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HOUSEHOLD INCOME AND EXPENDITURE AS A CAUSES OF HOME OWNERSHIP AFFORDABILITY

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Abstract

The affordability of owning a home indicates an individual's capacity to pay off all the expenditures required. The concern regarding the ability to possess a home is typically debated based on several aspects that impact home ownership. Several aspects impact an individual's capacity to afford a house such as house cost, family income and expenses, educational qualification, and other aspects. This study aims to evaluate household income and expenditure as determinants of the affordability of house ownership. Usually, an individual can own a home if the family's income can support the property's monthly rent and household expenses, and vice versa. This paper uses a survey report to extract data concerning household income, essential necessities, and family expenses for year 2019. This sample was chosen using the purposive sampling approach. Qualitative techniques were used for evaluation. Study outcomes indicated that household earnings and expenses are the critical aspects influencing homeownership ability.

Keywords: *household expenditure, household income, house price, ownership affordability, purposive sampling.*

INTRODUCTION

Home affordability has consistently been a concern in Malaysia, and national Five-Year Plans have implemented several housing schemes for low-income households. However, low-income households have not yet been able to benefit from affordable housing; hence, most such affordable properties are still unoccupied. Owning a home comprises THREE (3) primary aspects: buying, renting, or inheriting a house.

An individual's ability concerning home ownership is affected by several aspects, such as rising housing costs, family income and expenditure, educational qualifications, nature of work, workers per household, monthly ownership payments, challenges in securing a mortgage, and local housing schemes (Norazmawati, 2007).

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Rosliana et. al. (2020) suggests that the primary aspects affecting the ability to own a home for B40 comprise house category, cost, and individual income. Nevertheless, there are other aspects, like housing benefits and loan rates.

Hence, studies have indicated that household income strongly impacts home affordability and ownership. More substantial income levels usually allow individuals to buy and own costlier homes due to relatively strong purchasing power. In contrast, lower income levels cause challenges concerning home ownership.

Fatimah and Hafiszah (2023) indicates that household income is the primary aspect affecting home purchasing decisions in Malaysia; other significant aspects comprise educational qualification, job, and stage of life. Junaidi et. al (2020) align with the assertion that household income critically impacts home affordability and ownership.

Family expenses must be factored in to evaluate home affordability and ownership. Monthly mortgages might be impacted by other debts like automobile loans and credit cards, affecting the ability to gather enough money for regular mortgage payments. In contrast, relatively lower expenditure increases a household's ability to buy a house.

Income and expenses have complex dynamics that vary based on specific market scenarios. For example, it might be challenging for high earners to find and finance property in regions witnessing a surge in house prices; here, high spending levels impact the ability to buy.

A literature review concerning home ownership evaluates several works and conclusions concerning the benefits and disadvantages of property ownership, considering social, economic, and psychological perspectives. Property ownership is associated with numerous economic consequences like higher wealth, better net worth, and stronger economic resilience.

Furthermore, home ownership reduces the probability of homelessness and the impact of housing instability by facilitating stable and predictable living expenses.

Owning a home offers numerous psychological and social benefits apart from economic advantages. Homeownership affords families with feelings of stability, belonging, and contentment. Also, individuals value privacy and their ability to personalise their living environment.

Nevertheless, home ownership is not without disadvantages, such as pressure to fulfil mortgage payments, house maintenance expenses, and property taxes. Moreover, purchasing a house might burden a family with debt, impacting financial versatility and stability. The impact of owning a home might vary based on community and other aspects like income, net worth, ethnicity, and race.

Minorities might find it challenging to obtain credit or loans, creating obstacles to being homeowners. Therefore, this study emphasises evaluating family income and expenses as deciding factors affecting homeownership affordability.

METHODS

This study comprises data based on the survey report that presents household income and expenses and essential facilities pertaining to the year 2019. This report is used to identify data points used for creating the sample for this research. Prudence is essential for gathering representative data to build the sample that allows answering the research questions in order to fulfil study objectives.

The researcher is of the opinion that this technique will reduce the money and time spent on this study (Black, 2010). This study used purposive sampling. Qualitative techniques were employed for evaluation. Purposive sampling has several other names, such as selective, judgment, or subjective sampling.

It is a method where the researcher identifies candidates from the population to respond to the research questions (Black, 2010). Purposive sampling is subdivided into SIX (6) categories: typical case, critical case, extreme or deviant case, theoretical sampling, homogeneous sampling, and heterogeneous or maximum variation sampling.

The typical case is selected for this study as it highlights the normal and average values for the cases (Black, 2010). This research uses the mean case data based on the survey data concerning family income, expenses, and essential facilities for 2019.

RESULTS AND DISCUSSION

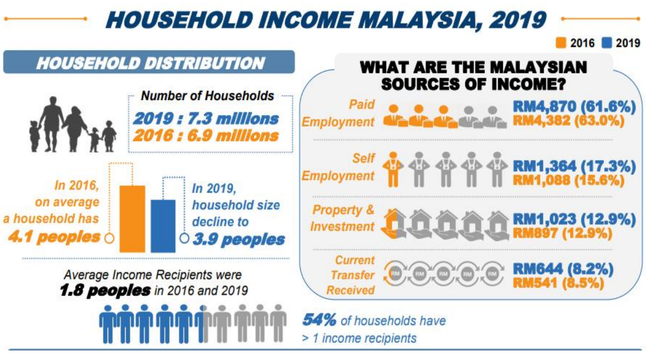
1. Household Income

Household income comprises the funds that a household's members earn through cash and other means. Household income sources comprise paid jobs, self-employment, current transfers, investments, and property (Department of Statistics Malaysia, 2019a). All these sources contribute to what is called gross income.

All family members' income, including spouses and others, are included in the household income. Though every member is not directly responsible for bearing house maintenance charges; however, for income accounting purposes, every income is considered.

Figure 1 indicates that the number of households increased from 6.9 million in 2016 to 7.3 million in 2019. The average household size has reduced from 4.1 to 3.9 people during the same period (Department of Statistics Malaysia, 2019a). This decrease can be attributed to fewer children per family due to several aspects like rising living expenses, higher Overnight Policy Rate (OPR), and more expensive homes. Household income sources are classified into the following FOUR (4) categories: paid employment, self-employment, current transfer received, and property and investment.

Figure 1: Household Income Malaysia, 2019



Source: Department of Statistics Malaysia (2019a)

Paid employment was the single largest income source accounting for 63.0% of the household income in 2016; however, it reduced to 61.6% in 2019, owing to higher income attributed to other streams.

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Self-employment generated 17.3% of income in 2019, up from 15.6% in 2016, because several people started personal businesses. In contrast, property and investment accounted for 12.9% of household income generation in 2016 and 2019 since investors in this category have been similar.

Further, the current transfer received income source witnessed a decrease from 8.5% in 2016 to 8.2% in 2019. Clearly, 54% of households have multiple earners, while the average earners per household have been 1.8 persons for both 2016 and 2019 (Department of Statistics Malaysia, 2019a).

Table 1: Income Share, Median, Mean Household Income, and Income Threshold by Household Decile Group, Malaysia, 2019

Decile Group		*Income Share (%)*	*Median Household Income (RM)*	*Mean Household Income (RM)*	*Income Threshold (RM)*
T20	*T2*	*30.7*	*19,781*	*24,293*	*More than 15,039*
	T1	*16.1*	*12,586*	*12,720*	*10,960 - 15,039*
M40	*M4*	*12.3*	*9,695*	*9,730*	*8,700 - 10,959*
	M3	*9.9*	*7,828*	*7,841*	*7,110 - 8,699*
	M2	*8.2*	*6,471*	*6,477*	*5,880 - 7,099*
	M1	*6.8*	*5,336*	*5,346*	*4,850 - 5,879*
B40	*B4*	*5.6*	*4,387*	*4,395*	*3,970 - 4,849*
	B3	*4.5*	*3,556*	*3,561*	*3,170 - 3,969*
	B2	*3.5*	*2,786*	*2,803*	*2,500 - 3,169*
	B1	*2.4*	*1,929*	*1,849*	*Less than 2,500*

Source: Department of Statistics Malaysia (2019a)

Table 1 lists 2019 data on the Household Income and Basic Amenities Survey Report based on three primary income classes (B40, M40, and T20) in Malaysia. About 2.91 million households belong to the M40 group, with an income range of RM4,850 to RM10,959. Further, there are 2.91 million households in the B40 group, earning over RM4,850.

Lastly, the T20 class comprises 1.46 million households with an annual income equal to or exceeding RM10,959. The survey also indicates that the T20 group accounted for 46.8% of the total income in 2019 compared to 46.2% in 2016. The M40 group accounted for 37.2% of the overall household income, followed by B40, which decreased to 16.0% in 2017 from 16.4% in 2016.

2. Household Expenditure

In the context of household income categories in Malaysia, B40 comprises income levels below RM4,850; such households spend a more significant fraction of their income to fulfil food and housing needs. On the other hand, T20 households earn over RM10,959 and spend a significant fraction to pursue leisure activities and purchase appliances and furnishings.

Earning levels significantly affect a family's spending patterns. The M40 and T20 categories exercise greater control concerning spending options, while the B40 category is required to dedicate more funds to basic needs. The study indicates disparities concerning funds allocation for education and wellbeing; the T20 category spends more than B40 and M40.

Table 2: Components of Mean Monthly

Household Consumption Expenditure by The Main Group

No	Type of Expenditure	Total (RM)	Percentage (%)
1	Food and non-alcoholic beverages	783	17.3
2	Alcoholic beverages and tobacco	105	2.3
3	Clothing and footwear	152	3.3
4	Housing, water, electricity, gas, and other fuels	1,068	23.6
5	Furnishings, household equipment, and routine household maintenance	200	4.4
6	Healthcare	95	2.1
7	Transportation	611	13.5
8	Communication	229	5.0
9	Recreation and culture	229	5.1
10	Education	70	1.5
11	Restaurants and hotels	631	13.9
12	Miscellaneous goods and services	361	8.0
TOTAL		4,534	100

Source: Department of Statistics Malaysia (2019a)

Table 2 indicates that the 2019 monthly average expenditure for Malaysian households stood at RM4,534, increasing from RM4,033 in 2016. At the same time, the median expenditure increased to RM3,654 in 2019 from RM3,314 in 2016.

These figures suggest an inflated cost of living in Malaysia. It is concerning because individuals' living standards are expected to decline. Therefore, Malaysians must be able to pay for necessary expenditures such as wellbeing, housing, and commuting (Mohammad et. al., 2021).

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Table 3: Percentage of Components of Monthly Household Expenditure by Household Size in Malaysia in 2019

Expenditure group	*Household size (person)*					*Total*
	One	*Two*	*Three*	*Four*	*Five & more*	
Food & non-alcoholic beverages	*15.8*	*17.2*	*17.0*	*16.9*	*17.9*	*17.3*
Alcoholic beverages & tobacco	*2.3*	*2.5*	*2.5*	*2.4*	*2.1*	*2.3*
Clothing & footwear	*2.5*	*2.6*	*2.8*	*3.5*	*4.0*	*3.3*
Housing, water, electricity, gas & other fuels	*32.0*	*27.8*	*24.7*	*22.7*	*20.7*	*23.6*
Furnishings, household equipment & maintenance	*3.9*	*4.3*	*4.5*	*4.5*	*4.4*	*4.4*
Health	*2.6*	*2.6*	*1.9*	*1.9*	*1.9*	*2.1*
Transport	*11.2*	*12.7*	*13.3*	*13.3*	*14.2*	*13.5*
Communication	*4.1*	*4.5*	*5.3*	*5.3*	*5.2*	*5.0*
Recreation services & culture	*4.6*	*5.1*	*5.3*	*5.3*	*4.9*	*5.1*
Education	*0.2*	*0.5*	*1.9*	*1.9*	*2.2*	*1.5*
Restaurants & hotels	*14.1*	*13.1*	*14.3*	*14.3*	*14.0*	*13.9*
Miscellaneous goods & services	*6.6*	*7.1*	*8.0*	*8.0*	*8.5*	*8.0*
Total	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***

Source: Department of Statistics Malaysia (2020b)

Table 3 indicates that single-family households used about 32.0% of the earnings for water, gas, electricity, housing, and fuel. However, this group requires lower income fractions spent for such expenses as the household size increases. For instance, a household with two people requires 27.8% of earnings, while three and five-person households require 24.7% and 20.7% of income to fund these expenses, respectively.

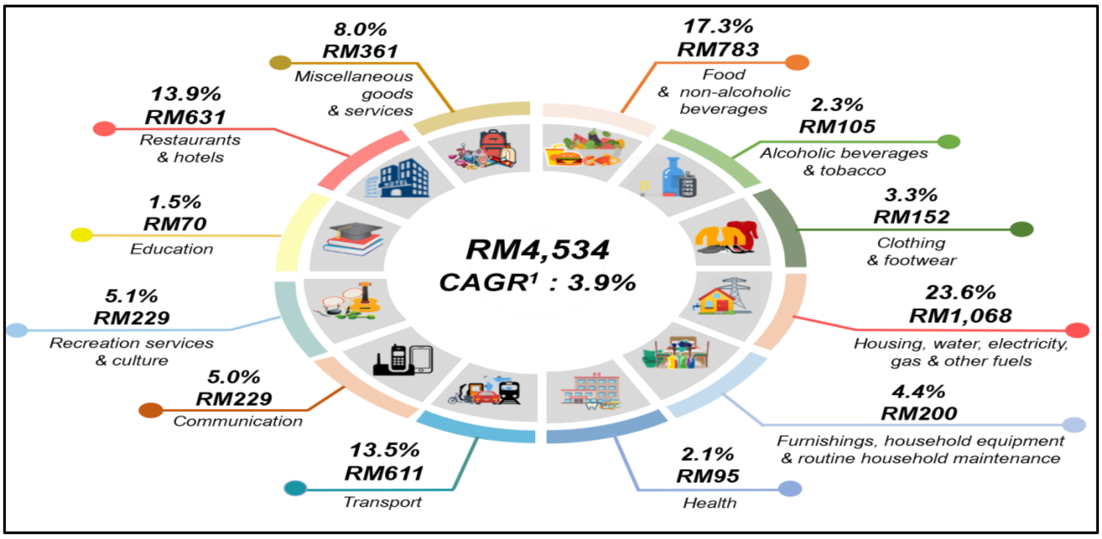
It indicates that the number of households occupying a property determines the expenses. A family with more household members requires higher absolute expenditure, and vice versa. Moreover, living costs, specifically food-related expenditures, rise as the size of the household increases.

Table 3 indicates that households having five or more individuals spend 17.9% of the overall income on food and non-alcoholic beverages, compared to 15.8% for single-individual households. In contrast, other expenses such as clothing, footwear, transport expenditure, and other products and services are nearly similar and the two groups.

Considering Table 3, the monthly household expenditure in Malaysia is categorised into 12 heads. These heads had an average monthly value of RM4,534 in 2019, as the Department of Statistics Malaysia data indicates (Department of Statistics Malaysia, 2020b). Housing and utilities comprise the single largest expense component, requiring 23.6% or RM 1,068.

This head includes electricity and rent. There are 11 other expense heads - food and non-alcoholic beverages (17.3%), hotels and restaurants (13.9%), transportation (13.5%), different goods and services (8.0%), recreation and cultural activities (5.1%), communication (5.0%), furnishings, household appliances and regular household maintenance (4.4%), clothing and footwear (3.3%), tobacco and alcoholic beverages (2.3%), health (2.1%), and education (1.5%). All these heads were evaluated to understand how money is apportioned.

Figure 2: Overall Percentage of Monthly Household Expenditure



Components in Malaysia in 2019

Source: Department of Statistics Malaysia (2019b)

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Homeownership expenditure is critical in Malaysia, specifically for M40 and B40 categories. Excessive housing costs and income inequality create challenges preventing numerous Malaysians from owning homes as shown in Figure 2. Household income and expenses are critical factors impacting home ownership affordability in Malaysia.

Department of Statistics Malaysia (2019b) asserted that food, non-alcoholic beverages, and commute account for a major expenditure fraction for most households in Malaysia. Households spent an average of RM4,033 towards these expenses. Homeownership affordability is affected explicitly in metropolitan regions due to high costs and higher real estate valuations.

In 2020, the cost of a typical Malaysian home was RM320,000, a number 4.4 times the median family earnings; hence, purchasing a home can be an expensive proposition for many in Malaysia. Research indicates that the quantum of money required for housing-specific expenses greatly affects a family's home affordability. Briefly, it is natural that household expenses significantly impact home ownership and affordability in Malaysia.

If a large chunk of household income helps meet housing and non-essential expenses, the occupants might be unable to save sufficiently for down payments and monthly mortgage instalments. Fortunately, government schemes aimed at increasing homeownership access are helping build a more accessible and equitable for every individual in the country.

Households have daily expenses that include non-housing costs such as food, clothing, education, transportation, and healthcare. The recommended monthly spending breakdown is one-fourth for housing expenses and three-fourths for non-housing expenses. Neglecting non-housing costs may affect homeownership affordability by limiting the capacity to pay a down payment or mortgage.

As mentioned by Norazmawati and Muhammad Shafiq (2023), that due to limited housing supply may cause low-income people to live far from their workplace. This situation will increase the monthly expenditure of the household.

Investment in education is essential to strengthen the future economy, and neglecting it could result in a rise in societal issues. High non-housing costs in metropolitan areas, particularly transportation costs, affect homeownership affordability. Low-income households prioritize expenses for basic needs such as food and clothing.

Excessive expenses can hinder a homeowner's ability to afford housing. When families allocate a significant portion of their income towards consumption, it leaves little room to save for a down payment or to pay for their mortgage. This can make it more difficult to qualify for a mortgage or afford a home.

Additionally, high spending on non-housing items can strain household finances, making it challenging to meet the ongoing costs of homeownership, such as property taxes and maintenance fees. To ensure homeownership remains affordable, households should prioritize their spending and focus on reducing unnecessary expenses.

CONCLUSION

In conclusion, household earnings and expenditures significantly affect homeownership affordability. Despite significant house prices, it is vital to account for other expenses such as wellbeing, food, clothing, commute, and education. Observations by Norazmawati (2021) indicated five post-Covid-19 issues concerning home purchases: short- and medium-term housing market slowdown, dumping, long-term housing market forecasts, land tax arrears, and assessment tax.

Homeownership affordability of a family might be affected if such expenses are unaccounted for since the remaining funds would not suffice for paying the mortgage or down payments. It is suggested that one-fourth of the overall expenditure be made towards housing, while the remaining three-fourths should be made for non-housing necessities. Studies suggest that disregarding non-housing expenses is an issue rampant in several nations.

Income and expenses are household aspects that determine homeownership feasibility and affordability. Moreover, household earning and spending patterns also affect housing affordability. Individuals might not be able to own homes if a more significant fraction of their income is dedicated to housing, while other household expenditure remains neglected due to a lack of funds.

This is proved by Abdul Fattah et. al (2018) mentioned that the residential mobility aims to address issues related to households' life adjustments and the mismatch between residents' current needs and their housing consumption.

In Malaysia, RM300,000 is the threshold considered for affordable housing. Arranging this sum is infeasible for low- and medium-income households. Hence, renting a house remains the sole option because the purchase is infeasible. This complex issue requires a combined analysis of several home ownership aspects to address the issue of home ownership affordability and increase homeownership rate. Fatimah and Hafiszah (2023) are aligned that affordability challenges can be addressed through government initiatives that regulate the prices in the housing market.

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AUTHOR CONTRIBUTIONS

Authors contributed to the design of the research, the questionnaire, and the write-up. Authors have read and approved the final manuscript.

CONFLICT OF INTEREST

The authors declare no conflict of interest.

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