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Editorial

The present issue is devoted to discussion of socio-economic parameters in modern housing. Some eminent academicians have contributed their thoughts on the subject.

By going through these articles, it is apparent that there is an urgent national need for socio-economic studies to be carried out on sound scientific principles as affecting the quality of the built housing units and the infrastructure, the unit cost, the financial regime for housing loans, the planning of the developments in view of the multi-ethnicity and multi-religiosity nature of the population and the issues of supply and demand. I am sure that the planners are aware of this dire need.

Prof. Dr. D.N. Trikha
Chief Editor

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HOUSING FOR THE POOR: Alternative Financing-Lesson from the Grameen Bank

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The Cost of Finance

Whenever one deals with the question of affordable housing, a great deal of attention is given to reduce the cost of a house. Some effort has been extended to reduce construction costs, in terms of materials and techniques with some success. However, it must be borne in mind that construction cost is only a third up to a half of the final total cost of a house. Less obvious is the cost of finance, which is being charged by the financier of the project. Although this cost is directly charged to the developer, eventually the cost is borne by the purchaser.

Another stage where a purchaser is paying for the financial cost is when the purchaser acquires a loan from any financial institution. The ultimate sum of payment made by a purchaser at the end could be as high as two hundred percent of the sale price of a house.



It is obvious from this argument that an alternative to the conventional finance which is friendlier to the lower rung of society to purchase houses could go a long

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way in providing affordable housing. There are numerous examples of alternative financing around the world. One such endeavour, experimented with and noted for its success in Bangladesh, is the Grameen Banking system. The response and outcome from a pilot project in the District of Tangail (north of Dhaka) were so great that there are many more micro-enterprise lending programs being developed around the world using the Grameen Bank (GB) concept. Although this system addresses the issue of access to credit for the poor, parallel can be drawn to include the need for credit to acquire houses.

The Story of The Grameen Bank

What is the Grameen Bank (<http://www.grameen-info.org/bank/>) concept? Its founder, Professor Mohammed Yunus, realised that if financial resources can be made available to poor people on terms and conditions that are appropriate and reasonable, "these millions of small people with their millions of small pursuits can add up to create the biggest development wonder."

Grameen which means "rural" or "village". Therefore GB which means Village Bank serves as a catalyst in the overall

development of socio-economic conditions of the poor, who have been kept outside the banking circle on the grounds that they are poor, therefore they are not bankable.

GB introduced an unorthodox banking method by eliminating the need for collateral and created a banking system based on mutual trust, accountability, participation and creativity. The system never had to resort to judiciary or any legal action to seek repayments. They believe that the relationship is with the people, not with papers. Surprisingly, the repayment of loans by these borrowers without collateral is so much better compared to those whose loans are secured by enormous assets. GB lends out USD 35 million a month in small amounts and receives almost the same amount in repayments.

GB's ideology has inspired so many people and institutions that they have replicated GB's financial system to help the poor in their respective countries.

Malaysia has also established a Grameen-style micro-credit program for the poor in a pilot project conducted in the village of Sungai Besar, Selangor. The funds were provided by the United Nations'

development Programme (UNDP) through its Asia and Pacific Development Centre, and co-sponsored by the Selangor State government. Initially they had to motivate the poor and approached them in their homes to gain their confidence and trust. The pilot project has now expanded into a full-scale national micro-credit program known as AMANAH IKHTIAR MALAYSIA (AIM) with more than 56,000 borrowers and savers.

Again, the story of success has been repeated in the Philippines, Indonesia, Vietnam, Papua New Guinea and Nepal.

At the moment, there are about 260 million poor families in the world. Currently only 26 million families could be helped through the Grameen Banking System. The organisations that have provided these micro-credit programs have yet to extend the good news to other 90% of the less fortunate.

A Model for housing credit

While these micro-credit programs are now focusing on mobilising financial resources for the poor, there is a growing need to develop it into a more comprehensive schemes, which include credit for shelter. Although the success story of Grameen Banking deals with the poorest of the poor in Third World countries the egalitarian principles it carries could be a platform for an alternative finance for housing credit among the lower income group in Malaysia.

It has to operate within a whole new paradigm, which distinguishes itself from the conventional banking, which hitherto treated the lower income group in the same way as the higher income groups. A pilot project, which combines cheaper construction techniques with equally friendly financing would be worth looking into by research establishments with the collaboration with governing bodies in the quest for affordable quality housing.

Low-Cost Housing and Community Development

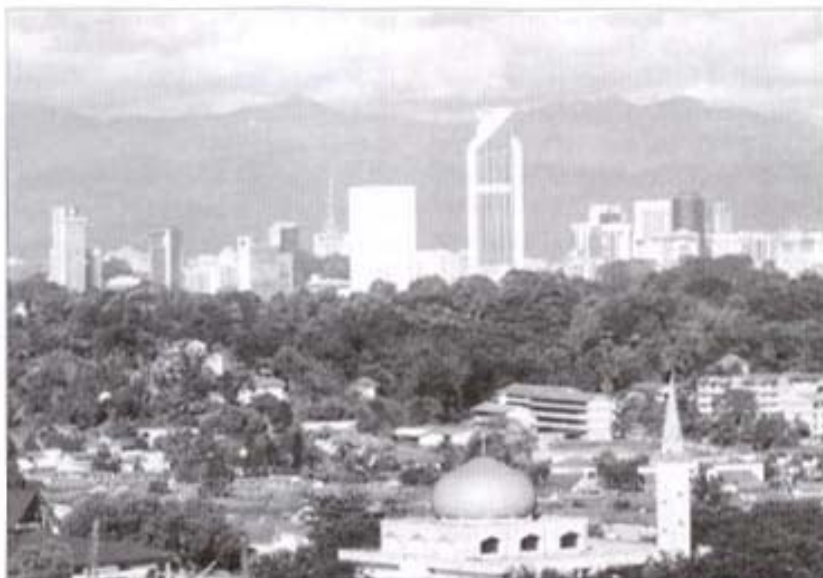
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Introduction

Sustainable development has become a slogan for many international agencies, environmentalists and evidently, urban planners. The concept of sustainable development involves technological, economic, social and political processes. In Malaysia, sustainable development literature points out that environmental degradation, for example, is often caused by poverty in urban areas, as the urban poor communities are forced to exploit resources beyond the renewal limits. Consequently, the Malaysian government has identified eradication of poverty and restructuring of society to be regarded as part of the main objectives of sustainable development. Thus, the concept of sustainable development in Malaysia emphasizes the interactions of economic development, desired social structure and ecological sustainability.

The concept of sustainable development has been implemented in low-cost housing developments in Malaysia. In many housing development programmes, the public sector played a very crucial role in planning and implementation of low-cost houses. Although there appears to be adequate housing for all the people within the country, there is considerable disparity in the quality of housing and unequal state housing distribution systems to the urban poor. The largest areas of concern are among the lower income groups and the urban poor, especially the squatter communities which occupy squatter settlements. The national data collected by the University of Science Malaysia (USM) in 1999 showed that there were



557,670 squatters living in 83,527 illegal housing units. The status of the settlements is illegal but City Hall and the local authorities have taken a more tolerant attitude towards these squatters. The government wanted a better population distribution ethnically and encouraged the Bumiputras to migrate to urban areas. The current Eight Malaysia Plan, 2001-2005 predicted that in 2001 the Malays and other Bumiputras would make up nearly 60 percent of the total urban population.

The process of squatter redevelopment is a very difficult exercise due to the lack of available and suitable land in urban areas. Nevertheless such an exercise does take place wherever possible. Many redevelopment programmes were set up by the City Hall and the state governments to ease the overcrowding of the squatter settlements. Redevelopment of squatter settlements under the public

and private partnership has been implemented by Kuala Lumpur City Hall since the second-half of the Fourth Malaysia Plan, 1986-1990. According to the City Hall, 13 squatter settlements have been redeveloped by private housing developers. The number of these projects is expected to increase to more than 20 involving a total area of about 1500 hectares. The number of squatter dwellings affected in this programme is about 10,000 units. The entire programme is expected to accommodate more than 35000 low-income households.

With a new emphasis on low-medium and medium-cost housing, the private housing developers were given a greater role in constructing low-cost housing in the country, including Kuala Lumpur. It is the policy of the Kuala Lumpur City Hall to resettle the squatters into planned housing estates with adequate infrastructure facilities and socio-cultural amenities of

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Dichotomy in Housing Scenario in Malaysia

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For mankind, housing is a necessity as it provides a roof on one's head. This is supported by Maslow's Hierarchy of Needs, where shelter is classified as a basic need and thus one will not move from this level to the next one if the need is not fulfilled. Thus, housing is said to be an important agenda in a person's life as well as a prominent issue to the nation.

A decision to buy a house depends on many factors. These include: the purpose of purchasing whether for own occupation or for investment, financial availability, location, aesthetical value, environment, legal aspects and so forth. These factors are unique and differ from one individual to another.

The recent crisis at the Old Klang Road has jolted all walks of life in our society on the importance of proper housing to be provided for the population especially in the urban areas. According to the news reported in the *Utusan Malaysia* on March 16, 2001 the residents viewed that a improper and congested housing area, coupled with inadequate infrastructure contribute to stress and triggers people to lose their temper easily.

From the Old Klang Road incident, it became apparent that the need to provide affordable and suitable housing, together with adequate infrastructure to the

residents is necessary. According to the statistics provided by the Town Planning Department of Petaling Jaya Municipal Council, the numbers of squatters units within the Old Klang area are 8,640 with a population of almost 40,000 people (*Utusan Malaysia*, 18th March 2001). This figure is said to represent half of the total population within the locality. The incident indicated the needs of affordable quality housing for the lower income group especially in the urban areas.

During the economic crisis in mid-1997, the general construction sector growth was slowing down with a figure of 10.4%. This sector was reported to have contracted by almost 22% in 1998 compared to the 1997 figure (Valuation and Property Services Department 1999). However, the performance of residential property in general was considered stable compared to other types of properties. The residential property especially for below the price of RM 150,000 remains stable due to the good demand from the market. On the other hand, prices for higher end properties especially above the RM 250,000 price tag, dropped substantially in the range of 6% to 23% depending on the location. The oversupply of higher end residential properties remains to be seen in today's market although the government in collaboration with the developers initiated

several Homeownership Campaigns to help increase the demand. In fact, the latest policy announced by the government is to allow foreigners to buy or own any properties above the RM 250,000 price.

From these two scenarios, one may come out with the conclusion that there is insufficient supply of low cost housing while there is an excessive supply of higher end price housing.

The recent study done by the National Information Center (NAPIC) in the fourth quarter 2000 however revealed that "despite some improvements in the residential sector, unsold low cost units in the country continued to increase from 5,577 to 7,296 units recording a 30.82% increase over the previous half". This statement implied that there is an oversupply of low cost housing as well in the property market. The "Loop Holes" in this type of housing maybe due to the following reasons:

- Financial affordability as the low income earners are reported not to be able to pay the 10% down payment.
- Financial constraints in terms of constraints to fulfill the financial institutions requirements for housing loans.
- Inadequate infrastructure particularly



poor public transportation makes the housing development inaccessible.

- Unfavourable location in cases where the development is situated at the fringe/outskirts of the urban centre.
- Unsuitable built-up area for medium to large-size households as the low cost units usually measure less than 800sq ft with only 2 bedrooms.

On the other hand, the oversupply of higher end price residential properties may be attributed to the following:

- Developers are ambitious and over eager to develop high price property in the light of high returns on their investments.
- Improper market study by the developers before they embark on any development has created the oversupply of this type of property. A recent statement by the Real Estate and Housing Developers Association president (REHDA) on this is "An example of a poor market study is to develop in an area with low demand and fixed unsuitable high prices" (*Utusan Malaysia*, 12th March 2001).
- Economic activities, which lead to the property boom made investment in this sector very attractive.
- Financial viability in terms of bridging loans from financial institutions.

In view of the above, we may conclude that the development of the residential sector must be reviewed to avoid misallocation of resources so the supply will sustain the demand. On top of this, a feasible market study is a 'vital pre-requisite' before initiating any development.

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2. *Utusan Malaysia* (12th, 16th and 18th March 2001)

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Low-Cost Housing and Community Development

all ethnic groups. Under the sustainable low-cost housing programme, the provision of socio-cultural facilities such as schools, clinics, religious facilities and community halls is emphasized. In addition to the provision of basic infrastructure facilities, the promotion of *rukun tetangga*, *hari keluarga*, *hari kebangsaan* and *rakan jiran* programmes are also encouraged. These programmes have been identified to balance the socio-economic needs of the squatters and the need to reduce the number of squatter houses by the local authorities. The recent Kampung Medan's experience of ethnic disputes has led to a more concerted effort in encouraging more socio-cultural activities involving all the ethnic groups in squatter settlements.



Accommodating inter-ethnic relations usually occurs on a formal or an informal level, either within or outside the framework of organizational structures. Even the bare minimum participation in the squatter community involves accommodative and cooperative action, either in the market place, the work situation, the religious centers, the school, or the community hall. Often individuals representing different ethnic groups cooperate in the main concerns of life without ever becoming intimate in their personal contacts, and without entering each other's personal lives. Social conflicts

do occur at the individual rather than at the group level. It is very crucial for local leaders to anticipate unexpected individual disputes to be settled at the early stages before they reach the worst stage leading to group or social conflicts.

For the Malay squatters, the practice of *rumah terbuka* during religious celebrations such as Hari raya Puasa is not only confined to fellow villagers. Other ethnic groups such as Indian and Chinese squatters continue to enjoy the hospitality of their Malay hosts. In the Malacca study (1992), it was found that a very high percentage of respondents (95%) visited their Malay neighbours compared to other ethnic groups. In a recent study in Kuala Lumpur and Subang Jaya low-cost housing, a large percentage of respondents were found to visit their neighbours and this is a positive social environment. Malaysians enjoy various occasions for visiting their neighbours. Festive seasons of the three major ethnic groups in Malaysia give a good reason for establishing contacts with neighbours and for developing neighbourly relations.

Hari Raya Puasa, Chinese New Year and *Deepavali* constitute good occasions for visiting the low-cost housing and squatter settlements. This phenomenon is probably relevant to Malaysia mainly due to her unique multi-ethnic society and social-cultural history. Social interactions of all the ethnic groups in both squatter settlements and low-cost housing have been encouraged by the federal government as part of the national integration processes in achieving the national development goals to be a developed nation by the year 2020.

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Real Property Gains Tax : An Overview



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This is a capital tax and would only be assessed upon disposal of property or shares in real property companies (RPC). Any person (including foreign persons) who disposes of real property situated in Malaysia or shares in a RPC is liable to pay Real Property Gains Tax (RPGT). The definition of real property is quite wide and includes rights in or over land whilst land includes land under the sea and any structures attached to the land. A RPC is defined as one which is a controlled company (a company with less than 20 shareholders and which is controlled by not more than 5 persons) and which owns property situated in Malaysia. The market value of its property amounts to 75% or more of the total tangible assets of the company.

RPGT would only be imposed on the gain arising from the disposal of real property situated in Malaysia or shares in RPC. The word disposal will include the act to sell, convey, assign, settle and alienate whether by agreement or force of law. RPGT is executed under the Real Property Gains Tax Act 1976 and its main objective is to curb land speculation in the country. It is also the only capital gains tax in the country.

The key factors that need to be considered in calculating RPGT for real property are the acquisition price, the disposal price, the acquisition date and the disposal date. The acquisition price is generally based on the price paid for the property plus the incidental costs (under paragraph 6

of Schedule 2 of the RPGT Act 1976) but less certain compensations received or deposits forfeited (under paragraph 4(1) of Schedule 2). Incidental costs will include commissions, legal fees, stamp duty and advertising costs. The disposal price is usually the transaction price less permitted expenses (under paragraph 5 of Schedule 2) like enhancing or preserving the value of the asset, expenditure incurred in defending the title to the asset and incidental costs of disposal (under paragraph 6 of Schedule 2 as mentioned above). If the disposal/transaction price is below market value, the tax authorities have the power to impute market value in calculating the chargeable gain. The acquisition date is generally the date of the agreement and where there is no agreement, the date of completion of the transaction. The disposal date of the seller will correspond to the acquisition date of the acquirer. Year of assessment for RPGT is based on the calendar year, that is, on current year basis.

Chargeable gain is derived by deducting the acquisition price from the disposal price while the holding period is the difference between the acquisition date and the disposal date. The RPGT rate is based on the holding period, the longer the holding period the lower is the RPGT rate. For non-residents or foreign persons, the RPGT rate is a flat rate of 30% irrespective of the period of holding. The present RPGT rates are as follows:

Therefore, the RPGT computed will be the chargeable gain multiplied by the rate corresponding to the holding period. For example, a company sold an office building in the 4th year after acquiring it. The RPGT computation will be the chargeable gain multiplied by the 15% rate.

The opposite situation could also arise; there is no chargeable gain but instead a loss. Section 7(4) and paragraph 33 of Schedule 2 are the relevant provisions dealing with allowable losses. Any losses cannot be carried forward in the same manner as the usual business loss but, instead be carried forward by multiplying the loss by the rate applicable to the holding period of the property.

There is also another situation whereby the disposal price is deemed equal to acquisition price so that no gain or loss arises from the transfer. Paragraph 3 of Schedule 2 sets out the circumstances where the disposal price is deemed to be equal the acquisition price (seven circumstances to be exact) and no RPGT need to be paid.

Before arriving at the chargeable gain, certain exemptions are allowed. There are three categories of exemption provided under the RPGT Act – private residences (under section 8), ministerial exemption (under section 9) and Schedule 4 exemption. They are allowed for disposals of a property during the lifetime of an individual, disposal of properties of groups of companies or for transfers of properties in connection with

Real Property	Company	Non-company	Non-resident
	Rate	Rate	Rate
Disposal within 2 years after the acquisition date	30%	30%	30%
Disposal within 3 rd year after the acquisition date	20%	20%	30%
Disposal within 4 th year after the acquisition date	15%	15%	30%
Disposal within 5 th year after the acquisition date	5%	5%	30%
Disposal within 6 th year after the acquisition date	5%	0%	5%

schemes to comply with the national economic policy on capital participation in industry. For shares in RPC, the computation of RPGT has a different approach. The acquisition price is based on the market value of the property owned by the RPC at the date of acquisition. For example, Mr. A owns 10% of the shares; the acquisition price is 10% of the market value. The disposal price is usually the transaction price but the tax authorities may impute market price. Unlike disposals of real properties, there is

provision for increasing the acquisition price or reducing the disposal price on account of expenditures or other expenses. The determination of acquisition and disposal dates and also the computation of RPGT are the same as real properties but losses on disposal of shares are not allowed to be carried forward.

Tax is payable within 30 days from the date of the Requisition for payment of tax. The penalty for late payment is 10% of the tax payable.

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**World Engineering Congress
2002**

ENGINEERING INNOVATION AND SUSTAINABILITY: GLOBAL CHALLENGES AND ISSUES
22nd - 25th July 2002, Kuching, Sarawak, MALAYSIA

CALL FOR PAPERS CALL FOR PAPERS CALL FOR PAPERS



Theme and Objective: The World Engineering Congress was originally proposed after the Institution of Engineer's Malaysia (IEM) study on the formation of engineers in Malaysia in 1999. The present Congress is the second Congress. The first Congress was held in 1999 and was attended by more than 500 participants from all over the world with more than 400 technical papers presented.

The theme of this congress *WEC2002*, is 'Engineering Innovation and Sustainability: Global Challenges and Issues'. *WEC2002* is to provide an avenue for deliberations on key issues on new and innovative areas of engineering for technological progress. Equally important is the issue of sustainability, which can be defined as a process of change in which the orientation of technology and the allocation of resources which is needed to meet the present needs and aspiration of mankind. *WEC2002* is also meant to provide a forum for discussion on appropriate and innovative technology for development, particularly for the developing countries, meeting the need to help eradicate poverty, and bridging the technological gap between the developed and developing world. This congress shall therefore provide a good opportunity for a gathering and sharing of experiences amongst an international community of engineers and

other professionals in related fields, academics, researchers, scientists as well as policy makers interested in addressing issues related to the theme of the congress. The congress is organised into eight (8) technical sessions and papers are invited under the followings disciplines:

- Biological, Agricultural and Food Engineering
- Chemical and Environmental Engineering
- Civil and Structural Engineering
- Information Communication Technology
- Electrical and Electronic Engineering
- Engineering Education, Training and Policy
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KEY DATES:

- Dateline (Extended) for submitting abstract (about 300 words) 30th June 2001
- Notification of provisional acceptance 30th August 2001
- Dateline for submitting camera-ready manuscript 29th December 2001

EXHIBITION:

There will be a concurrent exhibition at the conference venue. For more details please liaise with Jr. Peter Chong Chung Ping at Tel: 082-428506 Email: iemsb@po.jaring.my

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