

# Institutional Challenges for Flexible Pricing Policy: The Case of Kuala Lumpur

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## ABSTRACT

The high cost of land resulted in unequal distribution of houses in the city center. A flexible pricing policy was implemented to encourage the private sector to build more houses within the urban areas for the lower income group. This paper will look at the institutional framework of low cost housing delivery system in Malaysia in implementing the policy with Kuala Lumpur as the case study. The institutional framework is assessed through two aspects: 1) A content analysis of the institutions' roles, responsibilities and scope of work and 2) The planning approval process at the local government level. This is then validated by a semi-structured interview to further establish the parameters. The paper is however limited to identification of institutional parameters for the development of an institutional framework in implementing the flexible policy model. The findings suggested that the institutional framework does not complement the implementation of the policy. There are loopholes in implementing the policy comprehensively. Identification of the institutional parameter is important to contribute towards the development of a new institutional framework.

Keywords: Low cost housing, Institutional framework, Flexible pricing policy, Equal Distribution

## 1. INTRODUCTION

Kuala Lumpur is a fast growing metropolitan area that is already showing signs of *gentrification*. This is the process whereby higher income groups move back into the city and forcing out lower income groups (Short, 1996). In the case of the housing situation in Malaysia demand and supply takes center-stage since most housing provision is carried out by the private sector and land is a commodity that can be sold in the free market. In recent years, there is an increase of the high-rise development such as condominium and apartment catering for the higher income group especially in prime city area.

Malaysia practices a mixed-economy where substantial urban land is privately owned and developed for maximum returns. Therefore, to ensure regulated urban development and efficient land use, the government has adopted statutory powers to control urban development and the use of land (Arshad, 2001). This means that the government will not be providing all services and amenities for the public but the private sector plays an important role in providing services and goods to the public. The low cost housing system in Malaysia is unique where they are heavily regulated and are mostly constructed and sold in the open market by developers according to the eligibility list provided by the State Housing Department.

Control mechanism is required to ensure that the private sector will deliver the low cost housing for sale. This involved various interventions either in the forms of policies or guidelines in the planning, construction or financing throughout the housing delivery system. In 1998, the Ministry of Housing and Local Government introduced a flexible pricing policy for low cost housing for sale designed for urban areas where the implementation is left to the State Governments. This policy is designed to be more responsive to the market.

This new flexible pricing policy was applauded by private developers. It was reported in an article in Malay Borneo on 1<sup>st</sup> July 1998, under the heading - A REALISTIC PRICE:

*"... The new three-tier price structure for low-cost houses will at last make their construction much more economically viable. Housing developers have less reason now to shirk from their responsibility in helping the government meet its low-cost housing targets..."*

