaman had been running at 140 (km per hour) so you have to reverse. This is the problem.” (Developer 7)*

The new system of OSC was established to reduce delays in processing development applications based on the premise that a development secretariat will be able to effectively receive development application documents, distribute them to various technical agencies for endorsement and bring endorsed applications in the Local Council meeting for approval within a period determined by the MHLG. However, the effectiveness of OSC may be weakened by unclear procedures and effects of the pre-existing organisational structure. As interviewees remarked:

*“The OSC is supposed to assist us but actually we have to do the follow up ourselves. We have to do some running around.” (Developer 4)*

*“What grade is an OSC officer? I’m asking you. What are the grades of the other officers that they control to get the information? It’s as if: ‘Who are you to order me around?’ That’s my observation. Something wrong there, a low level officer trying to question higher level officers. So that is just not right. That is why I said, it’s supposed to apply a specialist concept. A specialist has clout.” (Developer 7)*

The comment made by Developer 4 reflects the weakness in the running of the new OSC, which was supposed to be the only reference point to developers in determining the status of their application. According to the OSC standard operating procedure, all development applications should be processed within six months. During that processing time, the OSC was supposed to ‘chase’ other technical departments for comments to observe the given time frame. Nevertheless, Developer 7 commented on the efficacy of the system which he saw as flawed because the OSC officer may be inferiorly ranked in the organisational structure of the Local Authority.

The problem with OSC was also apparent in CCC, which is a certification system for newly completed buildings applicable to developments approved after 2007. Since the development process takes several years, most developers still have no experience with CCC. However, an interviewee who has already encountered some difficulties with the new system made an observation regarding the Local Authority’s departure from theory:

*“It’s only our first project with CCC. I don’t really understand about CCC. They say this will be done step-by-step, when you complete a task they will go (for inspection) but now the Local Authority say it can be accumulated and they just want to take photos when it’s been completed. I don’t understand that, it’s different from what I learned. This is new, for projects after 2007. For CCC, both the Fire and Rescue Service department and IWK (private sewerage company) have to go for inspection. By right only consultants are supposed to do this, the architect and engineer. Now they say Fire Services and IWK.” (Developer 4)*

It is apparent from the above comment by Developer 4 that the implementation of the new building certification system was suffering from unclear procedures. This again signalled a communication failure between the regulator and developers.

Overall, input from interviewees revealed that the new improvements to the previous housing development system have yet to reach their objectives. The above could be normal teething problems for any new systems. Nevertheless, the main finding in this section is the significance of the institutional arrangement of the Local Authority and reliable communication to developers in making any regulatory changes. The failure to take these factors into consideration could substantially affect the implementation of any new national policy at the Local level or other efforts to streamline development processes in the future.

### **8.3 Summary of meso analysis of developer interviews**

Developers’ economic behaviour in the regulatory environment has direct implications for the provision of low-cost housing for the urban poor. This section provides a summary of the main findings of the developer interviews.

#### **8.3.1 The role of developers in low-cost housing provision**

Developers involved in the provision of low-cost housing provision in Terengganu were not homogenous in terms of organisational type and motivations. Accordingly, interviews revealed a non-uniform degree of developers’ involvement in low-cost housing development, whereby developers with State links indicated a higher commitment to building low-cost housing compared to pure market developers.

In general, low-cost housing was seen as burdensome and unprofitable for developers but a necessary cost to gain profits from the whole development. In some cases, ‘over-compliance’ to low-cost housing regulations (e.g. building low-cost housing above the requirement) can be seen as part of the developers’ organisational strategies in ensuring positive business outcomes. Interviewees revealed that losses from the low-cost housing component were cross-subsidised with market units. Developers also saw their involvement in low-cost housing provision as a contribution to society; the provision of adequate low-cost housing was seen to eliminate social ills such as illegal motorcycle racing and drug abuse among children in low-income households. Finally, interviewees believed that low-cost housing helped to improve the welfare of low-income groups by providing dwelling units comparable to market housing at a subsidised price.

### **8.3.2 The current regulatory environment over low-cost housing provision**

The interviews revealed developers’ perception of the State’s control over low-cost housing provision, in terms of low-cost housing regulations and the institutions implementing those regulations. There was lack of evidence showing developers’ support for deregulation. Whilst there were some criticisms regarding the opaqueness of the regulations, overall developers did not view all regulations unfavourably. In fact, it was acknowledged that some regulations were necessary for public interest purposes, especially the quality requirements. In a similar vein, although the low-cost housing quota was perceived as costly, developers have adapted their practices to absorb the losses and acknowledged the contribution of the mandatory provision to society.

From an implementation point of view, an important finding was the perception of inefficiencies in the system due to institutional weaknesses. Specifically, developers mentioned increased uncertainties due to poor communication from regulators, ambiguous legal provisions and procedures, bullying attitude by State regulators and political inputs. Nevertheless, developers recognised flexibility in the regulatory system that had enabled them to engage in low-cost housing provision despite the uncertainties caused by those institutional weaknesses.

### **8.3.3 Developers' interaction with planners**

The interviews also revealed how developers' practices in housing development were influenced by Local planners who represent the state in the implementation and enforcement of housing regulations. Confirming the planner interviews, developers did not indicate any problem in dealing with planners, who were described as 'flexible' in dispensing their duties. The pro-development attitude of planners was in line with modern town planning that incorporates the market in spatial planning instead of simply imposing the state's will on the market. Thus, developers described entering into negotiations with planners to reach a middle ground that was still acceptable for developers' business objectives.

Notwithstanding the planners' flexibility, developers identified various issues where rigid procedures and under qualified technical staff contributed to delays and inefficiencies in the processing of development applications. Local culture was identified as one of the institutional factors influencing regulatory implementation, manifest in the sometimes negative attitudes of the Local planning authority's technical and support staff. Interviewees indicated that the flexibility and efficiency of regulators depended on their training and qualifications, their post and the Local Authority characteristics (e.g. its size).

### **8.3.4 Barriers to regulatory compliance**

Several barriers to regulatory compliance among developers were identified. This offers insights into developers' non-compliance behaviour, which planners had mainly attributed to developers' profit-seeking tendencies. A recurrent issue gleaned from the developer interviews is the communication gap from the regulator in informing developers of new or amended procedural requirements. As developers followed the old procedures, this gave an impression of intentional non-compliance. Previously, the analyses of low-cost housing regulations and planner interviews have indicated potential tensions in the myriad layers of regulations.

Among developers, the different regulatory requirements from different authorities have introduced uncertainties in their practices. For instance, although developers are legally mandated to obey the Local Authority under the Housing and Development Act 1966 (HDA), in actuality the Malaysian Constitution has empowered the State Authority in land and housing development policies at the local level. The State Authority may issue development requirements that are above the duties of developers under the HDA. However, some respite was given by the authorities to assuage the negative effects on developers (e.g. by showing leniency in penalising developers' non-compliance).

## 8.4 Chapter conclusions

Significantly, private developers indicated that they would not be involved in the provision of low-cost housing without the low-cost housing quota requirement. However, contrary to the anecdotal outlook among developers of burdensome and costly low-cost housing policies, it was found that developers have incorporated and adjusted to the low-cost housing quota requirement as part of their organisational strategies. Low-cost housing was perceived as a ‘necessary evil’, which they must undertake in order to unlock the profits of the whole development. The different organisational types of developers also influenced their level of commitment in low-cost housing provision. Therefore, not all developers saw the low-cost housing quota requirement as a burden. They saw the mandated low-cost housing quota requirement as a social contribution for low-income groups that can benefit society overall.

The interviews revealed how planners have exercised flexibility which had enabled developers to engage in low-cost housing development and still sustain the developers’ business. Whilst planners highlighted developers’ regulatory non-compliance, developers commented on the implementation weaknesses attributable to poor communication of regulatory requirements and procedures, together with personnel inadequacies. Nevertheless, the institutional weaknesses were tempered by the planners’ pro-development attitude.

The effects of low-cost housing regulations are manifest in the product (i.e. low-cost housing). In the next chapter, five case studies of low-cost housing developments in the study area are examined to determine the housing and non-housing outcomes of developers’ interactions with the regulatory structure.

## **Chapter 9: Micro-level analysis of low-cost housing developments**

### **9.1 Introduction**

The previous two chapters have examined the interactions between developers and planners and the low-cost housing regulatory environment. The analyses showed that planners generally have a pro-development attitude towards low-cost housing whilst developers perceived the low-cost housing quota requirement as a necessary hurdle in order to obtain overall profits from the whole development. At the same time, both parties utilised the available flexibility and negotiation mechanisms under the regulatory structure to resolve any issues arising from regulatory implementation. This mediation of regulations has enabled the market to engage in low-cost housing provision, despite the reported ‘stringent’ regulatory environment in Malaysia.

This chapter further explores the effect of the low-cost housing regulatory environment by analysing actual low-cost housing developments in Terengganu. It aims to show the actual effects of regulatory mediation by housing actors in two areas. The first area is the behaviour of actors facing specific regulatory situations during the course of low-cost housing development. The second area is the housing and non-housing outcomes of those regulatory mediations. The main contribution of this chapter is the analysis of the actual process and outcomes of low-cost housing development in the regulatory environment.

The structure of this chapter is as follows. First, it provides the case study structure, presenting descriptions of each case study, highlighting the regulatory issues that arose in the housing development before providing a commentary on the regulatory mediation involved and outputs of that mediation. Following the discussion of the five case studies, two analysis sections will be provided. The first analysis section will examine the housing outcomes arising from the case studies. The second analysis section will discuss the institutional factors that caused the housing outcomes. The summary of the findings is provided before finally concluding with the implications of the above findings to the thesis.

### **9.2 Case study structure**

The case studies were assembled using mostly primary data obtained from housing files at the HDSSO. Face-to-face interviews with key informants who had internal knowledge of the projects were conducted where the housing files did not present enough information or to clarify specific issues. The key informants included both developers and planners directly involved with the development of the case studies.



These HDSSO files were not publically available but were accessible to the researcher during the placement. The housing files contained various information on the individual project (e.g. location, project size, the name of the developer or contractor, project cost and the number of low-cost housing). The files also contained documentation of procedural issues regarding housing regulations such as notices from technical agencies and resolutions of those issues. A more complete discussion of the nature of the HDSSO files has been provided earlier in Chapter 3 (Research Methodology).

Five housing files were used as shown in Table 9.1. Only housing developments containing low-cost housing were chosen. The choice of developments was made based on the researcher's past working experience in the State, with input from Interviewee 2. The files were kept in a reasonable chronological order whereby relevant documents were numbered and inserted in the file according to date. Normally, the development proposal of the housing development preceded all other information. Notwithstanding the filing system, the researcher found that some information was either incomplete or unclear. Interview data was used to supplement and clarify information from those files.

**Table 9.1: The main HDSSO housing files used as primary reference for case study assembly**

Case Study Ref.	File Ref. No.	File name
Case Study 1	1121/ 6/ 3/ 1 Vol.2	Proposed Public Housing in Bukit Kuang, Kemaman by Company A*.
Case Study 2	1121/5/ 8/6	Taman S* Low-cost Housing Project in Kuala Nerus by Company B*.
Case Study 3	1121/2/31	People Housing Project Management Committee Meeting (Desa K*)
Case Study 4	1121/3/1/22	Proposed Design, Construction and Completion of Affordable Flat Project in Kampung Batin, Seberang Takir, Kuala Terengganu.
Case Study 5	1121/3/1/20	People Housing Programme on the Former Site of Radio Malaysia Terengganu Transmitter at Cabang Tiga, Kuala Terengganu

Note:

As stated in Chapter 3, the author has suppressed the actual names of the housing schemes and developer companies to provide a degree of data confidentiality (suppressions are denoted by “\*”).

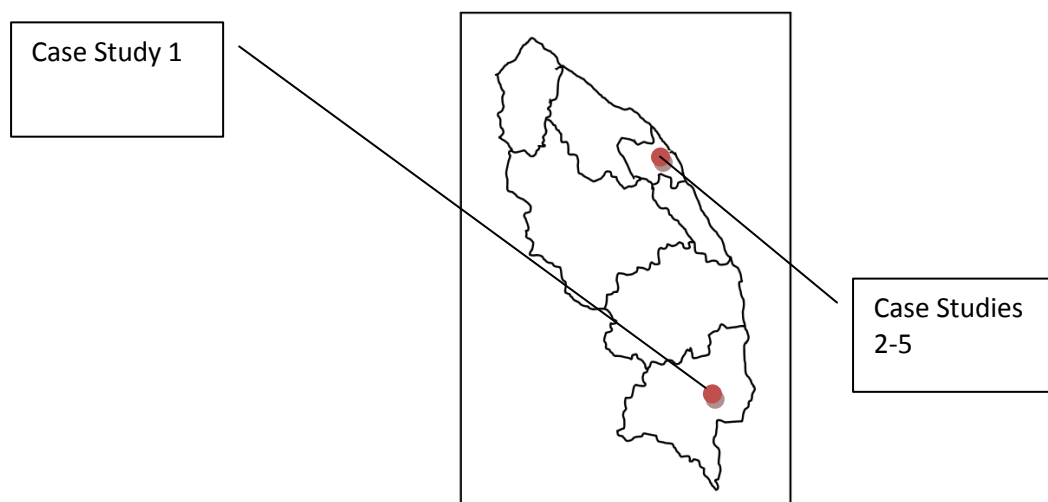
As mentioned in Chapter 3 (research methodology), four developers who were interviewed for Chapter 8 (developer analysis) were also interviewed for this chapter. Developer 1 and Developer 3 represented the company that developed Case Study 1 whilst Developer 2 and Developer 5 represented the company that developed Case Study 2. Developer 1, 2 and 5 came from the top managerial level whilst Developer 3 was a senior executive. Besides these developers, Local Authority planners (LAPs) were also interviewed to clarify some issues. Planner 6 was interviewed for Case Study 1 whilst Planner 7 was interviewed for Case Study 4 and Case Study 5.

In analysing the regulatory issues in the above case studies, the researcher first reviewed the file contents to discern any housing regulatory issues within the development (for instance, a notice of regulatory non-compliance or a developer's letter appealing a procedure). The researcher then mapped the actions of actors in addressing these regulatory issues and the outcomes of the regulatory mediation.

Low-cost housing schemes in Terengganu can be either part of a mixed development or wholly low-cost housing development. Normally, the former is produced by the low-cost housing quota requirement whilst the latter is produced by public low-cost housing programmes. Chapter 5 (the State context) has outlined different low-cost housing development methods, together with the actors involved. In short, the methods comprise State-funded projects, Federal-funded projects, 'privatisation'<sup>49</sup>, low-cost housing quota imposed on new development and government-linked development company. The case studies chosen in this chapter represented all development methods.

Figure 9.1 shows five case studies examined in this chapter located in the Districts of Kuala Terengganu and Kemaman comprising a total of 2,595 low-cost housing units. Case Studies 1 to 3 were completed and occupied developments whilst Case Studies 4 and 5 were under construction. All case studies represent substantial housing developments in terms of their absolute size and reputation. Each case study was unique and involved different sets of regulatory issues pertaining to the implementation of housing regulations. Table 9.2 shows the summary of the case studies. The subsequent sections will expand on the case studies.

**Figure 9.1: The locations of the case studies in Terengganu**



<sup>49</sup> In the context of this thesis, 'privatisation' is a special housing public-private partnership scheme implemented by the State Authority of Terengganu. It does not involve the sale of state assets.

**Table 9.2: Summary of case study details**

Item	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5
Year of Completion	2004	2000	2001	2011 (projected)	2012 (projected)
Location (District)	Kemaman	Kuala Terengganu	Kuala Terengganu	Kuala Terengganu	Kuala Terengganu
Developer	PPP with State-linked private developer	Private developer	Federal government	PPP with private developer	Federal government
No. of LCH from total units	461 of 941 units	162 of 476 units	250 of 250 units	722 of 722 units	1000 of 1000 units
Type of LCH	Single storey terraced	Double storey terraced with different ground and first floor ownership (strata title)	Medium rise	Medium rise	High rise
Type of housing tenure	Owner occupancy	Owner occupancy	Tenancy	Not yet determined	Not yet determined
Approximate distance from district capital	5 km	10 km	10 km	5 km	2 km
Development stage	Completed	Completed	Completed	Under construction	Development approval
Issues with housing regulations	Higher low-cost housing quota requirement. Leeway in the low-cost housing sale procedure.	Unspecified type of low-cost housing under the quota requirement. Deviations in State and Federal building standards favoured State standards. Deviation in the sale procedure.	Delay in CFO due to non-compliance with technical agency procedure, worsened by prematurely allotting and allowing occupancy to uncertified building.	Development site is situated on drainage reserve which is environmentally sensitive and contravenes environmental policy.	Failure to come for pre-consultation with planners affected 'green-lane' procedure. Non-compliance with planning requirements in terms of insufficient car parking.
Other observations (selected)	Unconventional PPP as developer is a State-linked company. State Authority exercised flexibility in sale procedures.	Developer's law knowledge, creativity, experience and good relationship with planners helped in resolving legal issues. State Authority used economic considerations in regulatory enforcement.	Consultant architect's leadership skills helped in ensuring a favourable outcome of regulatory non-compliance.	Socio-economic considerations outweighed legal-environmental concerns.	Development procedure system in favour of public housing projects due to government-to-government arrangement.

*Source: Derived from case study primary and secondary material*

## 9.3 Case Study 1

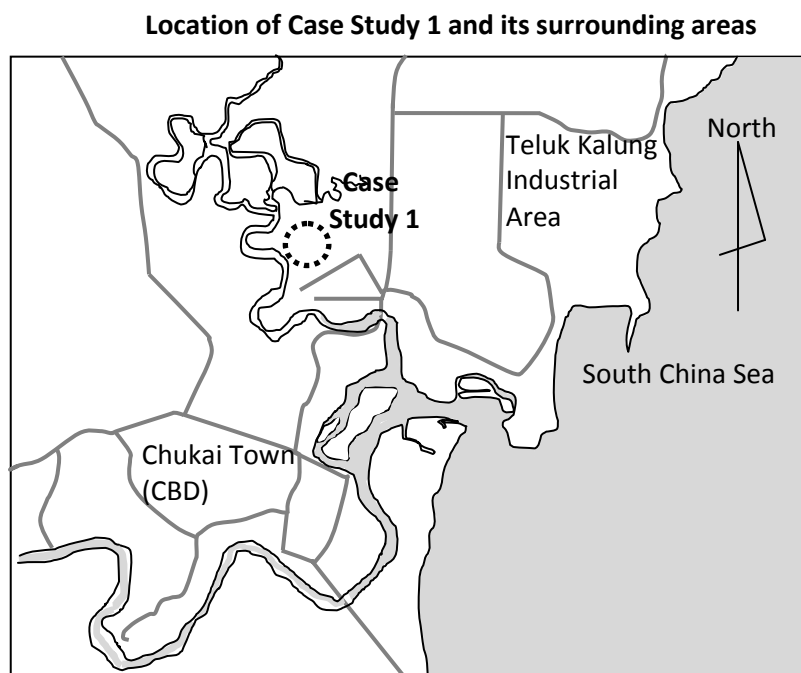
### 9.3.1 Description

Developer and development details were obtained from the HDSSO housing file and interviews with the developer. Interviews with the developer's senior management provided information on the regulatory issues.

Based on the housing file (HDSSO file ref no: 1121/ 6/ 3/ 1 Vol.2), the State Authority established KOPERAT in 1996 as a strategy to meet the 7<sup>th</sup> Malaysia housing low-cost housing target. The State Authority planned to build 16,000 low-cost houses from 1996 to 2000, with KOPERAT supplying 10,000 units. KOPERAT was a development consortium comprising four State subsidiary companies related to property development. KOPERAT was a registered company under the Registrar of Companies and governed by its own board of directors. Legally, KOPERAT is comparable to a conventional private developer company. Nonetheless, the State-linked status attached an obligation to assist the State Authority's social housing objectives.

Figure 9.2 shows the location of Case Study 1 and its surrounding areas. Comprising a total of 941 mixed housing units (i.e. 461 low-cost houses and 480 commercial houses), Case Study 1 is situated on a site measuring 28.44 hectares in Kemaman. As informed by the company's Marketing Manager, the first sale was only concluded in 2002 despite the launch in 1992 due to various factors including politics and an economic downturn (Developer 3, Personal Communication, July 28, 2010). The housing scheme is located about 5 km from the district centre Chukai and 10 km from Teluk Kalung Industrial Area, a prominent petro-chemical industrial area comprising an industrial park, a deep sea port and petro-chemical industry training centres. The development was intended to fulfil housing demand from the Teluk Kalung Industrial Area and Chukai town (Town and Country Planning Department, 2004).

Figure 9.2: Location and Photos of Case Study 1



*Source: Derived from Google Maps*

Photo 9.1: Case Study 1



General view of the housing scheme



Centralised sewerage treatment plant

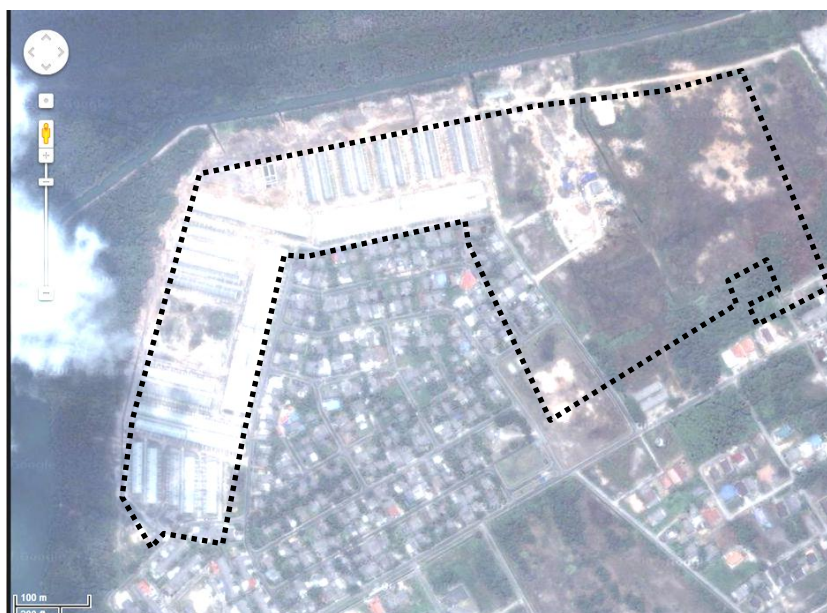


Typical low-cost unit in Case Study 1



Comparable commercial unit in the same housing scheme

*Source: Author*



*Satellite photo of Case Study 1. Source: Google Maps, 2011.*

Two regulatory issues were detected from the interviews. The first concerned the low-cost housing quota requirement and the second concerned the low-cost housing sale procedure.

With respect to the first issue, the site size only carried a 30% low-cost housing quota requirement. Therefore, legally the developer was only required to build 282 low-cost units which only needed individual septic tanks for the sewerage treatment under the Sewerage Department guidelines. However, the State Authority required 461 low-cost houses to be built (i.e. more than 50% of the total units). KOPERAT's Administration and Finance Manager argued that due to this higher requirement, the developer had to build a centralised sewerage treatment plant (STP) under the Sewerage Department's guidelines which cost significantly more than individual septic tanks (Developer 1, Personal Communication, 16 November, 2009).

In the second issue, the developer was asked to build the low-cost housing component in the first phase contrary to normal practice of building low-cost housing last to enable cross-subsidisation from conventional housing. The low-cost units were planned to be developed sequentially in five sub-phases. KOPERAT's Marketing Senior Executive stated that senior management decided to build the remaining units simultaneously after the first two sub-phases, as the State Authority gave the approved buyers' list, with the number of buyers well above the number of low-cost units (Developer 3, Personal Communication, July 28, 2010).

Subsequently however, KOPERAT faced problems in selling the low-cost units because only 177 persons from the State buyers' list passed the commercial banks' stringent requirements and were able to proceed with the house purchase. Finally, the developer wrote to the State Authority asking permission to open the sale of low-cost houses to the public. The State Authority approved the application in 2004. Currently the low-cost housing phase had already been completed and occupied.

The Local Authority planner (Planner 6, Personal Communication, August 2, 2010) attributed the issue with poor sale with the mismatch between demand and supply of low-cost housing in the locality. According to him, the nearby Teluk Kalung Industrial Area did not have a high low-income worker population. The State buyers' list comprised low-income groups from other localities who could not move from their area due to the nature of their occupation. For instance, the fishermen in the Kuala Kemaman locality about 15km away found the housing scheme too far from the sea.

### **9.3.2 Commentary**

Case Study 1 exemplifies the State Authority's practice in implementing the low-cost housing quota requirement. The macro analysis of regulations in Chapter 6, supported with developer interviews in Chapter 8, has revealed seemingly opaque regulations. Some State regulations, such as the low-cost housing quota requirement are not part of the formal (i.e. published) regulatory structure. The State Authority was able to implement the low-cost housing quota on a case-by-case basis by maintaining this informal system.

In the above Case Study 1, the State Authority took advantage of the developer's State-linked status to demand a higher low-cost housing component. It is doubtful if the State Authority would impose a higher low-cost housing requirement on pure market developers to maintain developers' business efficacy and prevent a political backlash. Whilst developers commented on the increased uncertainties within the regulatory environment due to this discretionary practice, it can be argued that this informality (i.e. not fixing and publishing the low-cost housing quota) has enabled the State Authority to produce more low-cost housing in the State.

It is noted that the State Authority assuaged the cost implications of the onerous regulatory interpretation by allowing the 'open sale' of the low-cost houses. Whilst this has implications in terms of diverting low-cost housing from low-income groups, the 'open sale' improved the economic viability of the developer. Thus, the State Authority's manner of regulatory implementation enabled the State-linked developer to continue building low-cost housing.

## 9.4 Case study 2

### 9.4.1 Description

For the purpose of this case study, developer and development details were mainly obtained from an interview with the developer and supplemented with information from the HDSSO housing file. Information on the regulatory issues surrounding this case study was derived from the HDSSO housing file. Some regulatory issues were clarified with the developer during our interview.

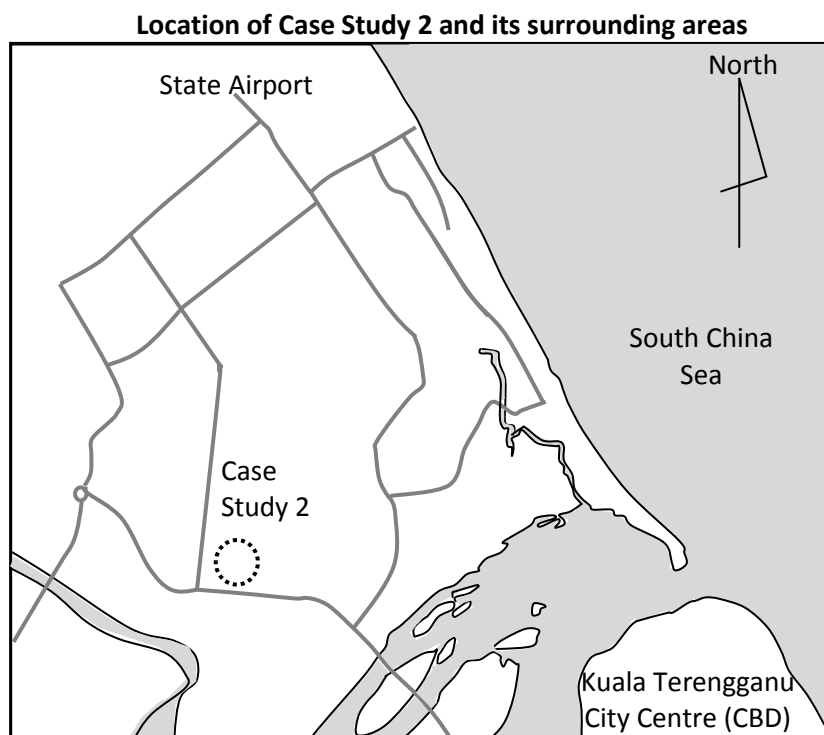
The Assistant Manager with the development company stated that the developer was established in 1996 (Developer 5, Personal Communication, August 1, 2010). The company was small scale in nature with a capital size of less than RM2million. This developer only operated in the District of Kuala Terengganu with land banks located on the outskirts of Kuala Terengganu City. They only built on sites between 4 to 12 hectares; their involvement in low-cost housing development had been through the low-cost housing quota and was not voluntary. They had not participated in any joint ventures with the State Authority in developing low-cost housing.

The developer was actively involved in the Terengganu chapter of the Real Estate and Housing Developers Association (REHDA) and had a good relationship with government agencies. The principal was a practising architect before establishing the development company and had a good working knowledge of property law. These factors presented significant advantages to the company in this case study.

Figure 9.3 shows the location of Case Study 2 and its surrounding areas. Located at the fringe of Kuala Terengganu City, the development site had a high land value. The development was approved in January 1996, with the requirement for 106 units of low-cost housing to be sold at RM25,000 per unit to *Bumiputera* buyers only. However, the developer voluntarily increased the number of the low-cost units by 56 units in the proposed development, resulting in the final total of 162 units. The whole development was divided into three phases and the low-cost component was built in the second phase.



**Figure 9.3: Location and Photos of Case Study 2**



*Source: Derived from Google Earth*

**Photo 9.2: Case Study 2**



The town house concept of low-cost housing in Case Study 2



The low-cost housing component (left) is laid next to the commercial double storey terraced house (right) to promote social integration.

*Source: Author*



*Satellite photo of Case Study 2. Source: Google Maps, 2011.*

Three regulatory issues were identified. Firstly, the type of low-cost housing was not specified under the low-cost housing quota requirement. Secondly, deviations in State and Federal building standards were found to favour State standards. The third issue concerned the low-cost housing sale procedure. The first two issues were discerned from the researcher's review of the contents of the HDSSO's file of the housing development (HDSSO file ref no.: 1121/5/ 8/6) whilst the third issue was detected in the developer's interview.

The first issue actually reflected a benefit of interpretive flexibility under the current low-cost housing regulation. According to the housing file, in 1997 the developer applied to change the type of low-cost housing from single storey terraced to a double storey type based on the town-house concept (i.e. individual strata titles for the ground and first floor). Among the reasons cited in the developer's application, was the high land value, poor sale of commercial units, increased construction costs, a high interest rate on the bridging loan and a high contribution to the Department of Irrigation and Drainage. The town-house concept was new in Terengganu although it had been long available in west coast States.

The second issue was regarding the implementation of State rather than Federal low-cost housing standards. The housing file revealed an official letter of inquiry in 1999 from the Federal Ministry of Housing and Local Government (MHLG) upon realising this discrepancy.<sup>50</sup> In the letter, the MHLG asked the developer to explain what was deemed a non-conformity of Federal housing standards. The developer, who had built according to specifications required by the State Authority, referred the matter to the State Authority. Arising from this, the State Authority recognised that there were significant differences in the low-cost housing specifications of the State Authority, the Construction Industry Development Board and the Federal Uniform Building By-Law. The State Authority decided to standardise the specifications by applying only the State Authority's low-cost housing standards (Ref: State Executive Committee Meeting Decision on 17 January 2000).<sup>51</sup>

The developer's Senior Executive related the problem faced with the State sale procedure (Developer 5, Personal Communication, August 1, 2010). In April 2000, the developer was given the State-approved buyer list with 204 names. A poor response from these buyers caused the developer to ask for more buyers and was given 154 more names. By August 2000, only 52 buyers from the two lists successfully completed the sale and purchase process. Desperate to sell the low-cost units, and exasperated by the State Authority's slow action, the developer took matters into its own hands and found 88 buyers who fulfilled the low-cost housing criteria without following proper procedures. As stated by the Senior Executive, the State Authority officially chided the developer but, rather than nullifying the sales, they retroactively vetted all the new buyers and approved the sales (Developer 5, Personal Communication, August 1, 2010). Although the developer had committed a technical breach, the low-cost houses were still deemed sold to deserving low-income groups.

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<sup>50</sup> Based on the Housing Development Act 1966, the developer has to observe licensing conditions including submitting development details and financial reports to the Housing Controller of the MHLG. This is how the federal government monitors the activity of local developers.

<sup>51</sup> 'Guideline on Low-cost Housing Planning and Development and Low-cost Housing Specifications.'

## **9.4.2 Commentary**

The manner of implementation of low-cost housing regulations in Case Study 2 supports previous findings of the State Authority primacy in the previous three analysis chapters. In Case Study 2, the State Authority replaced Federal low-cost housing building standards with State-formulated standards. The comparison between Federal and State standards in Chapter 6 has shown a difference in room size to reflect the larger local household size. Additionally, the State Authority requires new low-cost houses in areas with high car-dependency to have a car porch, which was not an item in Federal standards. It is clear that the State Authority has exercised its dominance over the low-cost housing policy at the regional level to fulfil the housing needs of local low-income groups.

Similar to Case Study 1, the State Authority exercised flexibility to approve a new type of low-cost housing and raise the price of low-cost housing to reflect the high site value (still within the allowable Federal range). In both cases, the regulatory environment can be said to be pro-development, whilst at the same time effective enough to produce low-cost housing that meets local standards. The pro-development attitude of the regulator was also reflected in the lenient action when the developer contravened the low-cost housing sale procedure. Nevertheless, the leniency of the authority may also be attributed to the goodwill obtained by the developer, who had voluntarily built above the mandatory low-cost housing requirement and had good professional relationships with the authorities.

## **9.5 Case study 3**

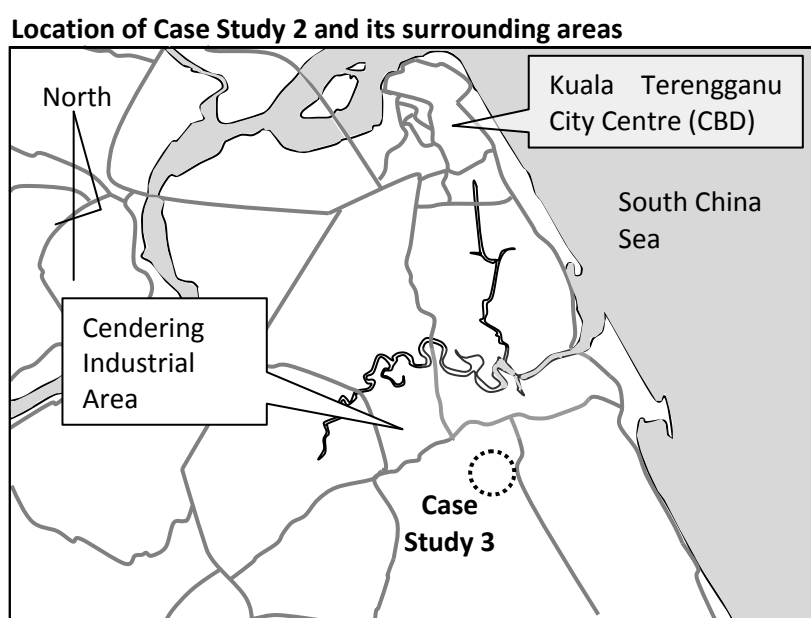
### **9.5.1 Description**

All details and information for Case Study 3 were obtained from the HDSSO housing file.

The location of Case Study 3 and its surrounding areas are shown in Figure 9.4. The development is located about 10 km to the south of the Kuala Terengganu City near the Cendering Industrial Area. The housing scheme was meant for the low-income groups in the industrial area and the city centre. This Federal Government development was initially conceived in 1998 under the Poorest People Housing Trust programme of the Central Bank of Malaysia but eventually in 2001 all projects by the Trust were transferred to the National Housing Company Ltd. The project employed only local contractors and consultants. Near the project's completion the principal architect was dismissed and replaced with another local architect. This action had direct repercussions on the outcomes of this case study.

Upon the completion of the scheme in 2001, the scheme was handed over to an agency under the State Authority (not the HDSSO). The completed development contained 250 low-cost units in 6 blocks of 5-storey walk up flats, accommodating 6 to 10 units per floor and built based to low-cost housing specifications. This scheme adopts the concept of transit housing whereby the low-income tenants are only allowed to stay there for a maximum of three years. During that period, the tenants are expected to apply for housing under any public housing programmes. Their status as transitory low-cost housing tenants can enhance their application for owned low-cost housing units. The transit housing concept is seen as facilitating low-income home ownership, as occupants are expected to save up and eventually purchase their own house elsewhere.

**Figure 9.4: Location of Case Study 3 and surrounding areas**

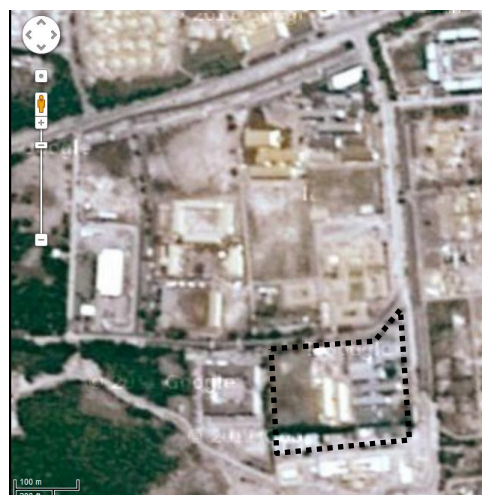


*Source: Derived from Google Earth*

**Photo 9.3: Case Study 3**



*Source: Internet*



*Satellite photo. Source: Google Maps, 2011.*

The review of the documents in the HDSSO housing file (HDSSO file ref no: 1121/2/31) revealed an issue during the certification process upon the completion of the development. The documents in the file indicated that a procedural non-compliance issue had caused a delay in the certification process of the completed development. Further complicating the situation, the State agency in charge allowed tenants to occupy the uncertified building, which was considered an illegal occupation under the building law.

Documentations in the housing file revealed the Sewerage Department's comments on problematic technical issues including the slope stability calculation, slope ratio screening and degree of compaction during the project construction. However, the principal architect at that time failed to take these comments into consideration. As mentioned earlier, this architect was dismissed and replaced with another local architect. Later, the Sewerage Department communicated to the succeeding architect regarding the contractor's failure to observe their procedures. Although the architect gave notice to the contractor, the defects were not immediately addressed. The architect then appointed a third party to rectify the problem. The delay in complying with the Sewerage Department's requirement caused the department to withhold their endorsement for the building certification process of the completed development in 2001.

Making matters worse, the completed units were occupied as early as 2000. The housing file contained a warning notice issued by the Local Authority under By-Law 28 of the Uniform Building By-Law to the architect citing unlawful occupation of an uncertified building. The incumbent architect faced an impasse which was caused by other parties; the illegal occupancy resulted from the State agency prematurely allotting and allowing occupancy whilst the sewerage system was refused endorsement due to the procedural infringement of the first architect. However, the deadlock was finally resolved when the architect arranged for a technical discussion with the Sewerage Department and the Local planning authority. All parties expressed their concerns and negotiated a mutually acceptable position. In the end, the Sewerage Department issued a letter of conditional endorsement of the sewerage system.

## **9.5.2 Commentary**

Case study 3 exemplifies how the flexibility in the low-cost housing regulatory environment enables the developer (or his proxy) to overcome a procedural challenge by negotiating with the regulating authorities. Negotiation between developers and planners has been reported as one of the factors influencing the development control process and planners' decision in Malaysian housing development (Mohd et al., 2009). This case also supports the statement by planners in Chapter 8 that the low-cost housing development control is applied equally among public and private developers, despite a contrary opinion among private developers. However, it is premature to assert that all public low-cost housing projects receive non-preferential treatment from the authorities. It is worth noting that planners also discussed the 'green-lane' status of vital government projects.

The housing development process, explained in detail in Chapter 4, includes the certification of the completed buildings. Although the certification system has changed in 2007, replacing the Certificate of Fitness for Occupation with the Certificate of Completion and Compliance, basically the safety of a new building must be endorsed before it can be occupied. In the above case, the architect (acting on behalf of the Federal agency developer), successfully convinced the technical agency that the procedural non-compliance was already rectified and obtained a conditional endorsement from the agency. In turn, the technical agency's endorsement allayed the concerns of the Local planning authority about the 'illegal' occupation under By-Law 28. This result would not be achieved if both regulators (i.e. the Sewerage Department and the Local Authority) rigidly followed the regulatory procedures.

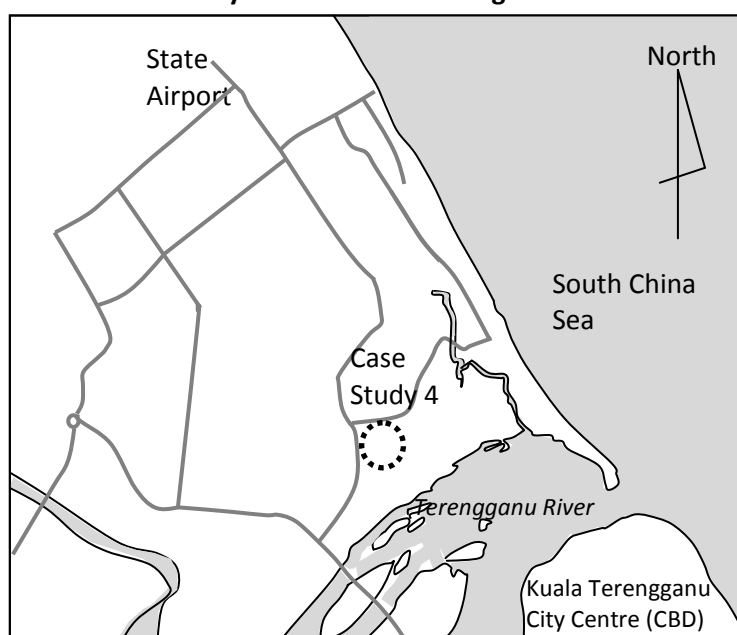
## **9.6 Case Study 4**

### **9.6.1 Description**

All details and information for Case Study 4 were obtained from the HDSSO housing file (HDSSO file ref no.: 1121/3/1/22).

According to the housing file, a private developer officially approached the State Authority in early 2009 with a proposal to develop low-cost flats in the District of Kuala Terengganu. Negotiations between the developer and the State Authority resulted in a housing PPP. Based on the State Authority's Housing 'Privatisation'<sup>52</sup> Conditions, all construction costs were to be borne by the developer whilst the profits were to be equally shared between the partners. The State Authority's involvement was in providing the land and project management expertise. The project monitoring was undertaken by the HDSSO via monthly progress reports. At the time of study, the development was under construction and currently within schedule. The project was expected for completion in October 2011.

**Figure 9.5: Location of Case Study 4 and its surrounding areas**



*Source: Derived from Google Earth*



Artist's rendition of the completed scheme.

*Source: HDSSO*



Satellite photo of Case Study 4.

*Source: Google Maps, 2011*

<sup>52</sup> Special housing PPP scheme in Terengganu (see explanation in Section 5.4.4.3 of Chapter 5).



Figure 9.5 shows the location of Case Study 4 and its surrounding areas. The proposed development contains 722 units spread over 19 blocks of flats. The number of units is significant compared with the planned affordable housing supply of 12,000 units by the year 2013 (Bernama, 2010). The locality is one of the most developed suburban areas in the capital city of Kuala Terengganu, catering for the local population mainly working at the nearby State airport, the city and the nearby industrial areas. Location-wise, the development is intended to address the housing needs of low-income groups comprising factory workers, low-level office workers and self-employed persons from these employment areas.

There was only one regulatory issue detected in this case study based on the housing file review. However, this issue involves significant environmental and ethical repercussions and will be discussed in detail.

The most interesting aspect of this case study is the site on which the project is situated (see Photo 9.4). The site was State land measuring 4.4190 hectares (nearly 11 acres), an economically viable size for low-cost housing development which is difficult to secure around Kuala Terengganu City. Although the land was topographically low lying and swampy requiring about 2-metre filling and levelling work, the high site development costs were readily accepted by the State Authority because of the good location. In the past, lack of developable land in the locality had forced the State Authority to reclaim land along the Terengganu River. By comparing the costs of both methods, land filling was a more viable undertaking than land reclamation.

**Photo 9.4: Case Study 4**



Filled portion of Case Study 4 site



Current work on site

*Source: Kg Batin Project Progress Report, April 2010 contained in the HDSSO File Ref:1121/3/1/22*

The real issue was that the whole development actually accommodated a drainage reserve and a *nipah* conservation area (wetland) which has been gazetted under Section 62 of the National Land Code due to its environmental sensitivity. Terengganu still experiences floods during the monsoon season from November to January every year, thus developments in low lying areas are discouraged or even prohibited using legal mechanisms such as designating an area as drainage reserve. However, the land is also located in an area with high development pressure, being so close to the Kuala Terengganu City. It lies just after the main bridge connecting the south bank of Terengganu River, where the city is located, with the north bank, where the State airport is located. Obviously the site will generate significant socio-economic benefits if developed.

Therefore, despite the site's physical unsuitability and legal restraint, the State Authority proceeded with the housing PPP to meet local housing needs. As indicated earlier, all construction costs were to be borne by the private developer which was a perceived saving of State financial resources. To improve project feasibility, the housing scheme accommodates 5-storey walk-up flats instead of the locally preferred terraced houses. The medium-rise flats accommodated more units of low-cost dwelling. From the State Authority's point of view, they were merely fulfilling their social obligation whilst simultaneously saving State money.

According to the LAP, the Local Authority and related Federal agencies originally objected to the proposed development due to the possible environmental consequences in the future (Planner 7, Personal Communication, August 15, 2010). However, going back to the hierarchy of power in land matters in individual States, the State Authority holds the ultimate authority over land development. Therefore, the Local and Federal agencies reluctantly had to abide by the State Authority's decision to build low-cost housing on the drainage reserve.

Technically, the legal infringement committed in the above development may be easily rectified during the progression of the project. In the same National Land Code chapter for reservation of land, there are provisions to grant lease on the reserved land and also to outrightly revoke the reserve status. The power to lease and revoke lies with the State Authority; thus it was understandable why the objectors found it hard to sustain their opposition. Notwithstanding the solution to this legal issue, it remains to be seen if the developer will be able to implement a proper drainage system on the site to prevent future flooding. Another issue with building on low-lying sites is the need to undertake proper and adequate filling work or face problems associated with building settlement.

The author can cite two examples of State Authority developments in Kuala Terengganu that have experienced substantial building settlement due to poor filling works. The first is the low-cost housing scheme *Kondo Rakyat*, located about 10km south of Kuala Terengganu City Centre. Similar to Case Study 4, *Kondo Rakyat* was built on reclaimed wetland. The author had undertaken inspection and valuation of several *Kondo Rakyat* low-cost flats while working as a valuer in Kuala Terengganu. Visual evidence of building settlement was found in terms of substantial cracks and crooked beams. The second example is *Taman Sri Kolam*, a mixed medium-rise development located in the Kuala Terengganu City Centre. Built on a former graveyard, cracks appeared early on and have worsened since. The author can vouch for the building deterioration brought by settlement, having owned a flat in the scheme and lived there from 1997 to 2004. Anecdotal evidence suggested inadequate waiting time after the relocation of the graves and site filling. In both cases, inadequate filling (and perhaps compounded by poor workmanship) have aggrieved occupants in both developments.

According to the housing file, formal applications for planning permission under Section 21, Act 172 and building plan approval under Section 70, Act 133 were submitted to the Local Authority in September 2009 to fulfil the process of development approval. The approval process took a long time due to concerns of the Local planning authority, about losing the drainage reserve, and the Terengganu Water Company Ltd., over incomplete calculations on a hydraulic and proposed reticulation pipe because the site was a low-pressure area. Finally, after more than a year the project received conditional approval from the Local Authority. The housing file contained an express objection from the Local planning authority as a precautionary action. Nonetheless, the Local Authority planner informed that work on the site progressed long before the development order (official development permission) was granted (Planner 7, Personal Communication, August 15, 2010).

## **9.6.2 Commentary**

The government of emerging economies in Asia has been described as steering the national housing policy towards overall economic goals (Agus et al., 2002). Case Study 4 reflects a selective implementation of regulations to produce low-cost housing under legal conditions that would have otherwise prevented development. The site status strictly prohibits development due to its environmental sensitivity, but in this case the State Authority decided to produce low-cost housing that was needed by the local population despite the legal-environmental barrier. The State Authority had used its constitutional power over State land to enable more supply of low-cost housing in the locality. This shows how the State Authority can positively influence the low-cost housing supply in the State by exercising its statutory powers to overcome regulatory constraints.

In contrast to Case Study 3, Case Study 4 somewhat supports developers comments about a biased regulatory implementation favouring public developments. This was reflected by the lack of enforcement by the relevant authorities over illegal development works. However, this enforcement lag is not unique to public projects but also prevalent in other types of housing development as reported in the Malaysian literature (Agus, 2002; Sufian & Ab. Rahman, 2008). It is argued that both enforcement weakness and the status of a government project had contributed to the non-abatement of the development procedure breach. This raises the issues of development quality with implications for the living environment of future occupants of the completed low-cost housing development. Based on the problems in the two examples given, the environmental implication of building on a flood-prone site could affect the standard of living of the low-income residents in the future.

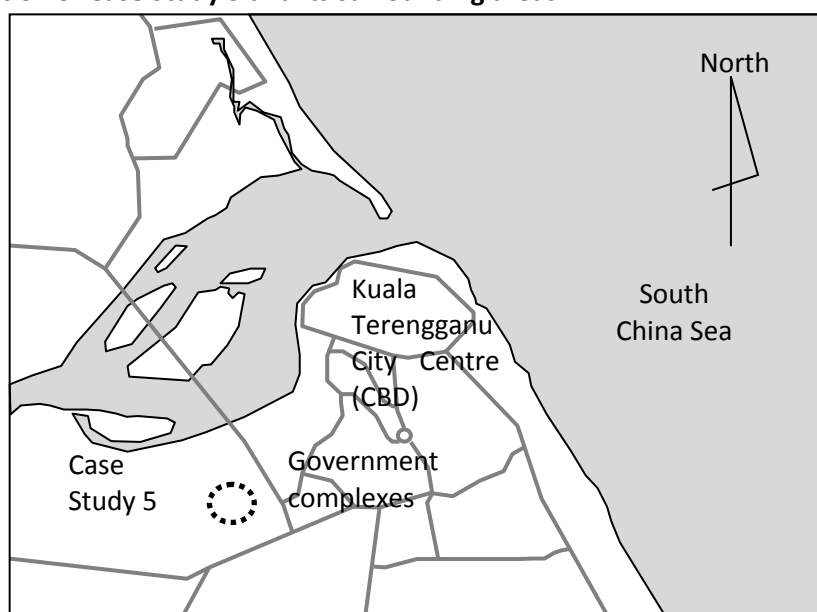
## **9.7 Case Study 5**

### **9.7.1 Description**

Details of the development and regulatory issues for Case Study 5 were obtained from the HDSSO housing file (HDSO ref file no.: 1121/3/1/20). Some regulatory issues were clarified with the LAP who was directly involved in the project.

As shown in Figure 9.6, Case Study 5 is located almost adjacent to the Kuala Terengganu City Centre and the government office complex. The development occupies a site belonging to the Federal Government measuring 8.7 hectares (21.5 acres) in one of the busiest areas in the city. The immediate locality had been earmarked to be the new administrative centre of Terengganu to ease the growth pressure in the current city centre. The area accommodates mainly institutional and commercial users, interspersed with government quarters and medium-rise apartment blocks.

**Figure 9.6: Location of Case Study 5 and its surrounding areas**



*Source: Derived from Google Earth*

**Photo 9.5: Case Study 5**



*Source: Author*



*Satellite photo of Case Study 5. Source: Google Maps, 2011.*

According to the housing files, the Federal Government launched this low-cost housing project in 2009 under the Economic Stimulus Package. This direct funding arrangement was different from other Federal-funded projects; previously funding was via a soft loan to the State Authority whilst here, the Federal Government assumed the full development costs. In addition, the Federal Government, via the Project Implementation and Monitoring Branch (PIMB) of the National Housing Development undertook the appointment of consultants and contractors and provided technical advice. In essence, the Federal Government was the developer of this low-cost housing project. The State Authority, via the HDSSO, coordinated the project by organising joint meetings and monitoring its progress.

During fieldwork, the project was at pre-construction stage whereby appointed consultants, contractors and relevant government agencies regularly met to iron out issues faced in the development process. Upon its projected completion in June 2012, the development will contain 1000 low-cost flats. This scheme was considered the flagship development from the 12,000 affordable housing units proposed to be built in the State by 2013 (Bernama, 2010). Upon completion, the units would be rented out and the State Authority would be responsible for tenant selection. Due to its status as a Federal low-cost housing project, the tenure will be based on Federal policy i.e. tenancy and not for ownership as informed by the Assistant Director of the Policy and Strategic Planning Division of the National Housing Department (Interviewee 5, Personal Communication, 9 November, 2009). Details of the management of the units on completion had not been agreed upon by the State and Federal agencies at the time of this study.

The LAP identified two intertwining regulatory issues faced by the development during the development approval process. First, the Federal Government as the developer did not take advantage of the ‘green-lane’ procedure for public projects, thus forfeiting a simpler development approval process. Second, the failure to come in for a pre-consultation with the Local planning authority resulted in a non-compliance of a planning requirement.

According to the LAP, public projects normally receive ‘green-lane’ status which enables the attainment of development approval within four months, compared to the six months for conventional projects (Planner 7, Personal Communication, August 15, 2010). In this case, the Federal Government did not take advantage of the ‘green-lane’ status applicable to the project and did not partake in the required pre-consultation process. The One Stop Centre received the final proposal document without the Local planning authority having the chance to provide their input. As a result, the application documents contained several non-compliances with the Local planning standards. Therefore, the development approval of this project took longer than it should have taken.

The LAP also elaborated on an issue with respect to the proposed car parking facility in the submitted building plan. The consultant architect did not provide adequate open car parking space because the ratio of dwelling unit to car park was higher in Terengganu compared to other States (Planner 7, Personal Communication, August 15, 2010). According to the LAP, insufficient car parking space would cause the future occupants to park by the roadside, causing congestion and social disharmony. The issue of haphazard parking is common in high-density residential areas in Malaysia, which the LAP intended to curb. This issue is considered significant, given that upon completion the development will accommodate one thousand households. To address this issue, the consultant now proposed a multi-level parking facility.

### 9.7.2 Commentary

Case Study 5 reflects the many roles of low-cost housing in the Malaysian context, which has already been discussed in depth in Chapter 4. These include the fulfilment of the government's social obligation to the urban poor, a wealth-distribution mechanism that promotes unity among ethnic groups and, in the above case study, an economic instrument to stimulate the national economy. Chapter 4 has discussed how the Special Low-Cost Housing Programme was introduced during an economic downturn in the mid-1980s to the mid-1990s. Case Study 5 was part of the Federal government strategy to boost the overall Malaysian economy, affected by the recent global financial crisis, through a capital injection in the construction industry.

Nevertheless, the urgency in implementing Case Study 5 prevented the consultant for the Federal agency developer from undertaking a necessary pre-consultation with the Local planning authority. Although pre-consultation is not mandatory in a normal development, it is a pre-requisite for the 'green-lane' procedure which ensures faster development approval period because all planning requirements are mutually checked and agreed by both developer and planner before formal document submission. It can be seen that the oversight in the car-parking requirement could have been avoided if the developer (or their consultants) had consulted the Local planning authority in the first place.

This case study indicates the uncompromising attitude of planners in ensuring the wellbeing of future low-income occupants [i.e. the public interest motivation of planners in Chapter 7 and international literature (Campbell & Marshall, 2000)]. In this case, planners were firm in refusing a development application with insufficient car parks, mindful of potential issues for residents in the future. This supports the planner interviews and Case Study 3 that planners give equal treatment to both public and private developments. Notwithstanding this evidence, developer interviews and Case Study 4 still suggested that some favourable treatment for public developments existed in actual practice. However at a broader level, it is arguable that the flexible regulatory environment has enabled planners and other authorities to favour the development based on low-cost housing status and not based on the developer.



## 9.8 Analysis of housing and non-housing outcomes

This section provides an evaluation of the housing and non-housing outcomes resulting from the various actors' mediation of regulations in the case studies. Table 9.3 summarises these outcomes. In this thesis, 'housing outcomes' may be defined as housing-related tangible and intangible outputs of low-cost housing regulations produced in housing developments (e.g. fulfilment of housing needs, innovation in low-cost housing type, deviation from potential targets and higher development costs). On the other hand, 'non-housing outcomes' may be defined as wider social, economic and environmental related outputs of low-cost housing regulation mediation (e.g. improved welfare of occupants and potential environmental costs). Three types of positive outcomes and two types of negative outcomes were discerned encompassing cost, quantity, quality and welfare. These outcomes will be discussed in the next seven sub-sections.

**Table 9.3: Summary of actual and anticipated housing outcomes influenced by regulations**

Item	Case Study 1*	Case Study 2*	Case Study 3*	Case Study 4 <sup>f</sup>	Case Study 5 <sup>f</sup>
Positive housing outcomes	<ul style="list-style-type: none"> <li>•Fulfilment of local low-cost housing needs.</li> <li>•Improved welfare of occupants.</li> </ul>	<ul style="list-style-type: none"> <li>•Fulfilment of local low-cost housing needs.</li> <li>•Improved welfare of occupants.</li> <li>•Innovation in low-cost housing type.</li> </ul>	<ul style="list-style-type: none"> <li>•Fulfilment of local low-cost housing needs.</li> <li>•Improved welfare of occupants.</li> </ul>	<ul style="list-style-type: none"> <li>•Fulfilment of local low-cost housing needs.</li> <li>•Improved welfare of occupants.</li> </ul>	<ul style="list-style-type: none"> <li>•Fulfilment of local low-cost housing needs.</li> <li>•Improved welfare of occupants.</li> </ul>
Negative housing outcomes	<ul style="list-style-type: none"> <li>•Low-cost housing not reaching low-income targets</li> <li>•Higher development costs.</li> </ul>	<ul style="list-style-type: none"> <li>•Higher development costs.</li> </ul>	<ul style="list-style-type: none"> <li>•None detected.</li> </ul>	<ul style="list-style-type: none"> <li>•Potential environmental costs.</li> </ul>	<ul style="list-style-type: none"> <li>•None detected.</li> </ul>

*Source: Derived from case study primary and secondary materials*

Note:

\* Actual housing outcomes.

<sup>f</sup> Anticipated housing outcomes.

### 9.8.1 Fulfilment of housing needs

The local housing market was driven by profit-motivated private developers, who by their own words would not cater for market segments with low effective demand. Although there are several methods of producing low-cost housing in Terengganu comprising both public and private developers (see Chapter 5), part of the State Authority's low-cost housing strategies was to increase the private sector involvement in low-cost housing provision via the low-cost housing quota requirement and the 'privatisation' (special housing PPP) scheme.

A total of 2,595 low-cost houses were produced by the five housing developments above, comprising 162 units from a private developer, 1,183 units from two public-private partnerships and 1,250 units from two public developers. From the above case studies, 1,345 units or almost 52% of the total units were produced by the private sector. Without private sector involvement, a substantial amount of low-cost housing would not have been produced the above case studies. Although regulations (i.e. the low-cost housing quota) only produced 162 units or only 6% of total units, more importantly the regulations that control quality helped to ensure that the housing needs of low-income groups are fulfilled.

The combination of various regulations and building standards, combined with the planners' public interest motivation, has ensured that low-income groups are given adequate housing in terms of both its quantity and quality. In sum, the case studies reflected a fulfilment of the housing needs of the local low-income population in terms of increased supply of housing that was both affordable and comfortable for low-income households to rent or buy.

### **9.8.2 Improved welfare**

The welfare of the low-cost housing recipients in the case studies had been considerably improved compared to the existing housing circumstances of low-income groups in the region. As indicated in planner interviews, Federal and State low-cost housing standards ensured the size and quality of low-cost unit met the requirements of the occupant. Not only that, the well-being of the occupants in the low-cost housing projects was also enhanced by the planners' requirement of common facilities such as children's playgrounds, places of worship and public halls.

The above case studies also signified an increased well-being of the low-income population by their access to low-cost housing. The increased opportunities for low-income home ownership provided by the current low-cost housing regulatory system enhanced the potential for wealth-creation among low-income groups in line with the national long-term socio-economic aspirations.

The Open Registration System and strict vetting process were implemented to ensure that only eligible buyers were allotted low-cost housing, thus minimising the manipulation of the system. At least in theory, this system was designed to ensure that low-cost housing is only allotted to the low-income population who would not be able to afford market housing. However, notwithstanding the principles behind the Open Registration System, the low-cost housing sale procedure was far from perfect, which will be discussed below.

### **9.8.3 Housing innovation**

Besides the above common positive outcomes, the regulatory environment also fostered innovation in the type of low-cost housing in Case Study 2. The creativity of the private developer in Case Study 2 was facilitated by flexibility within the system and accepted by planners. This flexibility resulted in town-house inspired double storey low-cost terraced units, whereby the ground and first floor were separate units on strata title. This type of low-cost housing was a departure from the staple single storey terraced, walk-up flat or multi-storey dwelling units. Not only did this innovation improve profitability for the developer, the new design was also profitable enough for the developer to build an additional 56 units of low-cost housing.

The townhouse concept potentially offers an advantage of economies of scale for the Local Authority in the provision of municipal services, such as garbage collection and street-lighting, by serving a higher density housing scheme. This means that the Local Authority could use less resources (garbage truck and collector and street lights and electricity) than a comparable conventional single storey housing scheme of the same population.

This case exemplifies how regulations forced a private developer to think outside the box to preserve profit margins. A side effect of such an innovation was the creation of positive externalities which would not had emerged if the developer was not creative in engaging with the regulatory requirements.

### **9.8.4 Diversion from planned beneficiaries**

Case Study 1 reflects an implementation weakness of the low-cost housing distribution system. In this case, not all low-cost housing units reached the preferred beneficiaries of the low-cost housing programme. The root of this problem lies in the weakness in the method of low-cost housing demand estimation. To a certain extent, the Open Registration System (ORS) presents a more systematic estimation of low-cost housing demand for an area compared to the previous method of demography-based demand projection. However, politicians can still demand for the provision of low-cost housing in their area without justification from the ORS. The planner chapter has revealed how low-cost housing may be oversupplied at the local level due to political pressures. This is further worsened by the nature of low-effective demand of low-cost housing (i.e. demand not backed by ability to obtain mortgage finance). In Case Study 1, the quick solution was to open the sale to the public when there were insufficient State-approved low-income buyers.

Nonetheless, the developer was economically justified when appealing the State's sale procedure. In this case, the problem was caused by the State Authority's overestimation of low-cost housing demand in the locality. Therefore, the diversion of the low-cost houses from the intended beneficiaries (i.e. low-income workers at the nearby industrial area) was not a weakness of the sale procedure but rather a flawed demand-estimation system. In fact, it can be argued that the regulatory environment was flexible enough to rectify problems caused by a faulty demand-estimation system. Without this flexibility, it is doubtful if the developer would survive and continue providing low-cost housing in the State.

### **9.8.5 Cost incidence**

Higher housing costs were discernible in Case Studies 1 and 2 due to regulations. In Case Study 1, the higher costs were mainly caused by additional infrastructure costs (centralised sewerage treatment plant) to accompany the increased low-cost housing quota requirement. In this case, the State Authority used its power to require the developer to build above the minimum low-cost housing quota. Although it could be perceived as an extraneous requirement, the State Authority's action was legally acceptable. Furthermore, the developer in Case Study 1 shared a special relationship with the State Authority, being a State-linked company. However, it is unlikely that the State Authority would impose such an excessive requirement on a conventional private housing developer.

In Case Study 2, the developer had to bear higher holding costs due to slow sale to State-approved buyers. The State Authority's list of approved low-income house buyers was characterised by people who often cannot provide income documentations or mortgage security. These people are considered to be high-risk borrowers by commercial banks. This problem has also been reported in the literature from other countries (Sengupta, 2006). The lack of income documentations or a guarantee of mortgage often jeopardises low-income house buyers' mortgage applications. As a result of this problem, the developer of Case Study 2 commented on having to pay holding costs on unsold units.

In sum, the higher costs in Case Study 1 arose due to the government-linked status of the developer, which caused the State Authority to request low-cost housing above minimum requirements. It is unlikely that a pure private developer would face a similar regulatory requirement by the State Authority. The problem with Case Study 2 is more likely to be experienced by private developers throughout Malaysia if they fail to adopt suitable operational strategies, such as building low-cost housing in phases. Even though developers may be required to build low-cost housing first, they still can practice proper planning and good financial management as a strategy to mitigate any problems due to slow sales. Therefore, developers should carefully plan their operations in anticipation of State-approved buyers having problems accessing mortgage finance.

### **9.8.6 Potential environmental costs**

This case study exemplifies a recurring finding in Chapter 6 (regulatory environment), Chapter 7 (planner interviews) and Chapter 8 (developer interviews), whereby the State Authority is found to have ultimate control over land and housing policy at the State level. Case Study 4 was still under construction at the time of the study, but can be reasonably expected to experience environmental costs if mitigating actions are not taken. The Local planners had objected to this development, which is located on a drainage reserve and wetland. Nonetheless, the State Authority had disregarded the legal constraints on the site (being a no-build area under the main land law) and opted to build low-cost housing on the land due to lack of other alternative sites in that locality. The State Authority was able to implement this decision based on the power conferred by the regulatory structure.

Notwithstanding the State Authority's legal clout in overcoming planning constraints, the development is still exposed to flooding in the future if a proper drainage system is not installed. Whilst the State Authority's decision can be seen as necessary to achieve the low-cost housing supply projections, the economic cost of floods (without mitigating procedures) will have to be borne by future occupants. Therefore in Case Study 4, the regulatory environment may be said to contribute to potential environmental costs of the development, although this conclusion is tentative and contingent upon suitable flood-prevention measures. At the same time, this development will add a further 722 units of low-cost housing in a location that is close to employment centres of low-income groups. This development meets the needs of local low-income residents in terms of affordable housing and reduced travelling costs. Thus, this may not be seen as a wasteful expenditure by the State Authority.

## **9.9 Analysis of institutional factors that influenced housing outcomes**

The above section has provided the actual and anticipated housing outcomes from the case studies. This section presents the overall institutional factors that influenced the above housing outcomes in each case study. Table 9.4 indicates the main institutional factors that were found to significantly feature in the mediation of the low-cost housing regulations in the case studies. These factors were found to have considerable weight in shifting the outcomes of regulations. Four factors were identified; power play, regulatory flexibility, regulator discretion and negotiation (see Table 9.4).

### **9.9.1 Power play**

The structure of low-cost housing provision in the study area involves all tiers of the government (i.e. Local, State and Federal). Organisations from each government tier possess some statutory powers and individual sets of functions and responsibilities. In some instances shown in the case studies, the interactions of these government agencies were dominated by the actor with the highest legal clout. In Case Studies 3 and 4, the State Authority or a State agency emerged as the main organisation influencing the project direction when the development was confronted with regulatory constraints.

The decisions and actions taken by State Authority and its agencies were important when regulations seemed to hinder the low-cost housing development process. Case Study 3 would have been unoccupied long after its completion and exposed to vandalism if the State agency waited for the long certification process by the Local Authority. Case Study 4 would not have come into existence at all due to the site status, which prevented its development.

In both cases, the State Authority ensured that regulations did not present any ‘barriers’ to low-cost housing provision. If ensuring access to low-cost housing is the sole measure of the low-cost housing policy, then the leadership of the State Authority and its agencies can be said to greatly contribute to the achievement of the policy objective in these case studies

**Table 9.4: Evidence of institutional factors that influenced housing outcomes in the case studies**

Item	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5
Evidence of <i>power play</i>	Yes. State Authority created special PPP and played facilitative role.	No.	Yes. State agency prematurely assigned units against Local Authority procedure.	Yes. State Authority overruled Local Authority.	None so far.
Evidence of regulatory flexibility	Yes. Normal low-cost housing quota is 30% but developer asked to build nearly 50%. Open sale allowed.	Yes. New housing type. Deviation in sale procedure allowed.	No.	Yes. Current land law allows for revocation of reservation status.	None so far.
Evidence of regulator discretion	Yes. State Authority allowed open sale to public.	Yes. State Authority allows new housing type and higher prices. State Authority also did not penalize developer when units sold outside pre-approved buyers' list.	Yes. Technical agency endorsed sewerage system although not according to procedure.	Yes. State Authority allows development on reserved land.	None so far. Local planning authority adamant about car parking.
Evidence of negotiation	No. Developer has little negotiation leverage as State-linked.	Yes. Developer successfully proposed new low-cost housing type.	Yes. Consultant architect negotiated with technical agency to obtain endorsement in building certification process.	None so far. The State Authority overrode planning and other technical agencies in ensuring project implementation.	None so far. Consultant did not take advantage of pre-consultation which has negotiation element.

Source: Derived from case study primary and secondary materials

Whilst the ‘rank-pulling’ of a dominant authority can remove regulatory barriers and reduce bureaucracy, the most obvious outcome of this power play is tension between different agencies. Indeed, Chapter 7 revealed dissatisfaction among planners when Local Council members and the State Authority interfered with planning principles and decisions. In Case Study 4, planners openly indicated their opposition on the State Authority’s decision to develop a drainage reserve. This could be construed as in-fighting between different government agencies. Over time, such strained relationships could affect the regulatory implementation system. A system fostering ‘power plays’ also suggests that the rules can be bent and can therefore be less reliable. This can undermine the power of the planning system because the State Authority can overrule statutory plans.

### **9.9.2 Regulatory flexibility**

Low-cost housing provision in Terengganu is dictated by a myriad of different regulations which seem complicated on the surface (see Chapter 6, Chapter 7 and Chapter 8). Despite this perception of opacity, the above case studies revealed significant flexibility in the interpretation and implementation of the various regulations which enabled developers to successfully engage in low-cost housing development.

In Case Study 1, open sale of the completed low-cost units was allowed to outside buyers, regardless of the formal distribution procedure. The developer was also asked to build above the normal low-cost housing quota, indicating a policy that is adaptable on a case-by-case basis. In this case, the developer was a State-linked company established to assist in achieving State housing objectives.

The developer in Case Study 2 successfully proposed a new type of low-cost housing which was not prescribed under the prevailing low-cost housing standards. This indicated that the regulators were open to innovations in the low-cost housing provision, which would benefit developers, the Local Authority, low-income groups and the Terengganu people in general.

Case Study 4 displayed flexibility in the land law that allowed what would otherwise be an illegal development on a nature reserve land. Technically, the illegality of the development can be reversed by revoking the land’s nature reserve status. This enabled the State Authority to increase the amount of low-cost housing in a locality close to the employment area of low-income groups.



Notwithstanding the ease in correcting the status of an otherwise illegal development, the potential environmental and ethical implications of the State Authority's action still need to be discussed. From an environmental perspective, there were risks of flooding and building settlement as a result of building on a drainage reserve. From an ethical perspective, this development may be seen as a manipulation of the system. The enabler of this manipulation is the constitutional power vested on the State Authority and the flexibility available under the National Land Code. Indeed, the State Authority may have a different take on this 'manipulation', as they were able to provide low-cost houses and meet targets. However *Kondo Rakyat* and *Taman Sri Kolam* should serve as cautionary tales for the State Authority.

Overall, despite the impression of overregulation, the flexibility in implementation means that regulations may be used to facilitate rather than hinder the housing development process. The regulators did not rigidly follow existing regulations to enable the achievement of a larger social goal (i.e. the provision of low-cost housing). At the same time, the advantage of a flexible low-cost housing system could be weighed down by the costs of bending the rules, in this case environmental and ethical implications of the development.

### **9.9.3 Regulator discretion**

Chapter 4 has identified the points of interactions between the regulator and the development process. The regulators of low-cost housing in the study area comprise, among others, the Local planning authority, the State housing department and various administrative and technical government agencies. These government bodies have to adhere to departmental procedures and policies established to ensure certainty and uniformity of regulatory implementation throughout different States in Malaysia. Nevertheless, the case studies indicated regulator discretion in accommodating the conditions of individual low-cost housing development and the local housing market.

For instance, the State Authority took into consideration the non-viability of State pre-approved buyers by allowing open sale in Case Study 1 and by not penalising Case Study 2 developer who sought their own low-income buyers. In Case Study 3, the Sewerage Department agreed to endorse the sewerage system despite it contravening procedures, as the breach was believed to be merely technical and would not affect the welfare of occupants. In Case Study 4, the State Authority exercised its statutory right in allowing development on reserve land to cater for the local low-cost housing demand. However, in contrast to the agreeableness of the regulators in other case studies, the Local planning authority in Case Study 5 held their ground and insisted on adequate car parking in the proposed development.

Generally, the regulators exercised discretion in showing their leniency. The regulators showed the tendency to be agreeable where the decision can increase the quantity of low-cost housing in the market (e.g. allowing a breach of sale procedures, allowing a drainage reserve to be built with low-cost housing and endorsing a non-standard sewerage system in a completed low-cost housing development). On the other hand, the regulators were inclined to be more firm in ensuring the quality of low-cost housing (e.g. asking more car parks when the developer proposed insufficient car parks). It could be concluded from the above case studies that the regulators were willing to exercise leniency when the decision can increase low-cost housing quantity but were less willing to compromise the quality of low-cost housing.

#### **9.9.4 Negotiation**

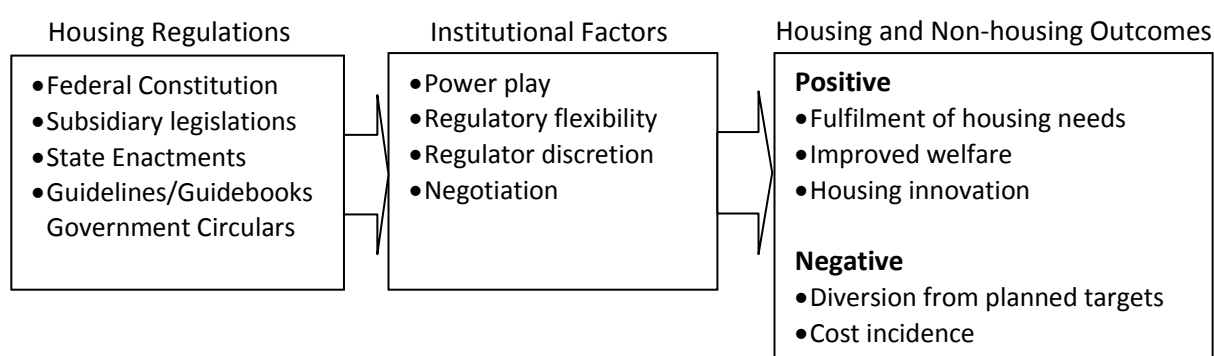
Negotiation is highly valuable in any housing development, especially in low-cost housing as developers vie for the most favourable operating environment to maximise their profits. This was shown in Case Study 2 where the developer successfully negotiated for a new low-cost housing type with the Local planning authority. Nonetheless, negotiation between various government agencies to achieve a socially desirable housing objective was also detected in the case studies. An example is the successful multilateral negotiation among the consultant architect, the Local planning authority and the Sewerage Department to obtain endorsement of the sewerage system and building certification in Case Study 3.

Nevertheless, the developer in Case Study 1 had low negotiation leverage by being a State-linked entity and was even forced to build more low-cost housing than normal convention. Similarly, there was no discernable negotiation element in Case Study 4 whereby the State Authority simply overrode the planning and other agencies when allowing the low-cost housing development on the drainage reserve. In contrast, the failure of the Case Study 5 consultant to undertake negotiations with Local planners led to the rejection of their non-compliant plan. In sum, successful developers in the above case studies used negotiations as an operational strategy to cope with the low-cost housing regulatory environment. In turn, the success of negotiations depended on the type of developers and the regulatory issue.

## 9.10 Summary of micro analysis of low-cost housing developments

Figure 9.7 summarises the findings in this chapter. Chapter 6 previously reviewed the low-cost housing regulations in the left box and concluded that there existed a rather opaque regulatory system in terms of the substantial number and language of the regulations. This negative perception was somewhat supported by evidence in planner and developer interviews (Chapter 7 and Chapter 8 respectively). However, as stated in Chapter 4, 62.8% or 595,093 units of the total 947,491 units of low-cost housing were produced by private developers. This thesis showed that despite the seemingly stringent regulatory environment, agents' behavior and influence of the legal, government and political institutions have facilitated private developers' engagement in low-cost housing provision since 1982. In this chapter, the analysis of five actual low-cost housing developments revealed the actual workings of institutions (both 'organisations' and 'rules of the game') in mediating low-cost housing regulations.

**Figure 9.7: Summary of the effects of regulations on low-cost housing developments**



*Source: Summarised from analysis*

As shown in Figure 9.7, the examination of the case studies has resulted in the discovery of four institutional factors in the regulatory environment, namely, power play, regulatory flexibility, regulator discretion and negotiation. These regulatory factors were present in the actors' interactions when regulations impeded the low-cost housing development process. In sum, the four elements have formed a pro-development regulatory environment for low-cost housing, enabling private low-cost housing in Terengganu.

The institutional factors had a significant role in determining the housing outcomes of the case studies. The positive and negative housing outcomes in the case studies were identified as cost, quantity, quality and welfare, as shown in the box on the right in Figure 9.7. Overall, the positive outcomes of regulations, in terms of the fulfilment of the housing needs and improved welfare among low-income groups (in terms of access to adequate housing) and housing innovation among developers, were substantial enough to moderate the negative housing outcomes of regulations.

### **9.11 Chapter conclusions**

The earlier analysis chapters identified a somewhat complex regulatory structure, characterised by layers of regulations, planners' power constraints due to the Malaysian legal system and developers' perceptions of problematic regulatory implementation. Nevertheless, the analysis of the case studies indicates that despite the various issues with regulations, the mediation of regulations has produced a positive environment that has sustained the market's involvement in producing low-cost housing. This is important as the State Authority has adopted a long-term strategy of drawing on the contribution by private developers in meeting the State's low-cost housing objectives.

The contribution of this chapter is in illuminating the actual processes in regulatory mediation and the actual results of these mediations. Each low-cost housing development carries specific physical and legal site characteristics, whilst the development process is undertaken by a specific developer type under a specific economic climate. This chapter showed that the diversity of physical and legal characters of each housing development did not support uniform regulatory implementation. It was found that factors such as power play, regulatory flexibility, regulator discretion and negotiation have ensured the production of low-cost housing despite regulatory limitations. Although there were potential costs associated with these mediations, it is argued that there were more benefits associated with low-cost housing. Ultimately, the actors' interactions and institutional factors have resulted in a regulatory environment that produced comfortable and affordable housing for low-income groups.

The next chapter provides the conclusion of this thesis. Besides summarising the overall findings of the four analysis chapters, it will discuss the implications of the findings on the provision of low-cost housing for Terengganu. The contributions of this thesis will also be highlighted.

## Chapter 10: Summary and conclusions

### 10.1 Overview of the study

This study has examined a housing issue which has wide socio-economic implications in both developed and developing economies (i.e. state intervention in low-cost housing provision). A direct result of market failure in providing adequate housing for low-income groups is the proliferation of slums and squalor. It has been estimated that a billion of the world's population lives in various squatter settlements and shantytowns in developing countries (UN-HABITAT, 2011a). The socio-economic implications of poor low-income housing conditions, including adverse health of the working population, social inequities and urban unrest, have therefore necessitated government intervention.

In various countries, private developers have been mandated by regulation to build housing that is both affordable and comfortable for low-income groups. In Malaysia, this involves 'low-cost housing' which is a type of housing with a government-dictated ceiling price and set building standards. The provision of low-cost housing in Malaysia has an additional purpose of promoting social integration among ethnic groups. Due to the special significance of low-cost housing and limited public sector resources, the Malaysian government has imposed a low-cost housing quota requirement on new developments since 1982. Mandatory building standards are normally adopted to supplement this quantity-based policy tool to ensure the quality of low-cost housing is not affected by developers' cost-cutting measures.

A review of the low-cost housing quota requirement and other regulations led the World Bank to report that the Malaysian housing market was overregulated (Hannah et al., 1989) and consequently experienced low elasticity of supply (Malpezzi, 1990). A review of the literature on housing regulations also indicated overwhelmingly negative reports on the inflationary and supply-restrictive effects of such policies. These mainstream examinations tended to adopt an econometric modelling approach that estimated regulatory impacts on the price and quantity of housing. The abstract nature of these models necessitates assumptions to simplify the economic behaviours of institutions that interact with the regulatory environment. In order to observe the actual outcomes of housing regulations, the institutional Structure of Provision (SOP) approach (Ball, 1983, 1986, 1998, 2003b) was used as the main framework in this thesis to examine the institutional dynamics operating within the current regulatory environment governing low-cost housing provision.

This thesis contributed to the real world understanding of how policy interacts with property development processes. Property development is the ‘spatial expression’ (Doak & Karadimitriou, 2007) of a group of actors who work together to produce built space but simultaneously pursue their own organisational objectives. In housing development, the profit-maximisation tendencies of private developers are often moderated by planners and other related government agencies to enhance and protect the collective interest of society. In practice, the norms and habits of key actors in housing provision determine the execution of policy. By studying the institutionalised behaviour of actors, policymakers could gain a better understanding of how regulations are internalised by these actors.

This study represents a departure from previous Malaysian housing studies by focusing on an east coast region which was previously understudied. Terengganu is a rapidly developing State that is experiencing significant housing demand pressures due to a robust petrochemical industry. A three-tier analysis was adopted in this research based on the main objective to examine how regulations shape the provision of low-cost housing in the State. At the macro-level, the regulatory environment (i.e. regulations and their institutional arrangements) was analysed. At the meso-level, an analysis of the behaviours of senior planners and major developers was undertaken. Finally, a number of housing developments were examined to determine the actual outcomes of regulations. These analyses were guided by the central argument that institutional behaviours play a significant role in influencing the outcomes of housing regulations.

The research strategy of using a SOP approach has enabled the researcher to discover a body of knowledge which was embedded and implicit in the actual operations of housing actors. The main contribution of this thesis was the opening of the ‘black box’ of housing market interactions that reveals institutional dynamics in the regulatory environment. Drawing from the analyses, any prior assumptions of a monolithic and rigid regulatory structure have been disproved. In sum, the thesis showed that the implementation of low-cost housing regulations is shaped by pre-existing institutions (such as the legal, political and government structures) and also institutionalised behaviours of actors involved in the provision of low-cost housing.

This next section aims to bring together the key findings from the four analysis chapters and relate them to the main objective of this thesis. It discusses the institutional factors that influence the implementation of low-cost housing regulations in the study area and the implications of these findings on the low-cost housing provision, focusing on production.

## 10.2 Summary and discussion of key findings of the thesis

In this conclusion chapter, the findings in the four analysis chapters are summarised into three main areas. First, the *regulatory environment* controlling the provision of low-cost housing in the study area was found to be linked to the wider legal, government and political structures. Second, the analyses indicated that the *behaviours of actors* have a significant influence over the nature of regulatory implementation with discernable pro-development tendencies. Finally, variations in regulatory mediation were found to produce *housing and non-housing outcomes* in low-cost housing provision. These key findings will be discussed in the next three subsections.

### 10.2.1 Interactions between the regulatory environment and the legal, government and political institutions

The property market is constantly being moulded by political, social and legal institutions within a country (Keogh & D'Arcy, 1999). In housing, various authors have reported how institutional factors can influence housing supply (Ball, 2003b, 2010b), housing affordability (Burke & Hulse, 2010) and housing market performance (Murphy, 2011). Indeed, the regulatory environment controlling low-cost housing provision in Malaysia has been described as restrictive and opaque on the surface, resulting in high housing costs and reduced supply (Bertaud & Malpezzi, 2001; Hannah et al., 1989; Malpezzi & Mayo, 1997; Mayo & Sheppard, 1996). Nonetheless, this thesis found that the effects of regulations were significantly influenced by the interactions of the regulatory environment with the pre-existing legal, government and political structures.

The legal structure was found to exert a substantial force on the low-cost housing regulatory environment. All three tiers of analysis indicated a constitutional control by the State Authority in the area of low-cost housing. This important finding regarding the operation of national low-cost housing policy at the State level has not been highlighted in previous Malaysian housing literatures. All of the analyses chapters showed that the State Authority's constitutional power over land and Local Authority supersedes the Federal development control regulations. This is of great consequence because it effectively transfers the authority over the main method of obtaining private low-cost housing supply (i.e. the low-cost housing quota system), to the State Authority although the national low-cost housing policy is supposed to be implemented by planners at regional and local levels.

This constitutional division caused discernible tensions between government tiers and also between different agencies in low-cost housing provision. Planner interviews indicated a significant degree of ‘local capture’ by the State Authority in administering low-cost housing control. In the implementation of the low-cost housing quota requirement, the State Authority was reported to allow exemptions, substitute the ‘low-cost’ with ‘affordable’ housing type and implement State rather than Federal low-cost housing standards. This substantial control over low-cost housing by the State Authority led developers to express increased uncertainties over the diminished role of the Federal MHLG and the opacity in State Authority regulations. Evidence from the case studies also supported the view that there are intergovernmental and interdepartmental tensions in regulatory implementation.

The analyses also revealed potential issues in the low-cost housing regulatory environment due to the legal system. At the macro-level, the lack of an individual low-cost housing regulation was found to intensify the non-uniformity of planning practices and augment the uncertainty among local developers. The multitude of regulations controlling low-cost housing contained overlapping and sometimes contradictory provisions. Developers also noticed deviations from theory in practice, especially in the implementation of new housing procedures. The poor communication of new procedures and regulations was identified as a factor promoting non-uniformity in the regulatory system.

The study showed that political inputs in the regulatory environment can both positively and negatively influence formal low-cost housing development procedures. On one hand, the review of various government documents at the Federal and State levels showed strongly expressed support for low-cost housing provision. The State Authority of Terengganu is found to endorse low-cost housing for home ownership. Both developers and planners identified interference by politicians at the Local and State levels in the development approval system. Political pressure in the form of power plays by higher level agencies was also reported, in getting new low-cost housing in the pipeline. For example, a nature reserve was developed with low-cost housing to meet local low-cost housing demand and perhaps to meet the State Authority’s housing targets, despite objections from planners. Planner and developer interviews also revealed a perception of preferential treatment for public low-cost housing projects, which was supported by evidence from the case studies. Thus, some decisions that concerned low-cost housing regulations were found to be politically-based, rather than planning-based, to facilitate low-cost housing provision.



Political considerations in low-cost housing issues are to be expected due to housing's public good nature. The provision of housing with a low effective demand requires political will and long term commitment from the State. It has been argued that housing policy in emerging economies is often geared toward long term economic growth, including policies that foster social stability (Agus et al., 2002). In the context of Malaysia, low-cost housing is a means to achieve social stability among its multi-ethnic groups. This explains the constant push to increase low-cost housing production, even at possible environmental and ethical costs. At the same time, the State Authority sometimes has to make decisions for the economic sustainability of private developers. Planner and developer interviews reported cases whereby the unpopular low-cost housing quota is either exempted or substituted with a more profitable type of mandated housing (i.e. the 'affordable' type). In the long run, such political-based decisions in low-cost housing regulation may have long term implications on State resources and perceptions of regulatory transparency.

Overall, the results in this thesis have highlighted the importance of incorporating the country's legal, government and political structures in any analysis of the regulatory environment controlling housing development. It reiterates the argument that the regulatory environment does not exist in vacuum but is constantly being shaped by its interactions with other institutions.

In terms of the legal institution's influence on the regulatory environment, this thesis found that the hierarchy of Malaysian law sources plays an important role in assigning legal control over low-cost housing. It was found that the provision of low-cost housing is ultimately under the purview of the State Authority due to powers given by the Malaysian Constitution, the highest source of Malaysian law. The Local Authority and Federal agency in charge of low-cost housing were found to concede to the State Authority on numerous situations.

This thesis found that the structure of government (i.e. Federal, State and Local) backed by legal institutions has a considerable bearing on the manner of how Federal housing policy is rolled out at the regional level. The structure of the Malaysian government as it is today was only established in 1957. Prior to that and based on Malaysian history, the State Authority had always been the highest authority over land matters within State boundaries. The Terengganu State Terengganu has jealously guarded its prerogative over land (and housing) issues and, as evident in the Chief Minister drama in 2008, is still wary of the Federal Government.

From a political perspective, many instances in the analysis chapters indicated influence from politicians or politics interfering with the planning system. Political inputs can be found in most aspects of low-cost housing provision, especially in the production of low-cost housing. It has been highlighted how the demand tally of low-cost housing can be influenced by Elected Representatives asking for low-cost housing in their constituencies. The State Authority and Local Council members can also override planners in deciding development applications. The pulling of rank by the State Authority was perhaps most obvious in expediting low-cost housing developments and allowing the development of low-cost housing on an otherwise illegal site (refer to Case Study 4).

The interactions of the legal, government and political institutions with low-cost housing regulations have assuaged the effects of the opacity and rigidity of low-cost housing regulations. Indeed, the regulatory environment itself contained room for flexibility enough to offset a seemingly rigid and dense set of regulations. Again, this underlines the importance of undertaking an examination of the institutionalised behaviour of housing actors when making conclusions about the regulatory environment controlling housing provision.

Finally, the results of the case studies indicated a pro-development attitude by the State Authority whilst simultaneously pursuing its low-cost housing objectives. Although State-level regulations may be described as uncertain, based on their unpublished nature, this informality has enabled an opportunity for interpretation on a case-by-case basis that offers potential net benefits to all organisations involved, as was evident in the case studies.

### **10.2.2 The behaviours of key actors influence the regulatory environment**

This thesis argues that isolated examinations of regulations and assumptions or abstractions of actors' behaviour would not provide a full picture of the effects of housing regulations. Consequently, this thesis has examined the manner in which the institutionalised behaviours of various actors involved in low-cost housing provision have influenced the regulatory process. Using the institutional Structure of Provision (SOP) approach (Ball, 1983, 1986, 1998, 2003b) to examine the regulatory environment controlling the provision of low-cost housing, it was found that the regulation of low-cost housing not only involves a number of different agencies but also multiple hierarchies of regulators. This strengthened the argument for examining organisational arrangements of regulators besides the regulations *per se* in any examination of land and housing policy (Adams, 2008).

An important contribution of the examination of key actors' behaviours is the revelations of the institutional 'habits' or 'pattern of behaviour' (Hodgson, 1998, p. 178). This thesis provides an insight into the institutional knowledge or practices of individuals or organisations directly involved in low-cost housing provision in mediating low-cost housing regulations.

An important finding in this thesis was how the authority of planners in implementing regulations could be restricted by legal, government and political institutions. Indeed, the State Authority has most of the power over the implementation of the low-cost housing quota and has displayed a pro-development attitude. Planners' control over low-cost housing was observed to mainly concern low-cost housing development control and development quality. At the ground level, LAPs have significant leeway under the regulatory system to implement regulations in a way that confers net benefits to society. There was substantial evidence throughout the analysis chapters that indicated that planners had limited power over low-cost housing supply but exercised tight control in ensuring and monitoring the overall quality of low-cost housing. For example, planners made certain that low-cost housing was not built on unsuitable sites in terms of location and physical attributes (e.g. flood-prone areas or reclaimed rubbish dump sites) and also improved the environment of the low-cost housing scheme by providing communal space, open space and good road networks.

The examination of regulations for the purpose of the low-cost housing database revealed legal jargon that seemed generic and difficult to understand. Moreover, there were a number of overlapping provisions in different regulations (e.g. the provisions for zoning under both the National Land Code and the Town and Country Planning Act). Planner and developer interviews also supported this finding. Planner interviews revealed a degree of latitude in interpreting the 'generic' or overlapping provisions. Whilst this provides room to manoeuvre for planners and helps resolve conflicts on case-by-case basis, it also resulted in non-standard results of regulations from one project to another. As a result, developers have a perception of manipulation or worse, corruption, in the regulatory environment controlling low-cost housing. 'Flexibility' is a theme that recurs throughout all levels of analysis, signalling both negative and positive implications for the low-cost housing development process. Discretionary flexibility exercised by planners had given rise to non-uniform requirements and procedures, described as 'stochastic development controls' by Mayo & Sheppard (2001). From a developer's perspective, the uncertainty in planners' decision can augment the inefficiencies and ambiguities in the development process.

On the other hand, a flexible regulatory regime had vastly benefitted low-cost housing provision too. Indeed developers identified examples where interpretations of housing regulations by planners had favoured development activities in the past. In the context of a developing region, the current low-cost housing regulatory environment was described by both planners and developers as flexible enough to ensure developers' survival in a small housing market. Discretionary flexibility among planners was evident in negotiations and bargaining with developers. It was observed how quality output was simultaneously achieved with project viability, when both regulators and developers agreed on an acceptable standard of amenities and facilities for a new scheme. Furthermore, developers' innovations, that were within the regulatory boundaries and where permitted by regulators, were shown to benefit both developers and authorities.

Ultimately, the flexible planning strategy, evident throughout the analysis chapters, has promoted development outcomes that carried net-benefits to the parties involved. It is argued that this flexibility indicates an *ad hoc* type strategy that can better accommodate housing market changes. Such a strategy means that planners can be more lenient on developers during unfavourable market conditions or if outdated Local Plans fail to reflect the contemporary housing market. Several instances in the case study analysis suggested that authorities were willing to overlook procedures when the end result favoured the provision of low-cost housing. Overall, the analyses were indicative of a sympathetic position towards development. This flexibility had contributed to the success of the low-cost housing quota requirement in Malaysia since its enforcement in 1982. Developers were able to work within the system to build the mandated low-cost housing alongside commercial housing.

The analyses also indicated that the regulatory environment was one of pro-development, but at the same time underscoring public interest. This environment is reflected in the consideration of developers' economic capability by the authorities, not only when imposing conditions but also when deciding on developers' regulatory non-compliance. Evidence showed that the achievement of low-cost housing supply through the quota system did not create an unreasonable burden for developers. Importantly, the State played a facilitative role in this balancing act. For instance, when developers faced difficulties in selling low-cost units to the State's pre-approved buyers, 'open sale' was allowed. In another case, the developer who contravened the sale procedure was not penalised, but was only officially reprimanded. These examples illustrate that in practice, regulations were not as rigid and restrictive as described in the literature.

This thesis somewhat confirms earlier research findings reporting on the ineffectiveness of technical and administrative staff at the Local Authority in Malaysia (Agus, 2002). Developers indicated that the institutionalised work practices of underskilled and undertrained staff had impeded improvements to planning processes and concepts. Being part of the development control process, the resistance of this group towards new ideas and procedures had caused uncertainties among developers and planning delays. Another significant finding is the weak communication between development authorities and developers, for instance in the notification of procedural changes to developers. Notwithstanding developers' perceptions of administrative weakness and poor communication, planners blamed the profit motive and 'avoidance tendencies' among developers for procedural non-compliance. According to planners, developers have the tendency to disobey rules in their quest for profits.

Overall, the examination of the 'habits' of regulators and developers in this thesis has revealed how the regulatory environment has been internalised in the operations of housing agents. It reflects how the regulatory environment is not homogeneous even within the country as there could be different interpretations of the same policy or regulations to accommodate regional housing market conditions (i.e. some markets necessitate less stringent interpretation and implementation than others). Thus, a small housing market, like Terengganu, gave the impression of a more development-centric regulatory environment whereby regulatory decisions have the tendency to favour low-cost housing development.

There was no evidence that the low-cost housing regulations were totally opposed by developers. Indeed, developers indicated an awareness of the socio-economic significance of this housing type. In the past, poor housing conditions among low-income groups in Malaysia have given rise to various socio-economic ills. Small earlier low-cost units built in the 1980s, which accommodated one and two-bedroom units, were blamed for various attitude problems among the children of low-income households, such as '*lepak*' (loitering) and '*rempit*' (illegal racing). Thus, the low-cost building standards were raised to ensure the comfort of low-cost housing occupants. The current standards were perceived as adequate to meet the average needs of low-income groups, and it was argued that to lower them would revert back to previously problematic designs.

Significantly, developers indicated that they would not build low-cost housing unless mandated. Indeed, the low-cost housing quota requirement is accepted as part of the development cost in order to access the overall profit from a development. The acceptance of the low-cost housing quota can be said to form part of a developer's operational strategy in the study area. At the same time, planners and other authorities indicated their wariness of developers' profit motives. As a result, they indicated monitoring low-cost housing progress in private developments not only to ensure that the low-cost houses were built, but also were built to standard.

The presence of flexibility in the regulatory system had enabled the government to achieve its low-cost housing objectives while ensuring developers' economic sustainability. Generally, developers perceive the mandatory low-cost housing quota requirement as a 'necessary evil'. In turn, adequate low-income housing has spill-over benefits to the national economy, which consequently nourishes the Malaysian housing industry.

### **10.2.3 Institutional interactions in regulatory environment give rise to housing and non-housing outcomes**

The provision of low-cost housing occurs within a regulatory environment that is influenced by institutional interactions. The analysis of housing developments indicated a far from straightforward implementation of housing regulations in practice. Institutional factors such as the interplay of the legal, government and political structures, together with regulatory flexibility, regulator discretion, negotiation and tolerant enforcement were evident. These institutional factors had a significant role in determining actual housing outcomes.

This thesis found that there was a multiplicity of housing outcomes resulting from low-cost housing regulations other than higher housing costs and lower housing quantity. This diverges from earlier low-cost housing studies in Malaysia (see Bertaud & Malpezzi, 2001; Hannah et al., 1989; Malpezzi & Mayo, 1997). The findings of this thesis revealed the problems of price and quantity-centric research into the effects of low-cost housing regulations that did not consider the wider implications of having those regulations in place. By adopting a research strategy that was underpinned by an institutional approach, the researcher was able to observe the effects of housing regulations more comprehensively. Besides ensuring the *quantity* of low-cost housing, regulations were found to promote *equity*, *social cohesion* and *well-being* of low-income groups.

The most obvious outcome of the low-cost housing quota requirement was the increase in low-cost housing supply. The low-cost housing quota system enabled the state to arrest the potential externalities of market non-provision and convert the planning betterment into low-cost housing. Housing affordability among low-income groups was an important issue in Malaysia in general and in Terengganu in particular. As a rapidly urbanising region, there was a substantial demand for low-cost housing in Terengganu. With limited public resources, the low-cost housing quota requirement supplemented direct provision of public low-cost housing. Therefore, the main effect of the low-cost housing quota system was meeting the housing needs of the Terengganu low-income population.

The low-cost housing policy in Terengganu was clearly directed toward low-income home ownership. The economic growth in the State brought about by the rise of the petroleum industry and long-term Federal economic policy has worsened housing affordability among the urban poor, which caused inequities in terms of housing for some segments of the low-income population. Low-cost housing for owner occupation is seen as a wealth-creation mechanism for low-income groups (Agus, 2002). The low ceiling price of low-cost unit provides an opportunity for low-income groups to enter into home ownership which is otherwise unaffordable under market condition. Therefore, low-cost housing regulations have improved equity among low-income groups by increasing low-cost housing supply in the State.

An important aspect of the Malaysian low-cost housing policy is its role in promoting social stability among the multi-ethnic population. This thesis found that the current regulatory environment has facilitated the goal of social integration within completed developments. First, regulations compelled low-cost housing to be built alongside commercial housing unlike pure market developments. Second, regulations ensured that low-cost housing is equipped with common facilities and amenities, such as children's playgrounds, prayer spaces and community halls, which foster interactions among groups from different income strata and ethnic backgrounds. Third, in a wider context low-cost housing can foster social stability because it improves equity for economically disadvantaged groups, the majority of which are from the main ethnic group (Agus, 2002). In sum, low-cost housing regulations have contributed towards the government's long-term aspiration of social cohesion.

Analyses revealed the ‘local capture’ by the State Authority in low-cost housing provision. ‘Local capture’ is observed to occur when policy is adjusted to reflect the actual socio-economic context of the demography at the local level. It is argued that the regional government, and not the Federal policymaker, know better the needs of the local people. This capture was evident in the adoption of State-level policy and standards over Federal standards and guidelines. Consequently, the welfare of local low-income groups has been enhanced by tailoring the low-cost houses to meet the local housing needs. For instance, planner interviews indicated a car porch requirement in areas where the car was a basic mode of transportation in the area. This was not specified in the national-level standards. The State Authority’s primacy in low-cost housing policy was reflected in the implementation of projects which would not be possible under national regulations. For instance, the State Authority pushed for a new low-cost housing development to meet the local housing demand despite the site’s planning restrictions (refer to Case Study 4). The low-cost housing quota and standards have ensured access for local low-income groups to affordable and comfortable housing.

Overall, low-cost housing regulations were shown to have far-reaching implications on the broader socio-economic fabric of society. These outcomes are largely determined by the specific historical, cultural, demographic and political background of the country. As a result, the housing and non-housing outcomes of housing regulations may not be uniform between and within countries. For instance, the socio-economic conditions can be vastly different between different States in Malaysia. Given that the low-cost housing programme has a role to play in promoting social stability in terms of unifying the different income levels and ethnic groups in the country, it could be argued that the achievements of this objective vary within Malaysia. Specific to Terengganu, low-cost housing regulations help to further the social integration between different income groups, whereas more ethnically diverse States such as Selangor and Pulau Pinang look for ethnic-based social integration.

In sum, the interactions of different institutions (i.e. ‘organisations’ and ‘rules of the game’) with the regulatory environment that controls low-cost housing have given rise to outcomes that extend beyond the price and quantity of housing. The institutional SOP approach adopted in this thesis has revealed the equity, social and welfare implications of the mediation of low-cost housing regulations. Indeed, this thesis shows that low-cost housing regulations carry benefits which have not been explored by previous housing regulation studies.



### **10.3 Limitations of the study**

The thesis sought to provide an insight into the effects of the group of regulations controlling low-cost housing provision in the study area. As such, the research strategy of this thesis did not seek to pinpoint the effects of individual low-cost housing regulations. For instance, it was not designed to quantify the effects of State regulations in relation to Federal regulations. This thesis did not seek to examine if some regulations were more restrictive or lenient than others. The main objective of this thesis was to understand how regulations affect the processes of low-cost housing provision. In this matter, the objective was successfully achieved.

The research design also engendered in-depth explanations of the effects of low-cost housing regulations in a specific region in Malaysia. Terengganu is a developing region in Malaysia, with a growing housing market that is defined by specific institutional arrangements. Similarly, the housing markets in other regions in Malaysia are delimited by particular sets of institutions which make one market unique from the other. Thus, the results of this thesis will not enable a generalisation of the effects of low-cost housing regulations for the whole country. Notwithstanding this, the thesis has explained in detail the manner of low-cost housing control in a previously understudied region.

### **10.4 Areas for future research**

A similar study in a more developed State in Malaysia such as Selangor or Pulau Pinang would enable comparisons between two economically different regions. A ‘two-speed’ approach (i.e. a comparative study of two regional housing markets with high and low demand States) (Bramley & Leishman, 2005b) has been adopted to compare the effects of planning on the housing market and the provision of mandated affordable housing in the UK (Monk & Whitehead, 1999). This ‘two-speed’ approach of comparing ‘high demand’ and ‘low demand’ sub-markets (Bramley & Leishman, 2005b) would explain how pre-existing institutional forms can influence the implementation of low-cost housing regulations.

This thesis focused on the effects of regulations on the production aspect of low-cost housing provision. The provision sphere consists of more than production [i.e. consumption and exchange (Ball, 1986) together with management (Burke & Hulse, 2010)]. The examination of the effects of regulations on other features of housing provision could provide a more comprehensive view on the effects of state intervention in low-cost housing. The examination of the effects of low-cost housing regulations on the management of low-cost housing would be in line with the growing policy emphasis on the post-construction stage of low-cost housing, as contained in the latest Malaysia Plan (Malaysia, 2010).

## **10.5 Conclusions and recommendations**

The property development process is controlled by the regulatory environment. In housing provision, government intervention is necessary for a number of reasons. First, housing with low effective demand is unlikely to be voluntarily produced by developers. Second, housing standards are important to ensure the comfort of occupants. Third, enforcement and monitoring mechanisms in the regulatory system are needed to control the activity of developers. Regulations are therefore necessary to compel developers to build housing which is affordable and comfortable to the low-income segment of the population, whilst ensuring their compliance to development standards and procedures.

Despite previous reports of monolithic and rigid low-cost housing regulations in Malaysia, this thesis shows that the regulatory environment is the product of interactions of different organisations operating in the market, together with institutional factors, such as legal, government and political structures. The institutional perspective provided an opportunity to comprehensively examine how low-cost housing regulations have been influenced by pre-existing institutions, how the agents internalised the regulatory environment in their operations and the actual housing outcomes of the mediation of low-cost housing regulations by institutional factors.

A number of conclusions were made in each of the four analysis chapters. This chapter draws upon those findings to make the following overall conclusions for this thesis.

First, regulations were shown to ensure the production of low-cost housing. Generally, despite the perceptions of burdensome low-cost housing regulations among developers, developer interviews did not indicate support for deregulation. Moreover, evidence indicated that the costs of regulatory compliance were recouped from the overall returns. Furthermore, evidence from the planner interviews and the case studies showed that the state practiced a facilitative role that has worked in developers' favour. Moreover, private developers revealed that they will not voluntarily build low-cost housing without the mandatory quota. State intervention is therefore necessary to ensure that the housing needs of low-income groups are fulfilled. Here, the equity, social and welfare argument for low-cost housing regulations becomes obvious, as reflected in the case study analysis. Low-cost housing regulations provide low-income groups with affordable housing that is of comparable standards with commercial housing. They provide access to low-income home ownership which is unlikely to be available under pure market conditions. In the context of Malaysia, low-cost housing regulations have a wider role in promoting social cohesion among the people.

Second, the macro-level analysis of regulations revealed that nationally promulgated housing policy may produce different housing outcomes at the regional level not only because of regional variations in the housing market but also due to the country's legal and government system. The Malaysian constitution and its three-tier government system have contributed to a non-uniform housing regulatory environment throughout the country. The primary source of Malaysian law contradicts the Federal planning system by empowering the State Authority to regulate the Local Authority and land matters. In effect, the State Authority controls the implementation of national land policy within individual States in Malaysia. This was confirmed in all four analysis chapters. Therefore, the Federal Government is restricted by the current constitutional arrangement in working to achieve the objectives set out in the nationally formulated development and economic plans, including low-cost housing targets. Although a coordination mechanism in the implementation of public housing strategy at State level is available, the current low-cost housing regulatory structure fosters a regulatory environment with multiple possible sources of tensions. Due to the interaction between the legal and the government systems in low-cost housing regulations, it may be said that the control over low-cost housing largely rests with politicians rather than planners.

Third, analysis of housing development case studies indicated that the effects of housing regulations go beyond price and quantity. The thesis found that low-cost housing regulations carry equity, social and welfare benefits for low-income groups by ensuring adequate, affordable and comfortable housing for them. The new low-cost housing supply resulting from the quota system has enhanced low-income groups' opportunity to own their own homes. At the most basic, low-income home ownership is argued to boost the psychological security of the urban poor (Maslow, 1943), but other wider benefits of low-income home ownership to society have also been reported (Shlay, 2006). The low-cost housing quota also allows a good social mix between different income and ethnic groups within a housing scheme. Low-cost housing regulations influence the quality of the building by ensuring minimum building standards. Furthermore, planners have used regulations to ensure a good living environment for low-income house buyers by compelling developers to provide amenities and facilities that would not have been provided under the market.

Fourth, the implementation of development control may be hindered by insufficient manpower, in terms of both inadequate number and skills of personnel. This has long been a problem in Malaysia, previously observed in ad-hoc site inspection by the authorities on housing development sites (Sufian & Ab. Rahman, 2008) and delays in development approval at the Local Authority (Agus, 2002). Efforts to streamline the procedures in development approval may be impeded by these issues with personnel. It highlights the need for continuous professional development among technical and support employees to ensure that they are abreast with the current laws and procedures.

As Local planners become more sensitive to market conditions, more realistic views are adopted with regard to the provision of non-market housing. The economy of Terengganu has moved alongside the national Malaysian economy, to a certain extent reflecting the success of the government's socio-economic policies. The household income in Terengganu has increased in recent years with the implementation of various economic plans. Eventually more people will escape the low-income bracket and low-cost housing will lose its relevance, to be replaced with another housing type such as 'affordable housing' for the low-medium income group. However, that time is still far in the future and low-cost housing still has a role to play in Terengganu.

Finally, it is perhaps appropriate to conclude this thesis with this developer's comment. When asked if only small developers were likely to avoid building low-cost housing due to capital restrictions, Developer 1 answered:

*“Developers in Terengganu will try to avoid building low cost units, both big and small developers. I’m talking from profit’s perspective, not social obligation. Nobody wants to build low cost because it doesn’t make profit. As long as they are profit-oriented and not socially obligated, nobody wants to build low cost units.”(Developer 1)*

Reflecting on economic realities, this thesis concludes that private developers will not build low-cost housing unless mandated. Where the low-cost housing quota requirement is imposed, planners play an important role in ensuring that the low-cost houses are built according to minimum standards, and more importantly are actually built. This thesis has shown that the social interactions of key actors and also the influence of legal, government and political institutions have a considerable effect on the outcomes of the regulatory environment controlling low-cost housing. Therefore, despite an appearance of a stringent regulatory environment and despite protests from developers, private developers have been able to engage in low-cost housing provision. Low-cost housing regulations, especially the low-cost housing quota requirement, are still necessary to ensure adequate and affordable housing for low-income groups in Terengganu.

## **Appendix 1: University of Auckland Human Ethics Committee documents**



### *Participant Information Sheet*

#### **Project Title: The impact of housing regulations on the structure of low cost housing provision: A case study of Terengganu, Malaysia.**

To: Participants (Planners)  
The Researcher: Hasniyati binti Hamzah

#### **Purpose of the Research**

This research is undertaken by Hasniyati binti Hamzah as part of her PhD research being conducted within the Department of Property at the University of Auckland Business School. The aim of this investigation is to analyze how housing regulations are affecting the operations of organisations involved in the provision of low cost housing in Terengganu, Malaysia.

In the past, research on the impact of housing regulations on the Malaysian low cost housing indicated that regulations increased costs. However, housing regulations may also ensure quality housing which is one of the Malaysian government's objectives in the Ninth Malaysia Plan. Past research on the impact of regulations on housing adopted the neo-classical economic approach whereby focus was on prices and volume of housing. However, this approach overlooked the roles and interactions of organisations involved in the housing provision. As a result only a partial explanation was offered with regard to the influence of regulation on housing. It is therefore of interest to investigate the perceptions and actual practice of organisations involved in the provision of low cost housing with regard to the current regulatory regime. As such, I wish to invite your participation in this research.

#### **Participation**

You have been invited to be involved in the study because of your role and expertise in the area of housing. The Director of Planning has given an assurance that your decision to participate or not, will not affect your employment.

If information that you provide is reported or published, this will be done in a way that does not identify you as its source, either by name or innuendo. All results will appear in a generalized form. Summary of the final report will be made available to participants in the study.

The recording of any interviews will be made only with your agreement. However, even if you agree to being taped, you may choose to have the recorder turned off at any time. If the interview is taped, it will be transcribed by the researcher. Only participants themselves will be given the opportunity to review and edit their tapes and transcripts.

Storage for the purpose of the original research will be accessible by the researcher only. The recorded data, including tapes and computer files, will be owned by the researcher and will be destroyed by deleting files/tapes after a storage period of six years.

The security of the data will be ensured by identification of participants through the use of coding, separate storage of taped information from transcripts or other identifying material, and keeping the whereabouts of information and coding secret.

You may choose to withdraw at any time during this study. You are given until two months from the interview date to completely withdraw your participation and three months from the interview date to withdraw any part of your interview without giving a reason. The final date to withdraw any part of your interview (upon interviewer's discretion) is *30 June 2010*.

#### **Format**

This research will involve a semi-structured interview of each participant. The recording (on audio-tape) of interviews is desired, but will be conducted only if agreed by the participant.

### **Duration**

Interviews will be arranged at a time convenient to you and will last approximately sixty minutes. Some follow up contact may be required; however this will be a significantly shorter duration.

### **Benefits**

A summary of the final report of this research will be made available to participants of the study upon request, which will provide a useful overview of housing regulations' influence on the actual practice of organisations involved in low cost housing. This research may help to reveal the 'on the ground' issues related to housing regulations that may shape the institutional structure of the low cost housing provision in an understudied region in Malaysia. This may assist the State in providing assistance in the form of institutional capacity building as opposed to deregulation which is not only short term measure but also may have unintended adverse results. The institutional type of assistance may be more beneficial to the housing industry in the long run.

### **Queries**

You are encouraged to ask questions about the research.

Researcher: Hasniyati binti Hamzah  
Malaysian Contact: Faculty of the Built Environment,  
University of Malaya, 50603 Kuala Lumpur.  
Phone: +006 09 8442941

New Zealand Contact: Department of Property,  
The University of Auckland Business School,  
1010 Auckland City, Auckland, New Zealand.  
Phone: +64 21 02440021  
Email: [h.hamzah@auckland.ac.nz](mailto:h.hamzah@auckland.ac.nz)

***If you have any concerns of an ethical nature you can contact the Chair of the University of Auckland Human Participants Ethics Committee at 373-7599 ext 87830.***

The name and address of the individual who may be contacted should any concerns or complaints arise which you do not wish to address with the researcher are provided below:

Head of Department  
Associate Professor Deborah Levy  
Department of Property  
The University of Auckland Business School  
Private Bag 92019  
Auckland  
New Zealand

Phone: +64 9 373 7599 ext 88631  
Email: [d.levy@auckland.ac.nz](mailto:d.levy@auckland.ac.nz)

Your cooperation and participation in this research would be greatly appreciated. Please do not hesitate to contact me if you have any questions.

Yours sincerely,

Hasniyati binti Hamzah

APPROVED BY THE UNIVERSITY OF AUCKLAND HUMAN PARTICIPANTS ETHIC COMMITTEE ON 21/08/2009 FOR 3 YEARS FROM 19/08/2009 TO 19/08/2012. REFERENCE NUMBER 2009/339.



*Consent Form*

**The impact of housing regulations on the structure of low cost housing provision: A case study of Terengganu, Malaysia.**

From: Participants (Planners)

The Researcher: Hasniyati binti Hamzah

This Consent Form will be stored for six years before it is destroyed.

I have read and understood the Participation Information Sheet for the research project titled

**“The impact of housing regulations on the structure of low cost housing provision: A case study of Terengganu, Malaysia.”**

- I agree to take part in this research.
- I understand that the Director of Planning has given assurance that my decision to participate/not participate in this research will not, in any way, affect my employment.
- I understand that the recorded data, including tapes, disks and computer files, will be owned by the researcher, storage will be accessible by the researcher only, and data will be destroyed after a storage period of six years.
- I agree / do not agree that I will be audio taped and understand that, even if I agree, I may choose to have the recorder turn off at any time.
- I understand that the interview will be transcribed by the researcher only.
- I understand that I will be offered the opportunity to review/edit the tapes and transcript of my interview.
- I understand that I am free to completely withdraw within two months from the interview date and partially withdraw three months from the interview date without giving any reason. I understand that I may only partly withdraw upon the interviewer’s discretion before *30 June 2010*. I understand that I may not withdraw my participation at all after *30 June 2010*.
- I understand that response will be reported in a manner that maintains my anonymity.

Signature:

Date:

APPROVED BY THE UNIVERSITY OF AUCKLAND HUMAN PARTICIPANTS ETHIC COMMITTEE ON 21/08/2009 FOR 3 YEARS FROM 19/08/2009 TO 19/08/1012. REFERENCE NUMBER 2009/339.



### *Participant Information Sheet*

**Project Title: The impact of housing regulations on the structure of low cost housing provision: A case study of Terengganu, Malaysia.**

To: Participants (Housing developer)  
The Researcher: Hasniyati binti Hamzah

#### **Purpose of the Research**

This research is undertaken by Hasniyati binti Hamzah as part of her PhD research being conducted within the Department of Property at the University of Auckland Business School. The aim of this investigation is to analyze how housing regulations are affecting the operations of organisations involved in the provision of low cost housing in Terengganu, Malaysia.

In the past, research on the impact of housing regulations on the Malaysian low cost housing indicated that regulations increased costs. However, housing regulations may also ensure quality housing which is one of the Malaysian government's objectives in the Ninth Malaysia Plan. Past research on the impact of regulations on housing adopted the neo-classical economic approach whereby focus was on prices and volume of housing. However, this approach overlooked the roles and interactions of organisations involved in the housing provision. As a result only a partial explanation was offered with regard to the influence of regulation on housing. It is therefore of interest to investigate the perceptions and actual practice of organisations involved in the provision of low cost housing with regard to the current regulatory regime. As such, I wish to invite your participation in this research.

#### **Participation**

You have been invited to be involved in the study because of your role and expertise in the area of housing.

If information that you provide is reported or published, this will be done in a way that does not identify you as its source, either by name or innuendo. All results will appear in a generalized form. Summary of the final report will be made available to participants in the study.

The recording of any interviews will be made only with your agreement. However, even if you agree to being taped, you may choose to have the recorder turned off at any time. If the interview is taped, it will be transcribed by the researcher. Only participants themselves will be given the opportunity to review and edit their tapes and transcripts.

Storage for the purpose of the original research will be accessible by the researcher only. The recorded data, including tapes and computer files, will be owned by the researcher and will be destroyed by deleting files/tapes after a storage period of six years.

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### **Benefits**

A summary of the final report of this research will be made available to participants of the study upon request, which will provide a useful overview of housing regulations' influence on the actual practice of organisations involved in low cost housing. This research may help to reveal the 'on the ground' issues related to housing regulations that may shape the institutional structure of the low cost housing provision in an understudied region in Malaysia. This may assist the State in providing assistance in the form of institutional capacity building as opposed to deregulation which is not only short term measure but also may have unintended adverse results. The institutional type of assistance may be more beneficial to the housing industry in the long run.

### **Queries**

You are encouraged to ask questions about the research.

Researcher: Hasniyati binti Hamzah  
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University of Malaya, 50603 Kuala Lumpur.  
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*If you have any concerns of an ethical nature you can contact the Chair of the University of Auckland Human Participants Ethics Committee at 373-7599 ext 87830.*

The name and address of the individual who may be contacted should any concerns or complaints arise which you do not wish to address with the researcher are provided below:

Head of Department  
Associate Professor Deborah Levy  
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The University of Auckland Business School  
Private Bag 92019  
Auckland, New Zealand  
Phone: +64 9 373 7599 ext 88631  
Email: [d.levy@auckland.ac.nz](mailto:d.levy@auckland.ac.nz)

Your cooperation and participation in this research would be greatly appreciated. Please do not hesitate to contact me if you have any questions.

Yours sincerely,

Hasniyati binti Hamzah

APPROVED BY THE UNIVERSITY OF AUCKLAND HUMAN PARTICIPANTS ETHIC COMMITTEE ON 21/08/2009 FOR 3 YEARS FROM 19/08/2009 TO 19/08/2012. REFERENCE NUMBER 2009/339.

*Consent Form*

**The impact of housing regulations on the structure of low cost housing provision: A case study of Terengganu, Malaysia.**

From: Participants (Housing Developer)

The Researcher: Hasniyati binti Hamzah

This Consent Form will be stored for six years before it is destroyed.

I have read and understood the Participation Information Sheet for the research project titled

**“The impact of housing regulations on the structure of low cost housing provision: A case study of Terengganu, Malaysia.”**

- I agree to take part in this research.
- I understand that the recorded data, including tapes, disks and computer files, will be owned by the researcher, storage will be accessible by the researcher only, and data will be destroyed after a storage period of six years.
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Signature:

Date:

APPROVED BY THE UNIVERSITY OF AUCKLAND HUMAN PARTICIPANTS ETHIC COMMITTEE ON 21/08/2009 FOR 3 YEARS FROM 19/08/2009 TO 19/08/2012. REFERENCE NUMBER 2009/339.

**Appendix 2: List of HDSSO housing files reviewed in compiling State-level  
low-cost housing regulations**

No	File Reference	Title	Date of review
1	1121/1/2	Circulars	18/8/2010
2	1121/1/41	The State of Terengganu Housing Infoline	18/8/2010
3	1121/2/1	Local Government and Housing Committee Meeting	23/8/2010
4	1121/2/3	SEDC Commercial Housing Projects	22/8/2010
5	1121/2/6	Mokolite Housing System	19/8/2010
6	1121/2/7	Low-cost Housing Policy Plan	19/8/2010
7	1121/2/8	State Development Policy System	19/8/2010
8	1121/2/9	Public Housing Steering Committee Meeting	19/8/2010
9	1121/2/10	Resettlement of Riverside Occupants Main Committee Meeting	19/8/2010
10	1121/2/11	Housing Director Meeting	18/8/2010
11	1121/2/12	The State of Terengganu Housing Consortium	17/8/2010
12	1121/2/13	Residential Flat Programme for the Poorest <i>Rakyat</i>	18/8/2010
13	1121/2/14	SEDC Housing Management	22/8/2010
14	1121/2/15	Open Registration System (Low-cost House Buyers Selection)	22/8/2010
15	1121/2/16	Notice on Loan Disbursement for the State of Terengganu Low-cost Housing	22/8/2010
16	1121/2/17	The Seventh Malaysia Plan: Ministry of Housing and Local Government	23/8/2010
17	1121/2/18	People Housing Programme in Cendering, Kuala Terengganu	23/8/2010
18	1121/2/19	People Housing Programme on Lots 3190 and PT 4613, Fikri, Kemaman	23/8/2010
19	1121/2/20	People Housing Programme in Saujana, Setiu	23/8/2010
20	1121/2/21	People Housing Programme in Bijangga, Dungun	23/8/2010
21	1121/2/22	<i>Bumiputera</i> quota	22/8/2010
22	1121/2/25	Audit on Public Low Cost Housing/Site and Basic Facilities Scheme	1/9/2010
23	1121/2/26	The State of Terengganu Housing Fund	24/8/2010
24	1121/2/27	Chief Directors' Meeting (Housing)	22/8/2010
25	1121/2/32	Low-Cost Housing Design	19/8/2010
26	1121/2/33	Infrastructure Grant for Public Low-cost Housing/Site and Basic Facilities Scheme	2/9/2010
27	1121/2/38	Establishment of the State of Terengganu Housing Company Pte. Ltd.	24/8/2010
28	1121/2/40	Public Low-cost Housing Programme Technical Committee Meeting	19/8/2010
29	1121/2/44	Weekly Report on Low-cost Housing Programme	2/9/2010
30	1121/2/45	Land Use Conversion	18/8/2010
31	1121/2/49	People Housing Programme in Pulau Duyung, Gong Badak	23/8/2010
32	1121/2/55	Housing Loan Scheme for the Low-income Group	2/9/2010
33	1121/2/59	State Authority Housing Loan Scheme for Low-cost House Owners	1/9/2010
34	1121/2/61	Low Cost Housing Finance Via Financial Institutions	1/9/2010
35	1121/2/65	The State of Terengganu Housing Project Privatisation Policy	23/8/2010
36	1121/2/73	Applications for Land Transfer and Mortgage for Private Projects	1/9/2010
37	1121/2/78	Implementation of Short Term Policy for the State Authority of Terengganu	1/9/2010
38	1121/2/83	Ninth Malaysia Plan	24/8/2010
39	1121/2/84	The State of Terengganu Development Plan 2004-2008	24/8/2010
40	1121/2/87	National Housing Council Meeting	19/8/2010
41	1121/2/88	Proposed Development Site for the National Housing Company	19/8/2010
42	1121/2/91	Affordable Housing Projects under the Privatisation Scheme	23/8/2010

(continued)

No	File Reference	Title	Date of review
43	1121/2/92	District Administration Meeting	23/8/2010
44	1121/2/94	Public Low-cost Housing in the State of Terengganu	24/8/2010
45	1121/2/96	Land Condition Change (Development)	24/8/2010
46	1121/2/97	Low-cost Housing	1/9/2010
47	1121/2/106	Planning Permission Application	1/9/2010
48	1121/3/1	Housing Sites in the District of Kuala Terengganu	1/9/2010
49	1121/3/1/11	Kuala Terengganu Layout	1/9/2010
50	1121/3/1/13	Strata Titles for Multi-storey Dwellings	1/9/2010
51	1121/3/1/20	People Housing Programme on the Former Site of Radio Malaysia Terengganu Transmitter at Cabang Tiga, Kuala Terengganu	18/8/2010
52	1121/3/1/22	Proposed Design, Construction and Completion of Affordable Flat Project in Kampung Batin, Seberang Takir, Kuala Terengganu by ANJ Ventures Pte. Ltd.	18/8/2010
53	1121/ 5/ 8 /2	Housing Projects by the Public Sector	2/9/2010
54	1121/ 5/ 8 /3	Company Profiles	2/9/2010
55	1121/ 5/ 8/ 6	Taman Semarak Low-cost Housing Project in Kuala Nerus by Citiraya Development.	18/8/2010

**Appendix 3: Database of regulations controlling low-cost housing provision in  
Terengganu as at 1 June 2011**



The primary source of legal authority in Malaysia is recorded materials from the law-making authorities including statutes (Federal Acts and State Enactments) and subsidiary legislations (Orders, Regulations, Rules, By-laws, Proclamations and Notifications). There is no specific Federal legislation governing low-cost housing in Malaysia. Instead, a number of Federal and State legislations and policies control the provision of low-cost housing. In general, low-cost housing provision is controlled by Federal and State policies that change from time to time to reflect current economic and socio-political conditions. Local Authority planners (LAPs) then interpret and implement these regulations at the Local level. To date there has been no compilation of regulations that control the provision of low-cost housing in the State of Terengganu. This is a potential cause for uncertainties not only to housing developers but also to the implementers of the various legislations and policies in many government agencies. This database aims at providing a comprehensive content of the legal framework controlling low-cost housing provision in the State of Terengganu.

### Federal regulations

Title of Act	The Constitution of Malaysia
Brief description	<p>The Constitution of Malaysia forms the definitive source of legal power over socio-economic items between the Federal Government and the State Authority.</p> <p>This statute contains all the provisions relevant to the establishment of Malaysia. Upon its independence in 1957, Malaysia (formerly known as the Federation of Malaya) was left with a multi-ethnic population resulting from the British colonial economic policy. Divided into fifteen Parts, the Constitution contains important provisions regarding the citizenship, administrative and legal system of the new country. Besides the fifteen parts, the Constitution also contains thirteen Schedules that detail the procedures relevant to the Parts.</p> <p>In the main body of the Constitution, Part VI is the section most pertinent to land development as it sets out the relations between Federal and State in the distribution of legislative and executive powers; financial burden and land matters.</p> <p>The Ninth Schedule of the Constitution specifies the legislative lists i.e. division of law-making areas between the Federal Government and the State Authority. This Schedule stipulates the areas to be regulated individually or jointly by the Federal and State.</p>
Administration	Various government agencies
Main stipulations regarding low-cost housing provision	<p>Item 2 of List II—State List of the Ninth Schedule confers the State Authority the power to regulate land, including in land tenure, land title and registration, Malay reservations and land dealings. Additionally Item 4 of the same list empowers the State Authority to control the Local Authority.</p> <p>Item 5 of List III-Concurrent List of the Ninth Schedule states that town and country planning is a joint item between State and Federal whilst Item 9C of the same list refers to housing and provisions for housing accommodation.</p>
How the Act affects low-cost housing provision	<p>The Constitution provides a clear division of authority over land, the Local Authority, planning and housing. The State Authority holds the ultimate power over land and land development as the Local Authority, the organisation allowing land development at the Local level, is also placed under the State Authority.</p> <p>Whilst housing and town planning are joint Federal-State items, in practice these items are directly related to land development. In the State of Terengganu, the State housing department (HDSSO) determines the implementation of the housing policy. Federal planners have advisory rather than mandatory powers over low-cost housing. Additionally, the Federal planners posted at the Local Authority are answerable to the Local Authority President and Councillors, who are elected by the State Authority. Therefore, in practice it is the State Authority</p>

	that holds the ultimate legal power over low-cost housing provision within the State.
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<b>Title of Act</b>	<b>National Land Code 1965 (Act 56) &amp; Regulations</b>
Brief description	<p>The National Land Code (NLC) is an act that consolidates and standardises the law regarding land within all States in Peninsular Malaysia (Sabah and Sarawak has separate land legislations). Based on the Torrens System, the main essence of the NLC lies in Section 340 and 341 whereby upon registration, land title and interest are indefeasible. The land code standardises land and land tenure matters, and also land title registration and dealings. The rights and obligations of stakeholders including the State Authority, district Land Administrator, district land Registrar, registered owner and tenant are outlined in NLC. The code also specifies the rights to and procedures of land development (e.g. change of land use, subdivision, partitioning and amalgamation). Additionally, provisions regarding land revenue and remedies for breaches are included.</p> <p>There is no specific provision regarding low-cost housing in the National Land Code. However, State Authorities may use Part Seven, NLC to impose conditions and restrictions in interest on land titles to curtail speculative activities in low-cost housing (e.g. specifying that only low-cost housing can be built on the land and requiring for all land dealings to be endorsed by the State Authority).</p> <p>The code does not specify the definition of Malay and non-Malay lands; this is covered in individual State enactments.</p>
Administration	The State Authority, the District Land Office, the Office of the Director General of Lands and Mines and the Town and Country Planning Department.
Main stipulations regarding low-cost housing provision	<p>Part Seven (Sections 103 to 129) specifies conditions and restrictions in interest applicable on alienated lands. Chapter 3 of Part Seven provides the implied conditions of land usage which do not appear on the document title. Chapter 4 of Part Seven provides for express conditions and restrictions in interest that appear on the document title. Remedies of any breach of condition and restrictions in interest are stated at the end of Part Seven. Section 124(1)(a) allows the proprietor to apply to the State Authority for change of land use whilst Section 124(1)(c) allows him to apply to the State Authority to amend the express condition and/or restriction in interest provided in the document of land title with prior consent from interested parties (if relevant) and all due taxes on the land have been paid. S.124A provides for simultaneous subdivision and change of land use and/or express condition and/or restriction in interest on the proposed plots.</p> <p>Part Nine (Sections 135 to 150) deals with land development. This includes Chapter 1 (Subdivision of land), Chapter 2 (Partition of lands) and Chapter 3 (Amalgamation of lands). Sections 135 to 139 are provisions for land subdivision. Section 135(1) states that any land held under final title, whether Registry title or Land Office title may be subdivided into two or more lots, each to be held under new titles. Each individual title will be held by the same proprietors or co-proprietors of as before the subdivision process. Section 146 provides for land amalgamation application. Section 146(2) states that the authority for the approval of land amalgamation lies with the Land Administrator if all lots proposed for amalgamation are held under Land Office titles and the total land area to be amalgamated is below 4 hectares. In other cases, the authority to approve lies with the State Director of Lands and Mines. Part Ten and Part Eleven (Sections 158 to 194) are procedural in nature dealing with administration of the two types of land titles, Qualified Titles and Final Titles. Parts Thirteen to</p>

	<p>Seventeen describes dealings that are recognised and registrable under the NLC. Part 13 (Sections 205 to 213) sets out the general requirements and procedures of registration of dealings. Part 14 (Sections 214 to 220) outlines the form and effects of transfers of land, lease (both registrable and exempt) and charge. Part 15 (Sections 221 to 240) discusses the rights and forms of leases and tenancies together with forfeiture and determination of leases and tenancies.</p> <p>Part 16 (Sections 241 to 281) on charges and liens describes the procedures, effects, remedies of breach and their procedures and termination (discharge). Part 17 (Sections 282 to 291). Part 18 discusses the registration of dealings in terms of instruments, procedure and cancellation whilst Part 19 outlines the restraints on dealing, that is, caveats and prohibitory orders. Part 20 (Sections 340 to 341) concerns the indefeasibility of title and interests conferred upon registration except in certain circumstances. Section 343 provides for co-proprietorship on land which allows the indivisible interest of two or more individuals or bodies on alienated land. Section 343(1)(b) to be read together with Sections 140 to 145 allows partitioning of the owner's interest on the land.</p>
How the Act affects low-cost housing provision	<p>As the main statute on land administration, the National Land Code has a far reaching effect on the provision of low-cost housing ranging from the initial development stage until the occupancy period. The Torrens System being the essence of the National Land Code is a guarantee of title security among the low-income house buyers. By mandating registration for any land dealings, this gives the authorities a significant amount of control over the ownership of land.</p> <p>The development of new low-cost housing schemes may involve change of land use from agricultural to building, amalgamation of small parcels of land and subdivision of a master title into individual lots. The NLC empowers the State Authority to administer the land development processes. Therefore, some procedural variations may be found from State to State. In the past, there has been an effort to standardise procedures across the country but the complexity and costs of procedures still very much depends on the State Authority.</p> <p>The State Authority is also given the power to impose conditions and restrictions in interest over the land. Some standard express condition for land title developed with low-cost house is for the building to be used for low-cost dwelling purposes only. To curb speculative activities in low-cost housing which is sold at a fixed price under market value, the State Authority may express in the restriction of interest for the land not to be transferred within a number of years. It is common for land titles for low-cost house in Terengganu to contain a prohibition to sell the property within 10 years and for any transactions to obtain prior written consent from the State Authority.</p> <p>Additionally, some State Authorities have housing funds which they use to finance house purchase by buyers comprising low-income groups who may not meet commercial banks' viability requirement. As mortgagee, the State Authority may enter legal prohibitions against dealings on the title such as private and registrar caveat.</p>

<b>Title of Act</b>	<b>Town and Country Planning Act 1976 (Act 172)</b>
Brief description	The Town and Country Planning Act 1976 (Act 172) (TCPA) is an act that ensures uniformity in town and country planning law and policy in all States in Peninsular Malaysia. Together with the National Land Code, these two statutes form key development control tools. It provides for development control in every Local Authority areas by empowering the Local Authority planners (LAPs) to administer the development control system and approving development approval

	<p>applications in accordance to the planning permission procedures and statutory plans.</p> <p>TCPA is divided into nine parts which include; Policy and administration, National Physical Plan, Development plans, Planning control, Development charge and Development areas.</p>
Administration	The Town and Country Planning Department at Federal and State levels and the Local planning authority.
Main stipulations regarding low-cost housing provision	<p>Section 2(1) defines 'development' as the carrying out of any building, engineering, mining, industrial or other similar operation in, on, over or under land, the making of any material change in the use of any land or building, or the subdivision or amalgamation of lands.</p> <p>Part II (Sections 2A to 6) outlines the functions of different town planning authorities including the National Physical Planning Council, the Director General of Town and Country Planning, the State Planning Committee and Local planning authorities. Part IIB provides for the establishment of the National Physical Plan which contains the general planning policy for Peninsular Malaysia, to run in tandem with the National Five Year Development Plans.</p> <p>Part III (Sections 7 to 17) outlines the procedures, contents and requirements of development plans. These statutory plans serve to guide the decisions of planners at Local and State level.</p> <p>Part IV (Sections 18 to 31A) specifies the provisions of planning control. Section 18 mandates the reference to the Local Plan with regard to land and building use. Section 19(1) states that no person shall commence, undertake, or carry out any development unless planning permission in respect of the development has been granted. Activities that constitute development are listed in Section 19(2). Sections 20 to 25 outline the requirement and procedure to apply for planning permission. Conditions may be attached with the grant of planning permission. The remainder of Part IV discusses the enforcement actions against failure to comply with the planning permission requirement.</p> <p>Part V (Sections 32 to 35) is on the requirement, determination and payment of development charge.</p>
How the Act affects low-cost housing provision	<p>At the preliminary section of this act, the State Authority is given the discretion in the manner and time of implementation of the act. This effectively puts planners in an advisory role to the State Authority. The State Authority may choose not to implement some of the provisos under the act. For instance, State Authorities of poorer regions may not adopt Part V (development charge) in order not to impede on small scale developments.</p> <p>The act stipulates that no development shall take place without obtaining planning permission and that the Local planning authority may attach conditions they think fit with the planning permission. Low-cost housing schemes have benefitted from this provision whereby the Local planning authority has always stipulated for infrastructure and community facilities to be provided in new developments. At the Local level, Local Authority planners (LAPs) are guided by Local Plans in ensuring that the quality of life of the occupants of low-cost housing schemes is not compromised by profit motivation of private developers. LAPs are empowered by this act to monitor the proposed development until its completion. The overall quality of the new development is also monitored through the certification process (Certificate of Completion and Compliance under Act 133, previously the Certificate of Fitness for Occupation system).</p>

<b>Title of Act</b>	<b>Local Government Act 1976 (Act 171)</b>
Brief description	The Local Government Act 1976 (Act 171) is an act that outlines the functions, rights, obligations and responsibilities of the Local Authority throughout Peninsular Malaysia. Malaysia adopts the three-tier government system; Federal, State and Local. This Act spells out the extent of the legal relationship between the State Authority and the Local Authority.
Administration	The Ministry of Housing and Local Government and the State Authority
Main stipulations regarding low-cost housing	<p>Part II outlines the administration of Local Authorities. The determination, declaration and naming of the Local Authority area lie with the State Authority. Whilst the power of administration of a Local Authority area is given to the Local Authority, the State Authority is empowered to give general directions to the Local Authority. The State Authority also has control over the appointment of the Mayor or President and Councillors of the Local Authority.</p> <p>Part IX contains the control of building nuisance whereby action can be taken under Sections 74 and 75 against the owner, occupier or tenant of a house “in a filthy and unwholesome state”. Section 77 further allows the building to be closed or demolished if it is considered “unfit for human habitation”. Section 80 specifically authorises and obligates the Local Authority to take action against types of building nuisance specified in Section 81. Sections 82 and 83 outline the actions that may be taken by the Local Authority to abate building nuisance.</p> <p>Part XIII empowers the Local Authority to maintain by-laws insofar as to ensure the health, safety and wellbeing of the community within the Local Authority area. However, any revocation, amendment or addition to by-laws must be approved by the State Authority.</p>
How the Act affects low-cost housing provisions	<p>This Act does not contain direct reference to low-cost housing. However, there are some important sections that affect the production and consumption of low-cost housing.</p> <p>This Act shows how the State Authority has vast amount of power over the direction of the low-cost housing policy at the grassroots level as they control the administration of the Local Authority. By virtue of this Act, the Local planning authority or the Local Authority planner has to obey any State policy concordant with the Town and Country Planning Act 1976, including submitting any new development application for the State Authority’s endorsement. The Local Authority also has to refer to the State Authority before introducing any changes to the local by-laws.</p> <p>The provision of nuisance control by the Local Authority in this Act reinforces the similar provisions under Section 86 to 88 under the Street, Drainage and Building Act 1976. It is an accepted fact that Malaysian low-cost housing occupants have poor civic awareness and the environment of low-cost housing schemes undergoes rapid deterioration compared to other types of housing. Effective control of building nuisance in low-cost housing schemes is therefore important to ensure the wellbeing of the occupants.</p>

<b>Title of Act</b>	<b>Housing Development Act (Control and Licensing) 1966 (Act 118) &amp; Regulations</b>
Brief description	The Housing Development Act (Control and Licensing) 1966 (HDA) is an act that protects house buyers by outlining the responsibilities of licensed housing developers, the penalties for any breach of condition and the authority for monitoring and enforcement. The act only applies in Peninsular Malaysia. It does not cover housing development by cooperation bodies, government agencies and

	commercial development such as hotel and business premises. This is the main act that directly controls housing development in Peninsular Malaysia. The last amendment was in 2007 to further enhance protection to house buyers.
Administration	The Ministry of Housing and Local Government
Main stipulations regarding low-cost housing provision	<p>Section 5 defines housing development which falls under the control of the Housing Development Act (HDA) as development of four or more unit housing units. Accordingly, any such housing developments can only be undertaken by a developer licensed under HDA. The Housing Controller can impose conditions on the developer upon issuance of license. The qualifications to obtain housing development license are set out under Section 6. A deposit of RM200,000 is required to be retained by the Housing Controller, who may deduct or declare forfeit the money should any breach of obligation incurred.</p> <p>Sections 7 and 7A outline the obligations of licensed housing developers. These provisions form the essence of housing development control under the act.</p> <p>Section 7 states that licensed housing developers must:</p> <ul style="list-style-type: none"> <li>• Provide new details to the Housing Controller within 4 weeks of making any changes in previously submitted documents.</li> <li>• Display in the headquarters and branch offices copy of licence, advertisement and sale permits and also audited balance sheet. Personal information on company directors also must be displayed.</li> <li>• Keep in the office the records of transactions and financial details.</li> <li>• Appoint an auditor.</li> <li>• Within 6 months of the end of the financial year, submit to the Controller and publish in the Gazette the audit report, balance sheet and profit and loss account.</li> <li>• Submit the progress report of the project to the Controller twice a year (no later than 21 January or 21 July).</li> <li>• Inform the Controller the inability to fulfil any obligation.</li> <li>• Inform the Controller about the handing of vacant possession and submit a copy of architect's certification of building completion and water and electricity supply has been installed.</li> <li>• Inform the Controller about any refusal to issue the Certificate of Fitness for Occupation (only for projects approved before 12 April 2007).</li> <li>• Ensure that the project is implemented according to building laws and observe the standards necessary for issuance of Certificate of Completion and Compliance.</li> <li>• Inform the Controller about the progress of issuance of individual or strata titles.</li> </ul> <p>Section 7A contains the requirement for the Developer to open a housing development account with a bank. This section has to be read together with Housing Development Regulations (Housing Development Account) 1991.</p> <p>The amendment in 2007 saw a few amendments that strengthened the position of house buyers against unscrupulous housing developers. Section 8A now enables house buyers to apply to the Minister for termination of the sale and purchase agreement. Both house buyers and housing developers can terminate the agreement and developers may not unreasonably withhold written consent. Section 16N clarifies the scope and limitation of the House buyers Claims Tribunal. The limit of claims has been increased from RM25,000 to RM50,000. Section 22D(1) now allows house buyers to sell his house before the issuance of individual or strata title.</p>

	<p><b>Housing Development Regulations (Control and Licensing) 1989</b></p> <p>This regulation provides details of the procedures in applying for and renewing housing development license. It specifies for permit and developers' details to be included in advertisements. Additionally, it mandates the usage of Schedule G for the sale and purchase agreement for landed dwelling types and Schedule H for subdivided residential units (strata property). This regulation also outlines the responsibilities of housing developers in terms of managing land titles, providing facilities and services and ensuring the issuance of building certification. The penalties of failure to comply with the regulation are also stated.</p> <p><b>Housing Development Regulations (Housing Development Account) 1991</b></p> <p>This regulation controls the procedures for creation, management and maintenance the housing development account that must be opened under S7A HDA. The minimum amount that must be shown in the account at all times is RM200,000. All instalment payments of the purchase price must be deposited into the account. The money can only be used for expenses, taxes and fees and costs related to the housing development. All payments from the account must be endorsed by the developer's architect, engineer or quantity surveyor. The account shall be audited annually and the audit report must be submitted to the Housing Controller.</p> <p><b>Housing Development Regulations (House buyers' Claims Tribunal) 2002</b></p> <p>This regulation provides for the establishment of the House buyers Claims Tribunal to hear grievances of house buyers with claims related to their new house. The maximum claim amount is RM50,000. The statutory period of claims is 12 months from the issue of CFO or the end of the liability period as stated in the sale and purchase agreement. The regulation contains procedural and administrative matters pertaining to house buyers' claims at the tribunal.</p> <p><b>Housing Development Regulations (Compounds) 2002</b></p> <p>This regulation empowers the Housing Controller or any appointed officer to compound housing developers for any offences under Section 7 of HDA.</p>
How the Act affects low-cost housing provision	<p>HDA affects private housing developers but not public sector housing developers. Therefore, State and Federal agencies are not required to apply for license and are not submitted to the stringent requirements of the act. The rationale is that the government has the interest of the people at heart; thus public sector housing developers have fewer tendencies to defraud house buyers. In states where the low-cost housing supply is mainly produced by the public sector, this means less costs and bureaucracy hindering the low-cost housing supplier in those States. If funding is permitting, this could signify higher elasticity of supply among public sector housing developers compared to private sector developers.</p> <p>In essence, this act was implemented to protect the interests of house buyers who often have to accept houses which have not been built according to specifications set out in the sale and purchase agreement. In the past, poor workmanship and sub-standard construction materials characterised low-cost housing units. However, the stricter housing act can play a role in ensuring quality housing for the low-income groups.</p>

Title of Act	<b>Uniform Building By-laws 1984 (Act 133)</b>
Brief description	<p>The Uniform Building By-laws 1984 (UBBL) is a legislation that specifies the material and construction standards of buildings in Malaysia. UBBL also contains pre-occupancy building control by requiring newly completed buildings to be certified by professionals before they may be occupied.</p> <p>UBBL is divided into nine parts which include Submission of plans for approval; Space, lights and ventilation; Temporary works in connection with building operation; Structural requirements; Constructional requirements and Fire requirements. The act is complemented by schedules detailing fees for submissions, forms and requirements for ventilation, material weight, roof and fire. A new schedule provides the new matrix system of new building certification introduced in 2007 comprising 21 certification forms to be endorsed by the professionals and the contractors throughout the construction process.</p> <p>Prior to 2007, all new buildings require certification under the Certificate of Fitness for Occupation (CFO) system. In 2007, the CFO is replaced with Certificate of Completion and Compliance (CCC) whereby all developments approved after 2007 need to be issued by CCC instead of CFO. Accordingly, all reference to CFO in UBBL has been replaced with CFO, <i>mutatis mutandis</i>. CCC is a certification that the building has been built according to the approved plan and by the law and it is fit to be occupied. This certificate will be issued by the principal submitting person who is the professional (architect, engineer or draughtsman) who submitted the plan for Local Authority approval.</p>
Administration	The Local Authority
Main stipulations regarding low-cost housing provision	<p>Part II (By-laws 3 to 29) contains provisions regarding submission of plan for a new building. By-laws 3 to 17 outline the details required in building plans and procedures for submission. By-laws 17 to 24 specify pre-construction requirements for a new development including permits, notice and safety measures to be taken. By-laws 25 to 27 contain the procedure of certification of a new building under By-laws 25 to 28. By-law 28 specifies that a building may not be occupied prior to issuance of the CFO or CCC.</p> <p>Part III (By-laws 30 to 47) contains provisions for space, light and ventilation.</p> <p>Part IV (By-laws 48 to 52) contains provisions for temporary works in connection with building operations.</p> <p>Part V (By-laws 53 to 80) contains structural requirements including building materials, loads, roofs and foundations.</p> <p>Part VI (By-laws 81 to 132) contains constructional requirements including building site preparation, walls, floors, staircases, roofs, refuse management, swimming pool and other building services.</p> <p>Part VII (By-laws 133 to 224) contains fire requirements including wall design and construction, lifts, fire doors, exits, exit routes, places of assembly, fire escape, ventilation, material finish and fire resistance.</p> <p>Part VIII (By-laws 225 to 253) contains provisions for fire alarms, fire detection, fire extinguishment and fire fighting access.</p> <p>Part IX (By-laws 254 to 258) contains miscellaneous other provisions including buildings controlled by and exempted from the act and building failure.</p>
How the Act affects low-cost housing	The UBBL was enacted to ensure minimum standards in building construction. Documented building failures such as the Highland Towers incident has shown the importance to adhere to such standards and for the principal submitting person



provision	<p>to exercise due diligence during building construction in order to ensure the safety of the occupants. Therefore the UBBL's economic costs may be compensated in terms of building security and quality which will benefit the occupants and the society as a whole.</p> <p>Parts VII and VIII regarding fire requirements and fire fighting requirements do not extend over terraced houses, including low-cost houses.</p> <p>UBBL clearly assigns high responsibility on the principal submitting person (previously 'qualified person') in ensuring that the building will be safe for occupation as the responsibility for any building failure lies with the principal submitting person. Being the less profitable type of housing development, low-cost housing may tempt developers to cut corners by using cheaper, sub-standard materials. However, this may be curbed by the due diligence requirement on the principal submitting person who not only may lose his licence to practice but also face harsh penalties if found liable for any building failure.</p>
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<b>Title of Act</b>	<b>Environmental Quality Act 1974</b>
Brief description	<p>The Environmental Quality Act 1974 (EQA) is an act that consolidates the laws relating to pollution and environmental control in the whole of Malaysia. It is the most comprehensive legislation on environmental management in the country. The objective of this legislation is to prevent, abate and control pollution and to further enhance the quality of environment in the country.</p> <p>EQA is accompanied by Regulations and Orders and is divided into eight sections comprising Preliminary, Administration, Licences, Prohibition and Control of Pollution, Control of Scheduled Wastes, Appeal and Appeal Board, Payment of Cess and Environmental Fund and Miscellaneous.</p>
Administration	The Department of Environment, Ministry of Natural Resources and Environment
Main stipulations regarding low-cost housing provision	Section 34A of EQA empowers the Minister to proclaim any activity with significant environmental impact as a 'prescribed activity' and for any person intending to carry out a prescribed activity to submit the Environmental Impact Assessment report to the authority. This section is to be read together with the Environmental Quality (Prescribed Activities) (Environmental Impact Assessment) Order 1987. Under the 1987 Order, housing developments above 50 hectares fall under the quantum of a prescribed activity.
How the Act affects low-cost housing provision	Proposed housing developments of 50 acres and above, which include low-cost component, are subject to the EIA requirement as stipulated in EQA. The EIA report provides an assessment of the impact of such development will or may cause on the environment and proposed measures to prevent, reduce or control the adverse impacts. This report must be submitted to the Department of Environment at the feasibility stage before any applications are made to the Local Authority. The approval of the report may be subject to conditions that the developer must comply with.

<b>Title of Act</b>	<b>Street, Drainage and Building Act 1976 (Act 133)</b>
Brief description	The Street, Drainage and Building Act 1976 (SDB) is an act that consolidates the laws relating to street, drainage and building in Local Authority areas in Peninsular Malaysia. This act integrates the enforcement of law and policy by making the maintenance of street, drainage and building the responsibility of both Local Authority and the private sector.

	<p>SDB is divided into eight sections; Preliminary, Streets, Drains, Back-lanes, Buildings, Miscellaneous, By-laws and Repeals, Transitional Provisions, etc. The act contains building controls for both pre-occupancy and during occupancy.</p> <p>The act was amended in 1994 pursuant to the collapse of the hillside Highland Towers apartment which happened in 1993. The said amendments result in more stringent controls over safety aspects of hillside developments. Those developments are now liable for periodic inspections during construction and during occupation.</p> <p>In 2007, the act was amended again to incorporate provisions to shift the procedure for new building certification from the Local Authority to the private sector.</p>
Administration	The Local Authority, the State Authority and the Ministry of Housing and Local Government.
Main stipulations regarding low-cost housing provision	<p>Part V (Sections 70 to 90) outlines provisions for building control. Section 70 states that written consent must be obtained from the Local Authority prior to erecting any new buildings. Section 70(16)(b) classifies what constitutes 'erecting a building'. Section 70A states that Local Authority approval must be obtained before carrying out earthworks. Section 70B tightens the Local Authority power in ensuring safety and stability of a building under construction. Section 70C enables any permission relating to the new building to be revoked whilst Section 70D provides that the Local Authority may conduct an inspection of the building under construction at any stage. Section 71 states the penalty for failure of building or earthworks.</p> <p>Section 82 specifies for hoardings to be set up during building works. Section 85A further enhances the safety aspect of buildings by allowing periodical building inspection to be conducted by the Local Authority. Section 86 defines nuisance associated with building and building occupancy. Sections 87 and 88 outline the procedures and tools available to Local Authority in abating nuisance.</p>
How the Act affects low-cost housing provision	<p>The Act clearly indicates the important role of the Local Authority over development control. Additionally, the safety aspect of buildings during its construction and during its occupancy is enhanced with the requirement of periodic inspections.</p> <p>The provisions relating to nuisance allow the Local Authority to take legal and administrative actions to curb any wrongful building use that is prevalent among the occupants of low-cost housing schemes.</p> <p>However, it is not clear whether the Local Authority power extends over State and Federal government low-cost projects. The definition of 'person' that falls under the Act includes "a company, a partnership, a body of persons and a corporation sole". Therefore an ambiguity exists in determining whether public sector housing development lies within the range of this act. Again, this follows the line of thinking that as the guardian of public interest, the practices of the public sector will not intentionally impose inconvenience or endangerment to the public.</p>

<b>Title of Act</b>	<b>Strata Titles Act 1985 (Act 318) &amp; Rules and Order</b>
Brief description	The Strata Titles Act 1985 (STA) is an act that controls the building subdivision of a building into parcels which will then be issued with individual titles. Previously, titles for subdivided buildings were part of the National Land Code. However, along with the proliferation of multi-storey buildings came the need for a

	<p>separate act governing the subdivision of building. STA is divided into ten parts; Preliminary, Application for subdivision of building, Registration of strata titles, Issue of strata titles upon completion of provisional block, Division and amalgamation of parcels of subdivided buildings, Rights and obligations attaching to individual parcels and provisional blocks, Management of subdivided building, Termination of subdivision of subdivided building, Provision for low-cost buildings, Strata titles Board and Miscellaneous.</p> <p>This act does not address maintenance and management issues in the period between the handover date and the establishment of the management corporation which could take a significant amount of time. To address this gap, the Building and Common Property (Maintenance and Management) Act was passed in 2007. STA was amended in 2007 to accommodate the new management system and also the new building certification system (CCC).</p> <p>The 2007 amendment also saw a stricter time requirement for the proprietor to apply for strata titles. In addition, there is now a provision for the computerisation of strata titles.</p>
Administration	The Ministry of Natural Resources and Environment
Main stipulations regarding low-cost housing provision	<p>Part II (Sections 6 to 14A) outlines the procedures for the application for subdivision of building including the types of buildings capable of being subdivided, the party capable of applying for building subdivision and the authorities involved. A new section 10B was added in 2007 to address the application for subdivision of low-cost buildings which include the application procedures and also the management and maintenance of low-cost strata units by State-appointed managing agents before the establishment of the management corporation.</p> <p>Part III (Sections 15 to 19) provides the details of the registration of strata title including the strata register, required documents and share units.</p> <p>Part IV (Sections 20 to 23) deals with the application and issuance of strata titles for provisional block (proposed building on a master title).</p> <p>Part V (Sections 24 to 33A) allows for parcels to be further divided and amalgamated. This part also sets the conditions and procedures for approval of division and amalgamation.</p> <p>Part VI (Sections 34 to 38) outlines the rights and obligations attaching to individual parcels and provisional blocks. These include the right of the proprietor in his parcel and common property. This part also describes the voting rights entitlements and restrictions as per share units.</p> <p>Part VII (Sections 39 to 55) provides for the management of subdivided building via the management corporation. It outlines the establishment of the management corporation and its duties and powers.</p> <p>Part VIII (Sections 56 and 57) states that the subdivision of subdivided building may be terminated when the building is damaged.</p> <p>Part IX (Sections 58 to 67) concerns low-cost building ranging from classification of low-cost building, application for subdivision of low-cost building, original proprietor's duties, powers and restrictions prior to the establishment of management corporation and the establishment of management corporation for low-cost buildings.</p> <p>Part IXA (Sections 67A to 67X) pertains to the Strata Titles Board which is a State level board with authority to hear a dispute or matter related to strata titles in the State including, <i>inter alia</i>, management corporation, voting rights of share unit</p>

	holders and costs of repair and insurance.
How the Act affects low-cost housing provision	<p>Newer low-cost housing in large Malaysian cities with high land values normally comprises high-rise flats which makes this act highly relevant. In the past, there have been issues of delays in strata title issuance especially for low-cost flats which do not command high profits for private developers compared to commercial apartments. Another issue in the past has been developers' poor attitude toward maintenance and management of low-cost flats. STA is seen as providing the legal framework for the titling and maintenance of low-cost flats.</p> <p>Part IX specifically contains provisions for low-cost building which may only be so classified by the State Authority by virtue of the location of the building, the nature of construction and the cost of the building. It is important to note that no provisional block can be classified as low-cost building. A certificate of classification will be issued by the State to the land owner. These measures help to ensure that the developers build the low-cost units in the future. Other provisions regarding the management of low-cost strata units are almost similar to conventional strata units.</p> <p>The amendments in 2007 are seen to further enhance the maintenance and management of low-cost housing. Following this, the State Authority may play a more significant role in ensuring quality housing environment for low-cost housing occupants.</p>

<b>Title of Act</b>	<b>Building and Common Property (Maintenance and Management) Act 2007 (Act 663)</b>
Brief description	<p>The Building and Common Property (Maintenance and Management) Act 2007 (BCP) was enacted to address property management problems, especially in relation to subdivided residential, commercial and industrial buildings which have been inadequately addressed by the Strata Titles Act. The main objective of this act is to provide for proper maintenance and management of subdivided buildings and common property in Peninsular Malaysia and the Federal Territory of Labuan.</p> <p>BCP is divided into eight parts; Preliminary, Administration, Management of building or land intended for subdivision into parcels; Building Maintenance Account, Building Maintenance Fund and sinking fund, Managing agent, Deposit and recovery of charges and Miscellaneous.</p>
Administration	The State Authority and the Ministry of Housing and Local Government
Main stipulations regarding low-cost housing provision	<p>Part II (Section 3) empowers the State Authority to appoint a Commissioner of Buildings to oversee the maintenance and management matters of buildings in a Local Authority area.</p> <p>Part III (Sections 4 to 15) outlines the building management of newly completed strata developments prior to the establishment of the Management Corporation under the Strata Titles Act. A Joint Management Body comprising the developer and the purchasers shall be set up by virtue of Section 4(1). Until the Body is established, the developer will be responsible for the building management. Part III also sets the duties and powers of the Joint Management Body (JMB), which is somewhat similar to those of the Management Corporation's. For buildings completed on or after the commencement of Act 663, the JMB shall be established within 12 months from the date of the delivery of vacant possession. The Body will be deemed dissolved three months after the establishment of the Management Corporation and the Management Corporation will then assume the management and management of the building.</p>

	<p>The Management Corporation for low-cost buildings is not automatically established with the opening of the strata register. The original proprietor is responsible for building management prior to the establishment of the Management Corporation.</p> <p>Part IV (Sections 16 to 21) relates to the establishment and management of the Building Maintenance Account by the developer prior to the establishment of the Joint Management Body, requiring the account to be properly audited and for the audited statement to be submitted to the Commissioner of Building.</p> <p>Part V (Sections 22 to 24) provides for the establishment of the Building Maintenance Fund upon the establishment of the Joint Management Body. This part outlines the permitted usage of the fund and also the responsibility of the purchaser to pay the charges. There is also a provision for a sinking fund to be opened and maintained.</p> <p>Part VI (Sections 25 to 30) authorises the Commissioner of Building to appoint a managing agent should the Joint Management Body fail to undertake its responsibility. The roles and responsibilities of the managing agent are contained in this part.</p>
How the Act affects low-cost housing provision	The Commissioner of Building was established to oversee proper building maintenance and management which the old system under the Strata Titles Act was not able to address. Although there is no specific provision for low-cost housing, this act may be relied on to solve maintenance and management problems which have been prevalent in low-cost flats in the past.

<b>Title of Act</b>	<b>Fire Services Act 1988</b>
Brief description	<p>This act aims for effective and efficient functioning of the Fire Services Department throughout Malaysia.</p> <p>It is divided into nine parts comprising Preliminary, Administration, Abatement of fire Hazard, Water and fire hydrants, Fire certificates, Enforcement, Enquiries into fires, Welfare fund and Miscellaneous.</p>
Administration	The Fire Services Department of the Ministry of Housing and Local Government
Main stipulations regarding low-cost housing provision	Part III (Sections 8 to 21) relates to abatement of fire-hazard in premises including the responsibility and authority of the Fire Services Department in addressing such risks.
How the Act affects low-cost housing provision	This act controls the use of premises so as to not become fire-hazards. Many low-cost housing occupants especially in major cities are poorly educated and have little regard to building safety. They may use their homes to conduct small food businesses that may pose fire risks to their own unit or the surrounding units.

<b>Title of Act</b>	<b>Sewerage Services Act 1993</b>
Brief description	<p>This act aims to standardize the law and policy regarding sewerage systems and services throughout Malaysia in order to improve sanitation and the environment and promote public health.</p> <p>It is divided into ten parts comprising Preliminary, Responsibility for sewerage systems and sewerage services, Director General of sewerage services, Public sewerage systems, Private sewerage systems and septic tanks, Powers of entry,</p>

	Charges, Approval of plans and specifications of sewerage system or septic tank, Licensing and Miscellaneous.
Administration	The Sewerage Services Department of the Ministry of Housing and Local Government
Main stipulations regarding low-cost housing provision	Part V (Sections 21 to 26) contains provisions on private sewerage systems and septic tanks whereby the authority has the power to ensure proper installation, operation and maintenance of sewerage system of premises. Section 26 states that any nuisance arising from private sewerage system constitutes an offence.
How the Act affects low-cost housing provision	This act ensures that proper sewerage system is installed in private housing schemes, including low-cost housing.

### Federal Policy

Item	Brief description of policy
<p>Cabinet Minister Meeting 7 June 2006</p> <p>Source: MHLG Guidebook "Implementation of the Certificate of Completion and Compliance Issuing System by the Professionals", p. 10.</p>	<p>Full exemption from constructing low-cost housing quota to developers who opt for implementing the Build Then Sell concept.</p>
<p>MHLG Recommendations For Low-cost Housing In a Mixed Housing Development</p> <p>Source: MHLG Guidebook "Implementation of the Certificate of Completion and Compliance Issuing System by the Professionals", pp. 10-11).</p>	<ul style="list-style-type: none"> <li>• Developer to be given the option of building medium low-cost houses.</li> <li>• Developer who cannot construct low-cost units to be able to deposit a bank guarantee of the construction cost of the low-cost units and the construction to be undertaken by State or Federal agencies when the developer fails to do so.</li> <li>• Developer who cannot construct low-cost units to surrender the land with infrastructure in place for State or Federal agencies to take over.</li> <li>• Developer to be imposed a planning construction stipulating the stage of work progress at the site at which low-cost units are to be built.</li> <li>• For phased development, the developer to be imposed with the condition to construct low-cost units before the building plans for the next phase is approved.</li> <li>• Any levy imposed on low-cost unit that is not erected to be paid into a special trust fund which will be used specifically to construct low-cost housing.</li> </ul>
<p>Subsidies</p> <p>Source: Stamp Act 1949 – Duty Stamp Order (Exemption)(No. 39) 2002 vide P.U.(A) 425 dated 24 October 2002 enforced from 1 July 2002</p>	<p>Low-cost housing purchase is exempted from stamp duty. Low-cost housing is defined as "a housing unit built in a low-cost housing project which is approved by the State Authority... which if located in Peninsular Malaysia is sold at a price not more than RM42,000"</p>

## Federal Guidelines

In 2007, four new systems were introduced by the government to enhance the property development sector: First, increasing the scope of the One-Stop Centre at Local Authorities to include more types of property development applications; second, replacing the Certificate of Fitness for Occupation with the Certificate of Completion and Compliance; third, introducing the Commissioner of Building via the new Building and Common Property (Maintenance and Management) Act 2007 to oversee proper maintenance and management of strata and common property before the establishment of the Management Corporation and fourth, introducing the Build Then Sell scheme. The Ministry of Housing and Local Government produced a set of three guidebooks under the series named "Guidebooks: Improving the Public Service Delivery System in the Property Sector". The individual guidebooks containing the guidelines are described below. Following this, the building standards for low-cost housing issued by the Construction Industry Development Board are presented. All guidelines represent non-mandatory requirements designed to guide operations, rather than compel the industry's involvement. In addition, two industry-wide standards are implemented by the Construction Industry Development Board to guide the construction of low-cost housing.

<b>Title of Guidebook 1</b>	<b>Improving the Delivery System Procedure and Process of Development Proposal and Implementation of One-Stop Centre (Second Edition), 2008</b>
<b>Publisher</b>	Ministry of Housing and Local Government.
<b>Objectives of Guideline</b>	<p>To clarify development proposal application procedures in line with the provisions of the National Land Code 1965, Town and Country Planning Act 1976 and Streets, Drainage and Building Act 1974.</p> <p>To clarify the functions, organisational structure and development approval procedures to be implemented by One-Stop Centres (OSC) at Local Authorities.</p>
<b>Brief description</b>	<p>This guidebook was divided into two sections. To provide context, the guideline first gave the definition of 'development' under Section 2(1) Town and Country Planning Act 1976 which would require planning permission. Examples are given to distinguish between development activities that do and do not require planning permission. Relevant forms and letter formats to be used in the development proposal application process are also provided.</p> <p>The first section clarifies the approval procedures for development proposals. Development proposal applications may cover land matters, planning permission, building plan and earthworks and road and drainage plan. Under the previous system, development application for each type was undertaken in stagger. The new system allows for concurrent applications of two, three or all four application types. Under the new system, the time period is shortened to 4 months for projects characterised as Build Then Sell, high impact, foreign investment and government and 6 months for Sell Then Build schemes. The guideline describes the roles and responsibilities of OSC and other relevant departments in the implementation of the new system.</p> <p>The second section outlines the implementation of the enhanced role of One-Stop Centres (OSC) in Local Authorities in processing simultaneous development proposal applications. It contains the functions, role and institutional organisation of the OSC Committee, OSC Secretariat and the Inspectorate and Quality Team of MHLG.</p> <p>According to the guidebook, the roles of OSC are:</p> <ul style="list-style-type: none"> <li>• To coordinate and monitor development proposals and other applications;</li> <li>• To inform the decision on approval of development proposals to the applicant;</li> <li>• To make recommendations on the land development application to the Land Office; and</li> <li>• To prepare periodic reports.</li> </ul>

<p>How the Guidelines may affect low-cost housing provision</p>	<p>By clarifying the streamlined development approval procedures, the stakeholders including planners, developers, non-governmental organisations and house buyers may have a deeper understanding of the process. Delays and opportunities for corruption may be reduced.</p> <p>Development proposal application process for low-cost housing may be shortened to 4 months if the proposed development follows the Build Then Sell concept. This would lead to reduced delays, uncertainties and risks which may be translated into decreased housing costs.</p>
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<p><b>Title of Guidebook 2</b></p>	<p><b>Implementation of the Certificate of Completion and Compliance Issuing System by the Professionals</b></p>
<p>Publisher</p>	<p>Ministry of Housing and Local Government</p>
<p>Objectives of Guidelines</p>	<p>The main objective of this guidebook is to assist the government agencies including the State Authorities, Local Authorities, relevant technical agencies and regulatory bodies, professionals and contractors and trade contractors in the construction industry in understanding the new Certificate of Completion and Compliance (CCC) system.</p>
<p>Brief description</p>	<p>This guidebook is seen as very important as CCC forms part of the conditions that must be fulfilled by housing developers when issuing vacant possessions.</p> <p>The guidebook highlights the key elements of the new building certification system under CCC. It provides explanations of terminologies relating to CCC as contained in the amendments to regulations pertaining building certification i.e. SDB and UBBL, the professionals responsible for CCC issuance i.e. Principal Submitting Persons (PSP), the type of conditions that must be complied by PSP i.e. technical conditions. Exemptions from the new system are also provided in this guidebook.</p> <p>The guidebook also shows the roles and responsibilities of various parties involved in the implementation of CCC in a 'matrix of responsibility' together with the UBBL-based forms to be used in the issuing system. The new roles and responsibilities of Local Authorities and the PSP under CCC are compared in a table. Here, although most responsibility in ensuring that the building is built according to standard has been transferred to the PSP, the Local Authorities still have an important role in monitoring the PSP and safety of completed buildings.</p> <p>A flow chart showing the issuance processes of CCC is provided to clarify what actions and documentations are required from relevant agencies.</p>
<p>How the Guidelines may affect low-cost housing provision</p>	<p>The guidebook states that low-cost housing quota falls under "non-technical conditions" which are "those conditions imposed by the Local Authorities in approving the Planning Permission and Building Plan that are usually intended to fulfil certain social development needs". The PSP is not required to ensure compliance with these conditions.</p> <p>However, low-cost housing developers still need to observe the requirements of the new CCC system. The CCC system of self-regulation is expected to reduce the bureaucracy persistent in the previous CFO system, thus expediting the process of occupancy of new buildings and lower the costs associated with such delays.</p>



<b>Title of Guidebook 3</b>	<b>Implementation of the Building and Common Property Act (Maintenance and Management) 2007 (Act 663)</b>
Publisher	Ministry of Housing and Local Government
Objectives of Guidelines	The guidebook aims to clarify and provide guidance on the implementation of the Building and Common Property Act (Maintenance and Management) 2007 on all types of strata properties and related amendments to the Housing Development Act (Control and Licensing) 1966 and Strata Titles Act 1985.
Brief description	<p>This guidebook provides an explanation of the new system of the maintenance and management of strata title properties from the delivery of vacant possession until the establishment of the Management Corporation for the building.</p> <p>First, the guidebook provides the terminology and key concepts of the new strata title property maintenance and management concept. It clarifies the functions of Joint Management Body (JMB), which is responsible for the maintenance and management of buildings prior to the establishment of the Management Corporation (MC). Explanations are given on, <i>inter alia</i>, accessory parcels, common property, JMB, MC, MC for Low-cost Building, Charges, share units, Building Maintenance Account, Building Maintenance Fund, Management Fund, Sinking Fund, Commissioner of Buildings and Managing Agent.</p> <p>The guidebook clarifies the period and party responsible for the maintenance and management of buildings. The initial phase is the early period of building completion before the delivery of vacant possession and prior to the establishment of a JMB. The interim phase is the phase after the vacant possession of the properties has been issued to purchasers, during which the JMB is established but not the MC. The final phase is the period after the opening of the strata register which automatically signifies the establishment of the MC. The parties responsible for proper maintenance and management of strata properties during initial, interim and final phase are the developers, JMB and MC respectively.</p> <p>The responsibilities of developers, JMB, MC, Commissioner of Building and Managing Agent during each period are clearly indicated together with the relevant provisions under the acts and penalty of offence. The organisational structure of JMB and MC is also clarified. The rights and responsibilities of purchasers, which will later be known as parcel proprietors are also outlined together with the statutory references.</p>
How the Guidelines may affect low-cost housing provision	There is no specific reference to low-cost housing in the guidebook. However, in general this guidebook helps to clarify the roles and responsibilities of each party involved in the maintenance and management of subdivided properties.

<b>Title of Guidelines*</b>	<b>CIS 1 (Construction industry standards for conventional units including single and double storey houses) and CIS 2 (Construction industry standards for subdivided units, strata building)</b>
Administration*	The Construction Industry Development Board.
Objectives of Guidelines*	To ensure that all low-cost units will be constructed according to the acceptable standard outlined by the government.

Brief description*	Both standards will have to comply with the requirements of the Street, Drainage and Building Act 1976 (SDBA) as well as the UBBL. There are four parameters which have been taken as the scope and basis for these standards; safety, complete infrastructure, development of health and physical, and development of community. The standards in the CIS are divided into two parts; planning standard and design standard.
How these Guidelines may affect low-cost housing provision	CIS 1 and CIS 2 were implemented to ensure that the quality of low-cost housing is at par with conventional housing. The low-profitability nature of low-cost housing has resulted in reports of building defects due to poor workmanship and poor material quality used in its construction. CIS 1 and CIS 2 not only outlines the construction requirements designed to guarantee good physical condition of low-cost housing but also the overall quality of living of the low-cost housing occupants.

\*Note: Taken from Sufian, A., & Ab. Rahman, R. (2008). Quality housing: Regulatory and administrative framework in Malaysia. *Int. Journal of Economics and Management*, 2(1), 141-156.

### National Housing Policy (NHP)

The fieldwork was conducted in 2009 and 2010 prior to the implementation of the new National Housing Policy (NHP). In February 2011, a definitive national policy document guiding the development and planning of the housing sector was launched. However, the implementation of the NHP at the State and Local levels has not yet been detailed. The main points of (NHP) are summarised below, with particular focus on low-cost housing.

Goal	To provide adequate, comfortable, quality and affordable housing to enhance the sustainability of the quality of life of the people.
Objectives	<ul style="list-style-type: none"> <li>•Providing adequate and quality housing with comprehensive facilities and a conducive environment.</li> <li>•Enhancing the capability and accessibility of the people to own or rent houses.</li> <li>•Setting future direction to ensure the sustainability of the housing sector.</li> </ul>
Thrusts and policy statement	<p>Thrust 1: Provision of adequate housing based on the specific needs of target groups.</p> <p>Thrust 2: Improving the quality and productivity of housing development.</p> <p>Thrust 3: Increasing the effectiveness of implementation and ensuring compliance of the housing service delivery system.</p> <p>Thrust 4: Improving the capability of the people to own and rent houses.</p> <p>Thrust 5: Sustainability of the housing sector.</p> <p>Thrust 6: Enhancing the level of social amenities, basic services and liveable environment.</p>
Policy related to low-cost housing	<ul style="list-style-type: none"> <li>•The government and the private sector to continue providing affordable houses for sale or rental especially for the low-income group, defined as having household income of less than RM2,500 per month (NHP 1.2).</li> <li>•State Authorities are given flexibility in determining the quota of low-cost houses to be built in mixed development areas based on the suitability of the location and local demand (NHP 1.3).</li> <li>•To improve the quality of housing, quality standards and minimum housing specifications shall be set (NHP 2.2).</li> <li>•As a measure to enhance the housing delivery system, Federal public housing programmes shall be placed under a single Federal agency that develops, distributes and maintains them. State public housing programmes shall continue to</li> </ul>

	<p>be the responsibility of State Authorities (NHP 3.5).</p> <ul style="list-style-type: none"> <li>•The prices of low-cost houses shall be set and ownership and their transfer shall be controlled to avoid speculation (NHP 4.1).</li> <li>•Setting a realistic rental rate for low-cost houses to improve housing affordability (NHP 4.2).</li> <li>•Providing financial support for the low-income group to improve their home ownership ability (NHP 4.3).</li> </ul>
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### State regulations

<b>Title of Enactment</b>	<b>The Malay Reservations Enactment of the Government of Terengganu, 1941</b>
Brief description	This is a regulation which specifies the definition and rights of the Malay people in the State of Terengganu. It also contains procedures to create Malay holdings and penalties of offences.
Administration	District Land Office.
Main stipulations regarding low-cost housing provision	<p>Section 2 defines a Malay person in Terengganu as "a person belonging to any Malayan race who habitually speaks the Malay language and professes the Moslem religion".</p> <p>There are four categories of "Malay holding":</p> <ul style="list-style-type: none"> <li>•Registered interests of a Malay person or a Malay holding company as proprietor or co-proprietor in any alienated country land less than 10 acres.</li> <li>•Recorded interest of Malay occupier or co-occupier of country land less than 10 acres under recorded possessory claim under Settlement Enactment.</li> <li>•Country land of less than 10 acres of which occupier or co-occupier is Malay whose name has been entered in The Register of Approved Applications under Land Enactment and its rules.</li> <li>•Registered interest of a Malay person or Malay holding company as proprietor or co-proprietor, and any recorded interest of a Malay as an occupier or co-occupier under a recorded possessory claim under Settlement Enactment, in any town or village land alienated under the National land Code or any previous land laws or occupied under the Settlement Enactment and included in a Malay reservation duly declared and gazetted.</li> </ul>
How the Enactment may affect low-cost housing provision	<p>The definition of Malay holding affects land ownership in Terengganu. Any land title endorsed with "Malay Land" may not be transferred to non-Malays. There is a strict control over Malay holdings in the State, which may include low-cost housing.</p> <p>However, almost 95 percent of Terengganu population is Malay. In areas with significant non-Malay population, the State Authority imposes non-Malay quotas for the low-cost housing units, which is opposite the practice in most Malaysian States.</p>

Item	Brief description of policy												
<p>Policy on housing.</p> <p>Source: Housing Department of the State Secretary Office's input in the "Blueprint of the State Authority High Committee for the State of Terengganu Development Plan 2009-2013" dated 18 January 2009.</p>	<p>Housing vision: "To provide opportunities for home ownership to the low and medium income groups"</p> <p>Housing mission:</p> <ul style="list-style-type: none"> <li>• To restructure the society and increase the quality of living through distribution of housing to low-income groups.</li> <li>• To encourage privatization in housing development and set the quota/condition for the development of low/affordable housing.</li> <li>• To increase low-cost and affordable housing projects and identify sites which are suitable for development.</li> <li>• To facilitate and expedite the implementation of housing projects through the 'one stop centre' mechanism.</li> </ul> <p>Housing strategy:</p> <ul style="list-style-type: none"> <li>• To aim for 1 housing unit for 1 family by year 2020.</li> <li>• To increase low-cost and affordable housing projects and identify sites which are suitable for development.</li> <li>• To encourage privatization in housing development.</li> </ul> <p>Flagship developments:</p> <ul style="list-style-type: none"> <li>• Infrastructure development for Bandar Baru Kijal, Kemaman (cost RM100million).</li> <li>• Bandar Baru Bukit Besar (cost RM200million).</li> <li>• Establishment of the State of Terengganu Housing Company (cost RM914,000).</li> <li>• The State Authority will build 10,000 units of affordable housing (including low-cost housing) between 2009-2013.</li> </ul>												
<p>Policy on application for the change of land use for lands above 3 hectares.</p> <p>Source: State Executive Council Meeting 9/2001 dated 4 April 2001.</p>	<p>For lands 3.0 hectares and below:</p> <p>Owner/developer to submit the application for change of land use to District Land Administrator. Endorsement from State Economic Development Unit is not necessary.</p> <p>For lands above 3.0 hectares:</p> <ul style="list-style-type: none"> <li>• Must obtain endorsement from State Economic Development Unit.</li> <li>• Developer must comply with condition of minimum 25% low-cost housing from actual number of residential/shop units.</li> <li>• Developer to sell low-cost houses to Muslim buyers only.</li> <li>• Developer to sell minimum of 25% of medium cost housing/high cost housing/shops to Muslim buyers.</li> <li>• Lots for Muslim buyers to be determined by State Economic Development Unit.</li> <li>• Developer to give 5% discount on the price of medium cost housing/high cost housing/shops to Muslim buyers.</li> <li>• Must comply with conditions in the State of Terengganu's Guideline of Low-cost Housing Planning and Specifications.</li> </ul> <p>Based on State Executive Council Meeting 8/1985 and 26/1989, the percentage of low-cost housing required on owner or developer of land proposed for housing development is:</p> <table border="1" data-bbox="549 1895 1390 2103"> <thead> <tr> <th data-bbox="549 1895 839 1946">Land Size</th> <th data-bbox="839 1895 1139 1946">Percentage of low-cost housing required to be built</th> <th data-bbox="1139 1895 1390 1946">Sale</th> </tr> </thead> <tbody> <tr> <td data-bbox="549 1946 839 2000">Between 3.00 hectares to 4.30 hectares</td> <td data-bbox="839 1946 1139 2000">Balance of 3 hectares</td> <td data-bbox="1139 1946 1390 2000">100% Bumiputera</td> </tr> <tr> <td data-bbox="549 2000 839 2054">Between 4.30 hectares to 6.00 hectares</td> <td data-bbox="839 2000 1139 2054">30% of land area</td> <td data-bbox="1139 2000 1390 2054">100% Bumiputera</td> </tr> <tr> <td data-bbox="549 2054 839 2103">Between 6.00 hectares to 10.00 hectares</td> <td data-bbox="839 2054 1139 2103">40% of land area</td> <td data-bbox="1139 2054 1390 2103">100% Bumiputera</td> </tr> </tbody> </table>	Land Size	Percentage of low-cost housing required to be built	Sale	Between 3.00 hectares to 4.30 hectares	Balance of 3 hectares	100% Bumiputera	Between 4.30 hectares to 6.00 hectares	30% of land area	100% Bumiputera	Between 6.00 hectares to 10.00 hectares	40% of land area	100% Bumiputera
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	Above 10.00 hectares	45% of land area	100% Bumiputera	
Policy on pricing of low-cost housing. Source: State Executive Council Meeting 8/1985 and 26/1989.	Cost	Condition		
	RM25,000 to RM30,000	Housing in rural areas and small towns with land price RM14 and below.		
	RM30,000 to RM35,000	Housing in Major Towns or Suburban area with land price is RM15 – RM44 p.s.m.		
	RM35,000 to RM42,000	Housing in Major Cities or Town Centres with land price is RM45 p.s.m. and above.		
Low-cost housing specifications in the State of Terengganu Source: Translated from “Spesifikasi Rumah Kos Rendah” obtained from HDSSO.	Item	Specification		
	Floor area	60.39 sq. metres (650 sq. ft.)		
	Bedroom	3 units Minimum size Bedroom 1: 12' x 10' (3.66 x 3.05m) Bedroom 2: 10' x 10' (3.05 x 3.05m) Bedroom 3: 10' x 10' (3.05 x 3.05m)		
	Kitchen – minimum size	4.5 sq. metres (48.44 sq. ft.)		
	Living and Dining area	Must be adequately provided either separately or combined		
	Bath and w.c. (separate)	Minimum size 1.8 sq. metres (19.38 sq. ft.) each		
	Partition wall	Bricks		
	Location of air ventilation	Living area Room 1 Room 2 Room 3 Kitchen Bath/W.c.		
	Water tank	150 gallons (683 litres)		
	Wiring	Metal tubing		
	Electricity points	Living area Light : 2 Fan: 1 3-pin plug: 2 One-way: 4 Switchboard: 1 Telephone: 1 Rooms 1-3 Light : 1 3-pin plug: 1 One-way: 1 Kitchen Light : 1 3-pin plug: 1 One-way: 3 Terrace Light : 1 TNB metre board: 1 Bath and W.c.: 1 light each		
	Policy on privatisation. Source: State Executive Council Meeting 118/2001 dated 20 June 2001.	Developer must build low-cost housing not less than 30% of residential/shop units and sell all low-cost units to Muslim buyers. The built-up area shall not be less than 650 sq. ft. with three bedrooms i.e. 12' x 10', 10' x 10', 10' x 10' and separate bathroom and w.c. If the project is undertaken in phases, 50% of low-cost housing units are to be built in Phase 1 and 50% are to be built in Phase 2.  The sale process is the responsibility of the developer. The list of buyers shall be submitted and approved by the Buyers Selection Committee established by the State Authority. Low-cost housing buyers must fulfil these conditions: <ul style="list-style-type: none"> <li>•Malaysian citizen.</li> <li>•Applicant or spouse not a homeowner.</li> <li>•Married.</li> <li>•Gross household income not more than RM2,000 per month.</li> </ul> Calculation for developer’s contribution to the State Authority: Formula X= $\frac{LP}{HP} \times 100 \pm S$		

	<p>Where  X= Contribution  LP= Current land price per lot  HP= House price per unit  S = Percentage contribution (determined through negotiation with developer) but generally, S:</p> <p>100% LCH: S= 0% to -5%  61%-80% LCH: S= +1% to +2%  41% - 60% LCH: S=+3% to +4%  30% - 40% LCH: S=+5% to 8%</p> <p>State Executive Council Meeting dated 9 December 1998 on the housing sub-sector recovery package in Terengganu:</p> <p>Developer's contribution rate to the State Authority under the privatization concept is reduced from 5 to 15 percent to 5 to 10 percent from sale proceedings depending on the type of development. The percentage will be reviewed when the national economy has recovered.</p>															
<p>Policy on titles for public low-cost housing under National Housing Department and Public Works Department.</p> <p>Source: State Executive Council Meeting 14/1995 dated 4 May 1995.</p>	<p>For any public low-cost housing which is undertaken by the National Housing Department and Public Works Department, the process to obtain land titles and the transfer of land title to the buyer will be done by the State Economic Development Corporation (SEDC).</p>															
<p>Policy on public low-cost housing subsidy.</p> <p>Source: State Executive Council Meeting dated 13 September 1995.</p>	<p>If the development cost per unit is above the sale price per unit then the difference or subsidy borne by the State Authority is not more than RM5,000 per unit.</p>															
<p>Policy on difference in State and Federal low-cost housing standards</p> <p>Source: State Executive Council Meeting dated 8 March 1999.</p>	<p>If there is difference between State Low-cost Housing Specifications and Federal agency/legal specifications, State Specifications will be adopted.</p>															
<p>Terengganu Public Works Director's General guideline on layout plan for housing projects.</p> <p>Source: Technical Order (Road) 3/85- (Amendment 1/88) Guideline to Processing the Application for Development of Federal Roads.</p>	<p>For low-cost housing development with 100% low-cost housing component, road reserve is as follows:</p> <table border="1" data-bbox="549 1693 1259 1832"> <thead> <tr> <th rowspan="2">Type of road</th> <th colspan="2">Road reserve</th> </tr> <tr> <th>metre</th> <th>ft.</th> </tr> </thead> <tbody> <tr> <td>Interior road</td> <td>9.0</td> <td>30</td> </tr> <tr> <td rowspan="2">Access road</td> <td>&lt;500 unit</td> <td>12.0</td> <td>40</td> </tr> <tr> <td>&gt;500 unit</td> <td>20.0</td> <td>66</td> </tr> </tbody> </table>	Type of road	Road reserve		metre	ft.	Interior road	9.0	30	Access road	<500 unit	12.0	40	>500 unit	20.0	66
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<p>DID's guideline.</p> <p>Source: Terengganu</p>	<p>In giving technical comments, DID will focus on the provision of reserves for drains, river, seashore and other foreseeable issues.</p>															

Drainage and Irrigation Department's Guideline on housing development projects	However, the ultimate deciding authority is given to the relevant District Council/Local Authority/ Planning Authority.
<p>Policy on sewerage system.</p> <p>Source: State Executive Council Meeting 37/1996 dated 12 November 1996 and State Executive Council Meeting 3/1997 dated 29 January 1997.</p>	<p>All Local Authorities to accept and approve low-cost housing plans adopted by the National Housing Department although they do not comply with UBBL requirements.</p> <p>Additionally,</p> <ul style="list-style-type: none"> <li>•The construction of septic tank for low-cost housing is exempted from a system which is connected to a centralised treatment plant. It can use individual septic tanks.</li> <li>•The construction of a sewerage system which is connected to a centralised treatment plant is adopted for other housing projects other than low-cost housing project.</li> <li>•The above State Executive Council decision supersedes the National Housing Department's requirement that all State Authorities to adopt Centralised Sewerage Treatment System for all public low-cost housing projects.</li> </ul>
<p>Policy on low-cost housing <i>Bumiputera</i> quota.</p> <p>Source: State Executive Council Meeting dated 4 August 1999.</p>	Ethnic groups in Sabah and Sarawak are considered <i>Bumiputera</i> when they want to purchase low-cost housing in Peninsular Malaysia.
<p>Policy on affordable housing.</p> <p>Source: State Executive Council Meeting 4/2005 dated 23 February 2005.</p>	Affordable housing shall have built-up area of 750 sq. ft.; bedrooms 12' x 12', 12' x 10' and 12' x 10'; minimum kitchen area of 59.20 sq. ft.

### Local regulations

Item	Brief description of policy																												
Guideline on Planning and Planning Consultation Standards and Planning Permission Application at Kuala Terengganu City Council	<p>Standards for low-cost housing in Kuala Terengganu City Council area:</p> <p>Low-cost terraced house: Minimum lot dimension 5.0m x 18.0 m. For flat, minimum lot size is 0.2 hectare. All terraced lots must not be less than 3 and not more than 15 in one continuous line. Maximum line length is not more than 97.5 metres. Fire break must be provided after the 15<sup>th</sup> unit.</p> <p>The minimum car parks for low-cost flats: 1 parking bay for every 4 residential units + 10% for visitors. Low-cost flat is a dwelling unit with an area of &gt;690 sq. ft. and &lt;750 sq. ft.</p>																												
Section 6 (Planning Standards) of the District of Dungun Local Plan (2007-2015): The specifications for low-cost housing (p. 6_2)	<table border="1"> <thead> <tr> <th>Building type</th> <th>Lot size (min)</th> <th>Density (unit/ha)</th> <th>No of floor (max)</th> <th>Gross floor area (min)</th> <th>Plinth area (max)</th> <th>Line length</th> </tr> </thead> <tbody> <tr> <td>Single storey terraced</td> <td>6m x 21m</td> <td>N/R</td> <td>2 ½</td> <td>N/R</td> <td>N/R</td> <td>100 m</td> </tr> <tr> <td>Double storey terraced</td> <td>6m x 15.2m</td> <td>N/R</td> <td>2 ½</td> <td>N/R</td> <td>N/R</td> <td>100 m</td> </tr> <tr> <td>Walk up apartment</td> <td>6</td> <td>150</td> <td>5</td> <td>55.7 sq. m.</td> <td>60 %</td> <td>N/R</td> </tr> </tbody> </table>	Building type	Lot size (min)	Density (unit/ha)	No of floor (max)	Gross floor area (min)	Plinth area (max)	Line length	Single storey terraced	6m x 21m	N/R	2 ½	N/R	N/R	100 m	Double storey terraced	6m x 15.2m	N/R	2 ½	N/R	N/R	100 m	Walk up apartment	6	150	5	55.7 sq. m.	60 %	N/R
Building type	Lot size (min)	Density (unit/ha)	No of floor (max)	Gross floor area (min)	Plinth area (max)	Line length																							
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Walk up apartment	6	150	5	55.7 sq. m.	60 %	N/R																							

Apartment	N/R	150	N/R	55.7 sq. m.	60 %	N/R
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Building type	Building setback (min)			Access width (min)		
	Front	Back	Side	Access	Side lane	Back lane
Single storey terraced	6 m	3 m	6 m (2)	12 m	6 m	6 m
Double storey terraced	6 m	3 m	6 m (2)	12 m	6 m	6 m
Walk up apartment	Refer to note			15 m	N/R	N/R
Apartment				15 m	N/R	N/R

**Note:**

Setback between building and boundary	Facing service road	12 m
	Common boundary	7.6 m
Setback between buildings (wall to wall)	Front to front	24 m
	Size to front	12 m
	Rear to front	12 m

Building type	Cul de sac length	Cul-de-sac size	Open area
Single storey terraced	90 m	15 m x 15 m	10 %
Double storey terraced	90 m	15 m x 15 m	10 %
Walk up apartment	N/R	N/R	10 %
Apartment	N/R	N/R	10 %

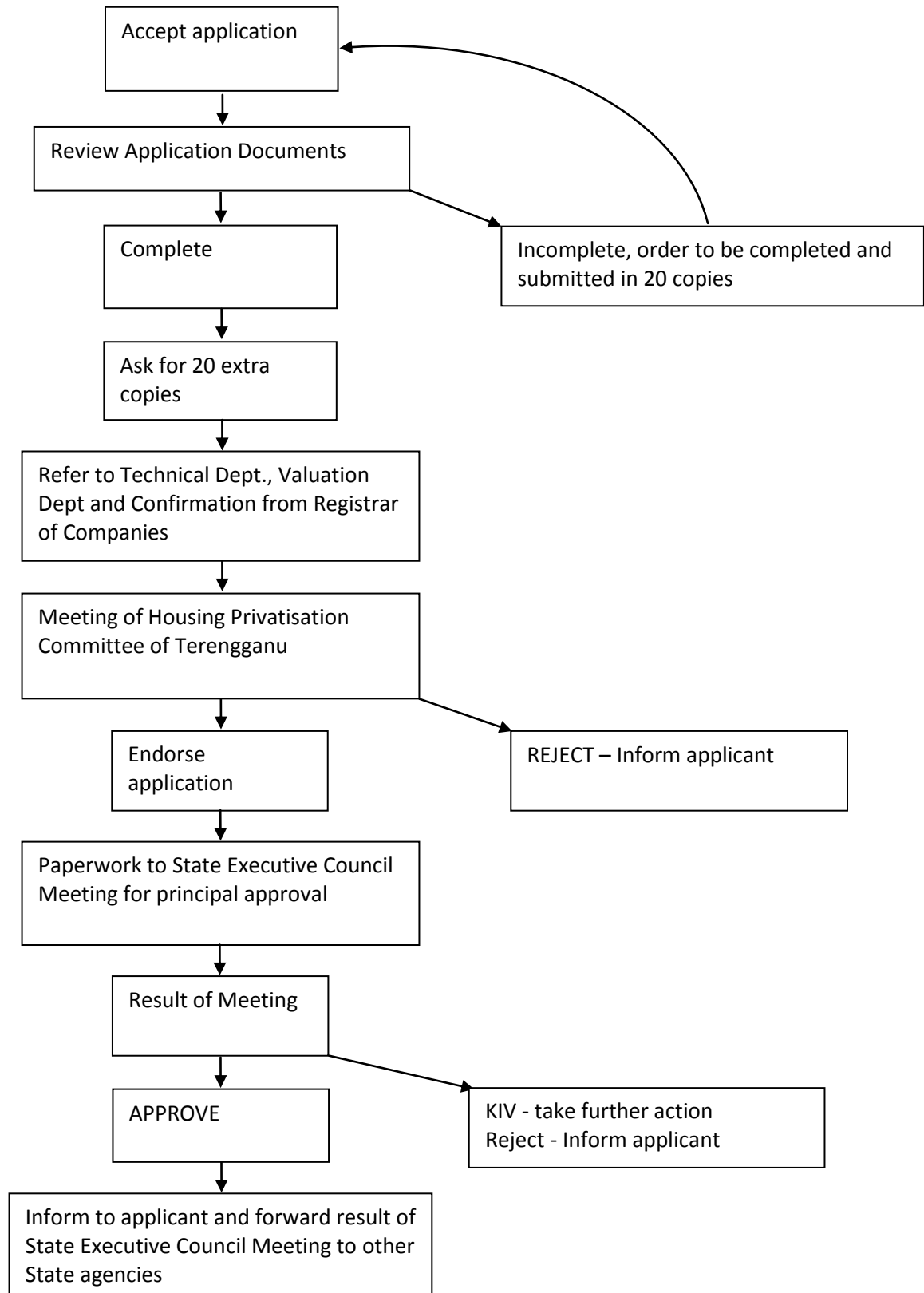
  

Side to side	9 m
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**Appendix 4: Flow chart of housing 'privatisation' (special public-private partnership) in Terengganu**

The State Authority of Terengganu implements a special housing public-private partnership known as 'Privatisation' (translated from its Malay term *Penswastaan*). Low-cost housing may form part of or 100% component of a 'privatisation' scheme. In the context of this thesis, the 'privatisation' is a method to produce low-cost housing strictly involving a partnership between the State Authority and private housing developers, whereby the State Authority provides the land and the private developer. It must be pointed out that this scheme does not involve sale of public assets, such as state land.



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