Combating Gentrification Pressures in Inner Cities: A Case Study of Localised Affordable Rent-Determination in Malaysia.

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Abstract

This paper highlights the benefits of a Community Development Fund (CDF) in alleviating the pressures of social displacements in top-down urban regeneration development. The scale of big urban regeneration projects and the scale of displaced communities are different. The former is at a national/state or city level whilst the latter can be at the scale of neighbourhoods. Therefore, the existence of CDF to complement wider urban regeneration strategies is critical towards making city development more inclusive.

A case study in George Town World Heritage Site (GTWHS), Penang on the ‘localised’ rent determination by both tenants and owners away from the general ‘market’ trend of rapid rent escalation in the area is presented. The area was experiencing many challenges, namely (a) the displacement and loss of the residential population and (b) the challenges of gentrification and therefore declining housing affordability due to rental and property price increases.

The Hock Teck Initiative or the ‘Pilot Project’, the first recipient of the CDF initiative, was designed to empower tenants to negotiate for their tenancy rights by proving that they are willing to shoulder some financial burden towards the upgrading of their homes. The financial investments made to the upgrading of their rented homes renders the tenants to become stakeholders of the re-development project.

The Pilot Project had the objective of preventing the eviction of tenants from their houses. A new funding mechanism was created where the combination of a public matching grant to property owners and a collective loan to the tenants gave rise to a new method of providing affordable renting at a fixed price. It was also sustainable because the mutually agreed rent-price addressed both parties’ financial burdens, even though it was below the market rate. The inherent problems of city level rent control were prevented in this localised initiative. Therefore, the CDF has managed to institutionalize at the neighbourhood level, a process that promotes rent determination and stabilization that is both inclusive and sustainable.

Keywords: Community Development Fund, Affordable Renting, Rent Determination, Gentrification.
Introduction- The George Town Conundrum

The designated core zone of the Historic City of GTWHS covers an area of 109.38 ha. The core zone is protected by 150.04 ha of the buffer zone. A total of 1,715 heritage buildings within the core zone and an additional 1,928 heritage buildings in the buffer zone have been identified as having significant cultural and historical value. These buildings form part of the largest existing collection of pre-World War 2 (WWII) buildings in an urban centre within Southeast Asia.

Figure 1: Map of GTWHS

![Map of GTWHS](image)

Source: "George Town World Heritage Site."

While conservation plans for pre-WWII historical buildings and monuments have been initiated and developed from as early as the 1970s, initiatives to conserve the intangible cultural heritage and social fabric of the inner-city residents have remained limited. Therefore, the enactment of the Control of Rent Act (CRA) 1966 has largely aided the preservation of the overall integrity and authenticity of both the tangible and intangible values of GTWHS. Before it was fully abolished in year 2000, the CRA 1966 granted original tenants in the inner-city area the right to enjoy low rental rates for housing and thus allowed these residents to continuously inhabit and practice their trade in the pre-WWII shop houses within the inner-city area. The preservation of this cultural landscape, both the built form and the residents who make up the inner-city communities, has allowed GTWHS to establish itself as a living testimony of the multi-cultural heritage and tradition of a colonial trading town on the Straits of Malacca. With this, GTWHS fulfilled the requirements it needed to be inscribed into the United Nations Educational, Scientific and Cultural Organization’s (UNESCO) World Heritage List.

In recent years, however, two distinct policy shifts have indirectly dismantled the social fabric of GTWHS: the repeal of the CRA and the inscription of George Town as a UNESCO World Heritage site (WHS) in 2008.

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Rising rents, dwindling residents

Prior to its repeal in 1997 and its subsequent abolishment in 2000, the CRA, which regulated rental rates of all buildings built before 31 January 1948, affected approximately 12,577 dwelling units in Penang. More than 60% of these units are in the inner-city core, housing approximately 16,116 households. The legislation not only regulated the rental rates of these buildings but effectively protected existing tenants from being evicted. While the CRA granted landlords the right to reclaim their premises for the purposes of redevelopment or for their own use, property owners often had to substantially compensate existing tenants to do so. Consequently, tenants of buildings protected by the CRA generally stayed put and the low rental rates that they enjoyed only reflected about 10-20% of the current market prices at the time.

When the CRA was finally repealed in 1997, many property owners of pre-WWII buildings took the opportunity to cash in on the long overdue capital appreciation of their assets. A lot of heritage buildings flooded the property market from 1997 onwards resulting in an oversupply of these type of units being put on sale. While the total transactions for heritage properties continued to increase annually until year 2000, the prices of these units fluctuated during the period. The prices of pre-WWII shop houses increased in 1997, driven by the expectation of vacant possession by year 2000. However, this exuberance did not last as oversupply coupled with the 1997/98 Asian Financial Crisis led prices to drop by as much as 54% in 1998 and by approximately 10% in 2001. After 2001, prices of pre-WWII shop houses started to recover despite still experiencing an oversupply. Nevertheless, unsold units during this period remained vacant after being vacated by previous statutory tenants.

For the existing tenants, the abolishment of the CRA resulted in an overnight rent hike in 2000, with rental rates increasing by 50% to 300% for most tenants. The 'market rent' was in general arbitrarily determined and property owners may have overestimated the values of their properties after adhering to the low rental ceilings for more than 30 years. While tenants had been given a grace period of two years since late 1997 to adjust to the impending rate hike, many tenants, especially low-income households, were not able to manage the impact of the repeal on their own. This resulted in numerous evictions of existing tenants, some of whom had been residing and operating their businesses at the properties for generations. Many others, both residents and businesses, chose to leave GTWHS in droves, unwilling to pay the higher rental rates.

Data collected from Geografia’s George Town Land Use and Population Survey highlighted the population decline of residents in the George Town inner-city area. In 2009, 10 years after the abolishment of the CRA, the number of households residing in GTWHS’s inner-city has dwindled to only 2,533.

Beyond 2008: George Town as a UNESCO World Heritage Site

The repeal of the CRA in 1997 exerted pressures on housing affordability for GTWHS’s inner-city residents and had resulted in a massive outward migration from GTWHS in the early 2000s. During the same period, the Penang State Government worked to prepare for its

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3 Ibid.
4 Ibid.
6 Atsumi, "The Repeal of Rent Control in Malaysia," 29-38.
7 Ibid.
8 Geografia, George Town World Heritage Site.
application to be inscribed into the UNESCO’s World Heritage site listings. The first joint application dossier for GTWHS and Melaka to UNESCO was submitted in 2005 but was not successful. A new application was submitted again in 2007 and both cities were successfully inscribed onto the listing in July 2008.

While being inscribed as a World Heritage site has successfully boosted the image of Penang and paved the way for the state to rejuvenate its tourism industry, it also exerted additional pressures on housing affordability for GTWHS’s inner-city residents, prompting another wave of outward migration. In its 2007 nomination dossier to be a World Heritage site, it was estimated that GTWHS had a total of 18,660 residents. By the end of 2009, less than 2 years after its official inscription, this number has almost halved to only 10,159 residents. The population of GTWHS has continued to decline, albeit at a slower rate. Between 2009 and 2013, it is estimated that as many as 591 households left GTWHS.

Figure 2: Net Population Change 2009-2013

Source: Geografia, George Town World Heritage Site.

Much of this population decline can be attributed to the sudden jump in valuations for properties situated within the World Heritage site. As a direct consequence of its UNESCO inscription, expectation on property prices and rental income substantially increased given the potential for future development for these properties, especially for tourism. Many property owners renovated their properties to fetch higher rentals while others sold off heritage properties to capture the capital appreciation that came with the inscription. By 2011, the price paid for heritage buildings was as much as 23% more for a double storey pre-WWII shop house located within the core zone of the heritage site. Tenants, which made up approximately 60% of the residential population within the heritage site, either had to pay a higher rental to or seek housing elsewhere in Penang.

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9 “Melaka and George Town (Malaysia).”
10 Geografia, George Town World Heritage Site.
Achieving tenancy security is key to preserving cultural heritage in GTWHS

In 2013, a total of 9,425 people resided in GTWHS, occupying 31.4% of the buildings within the site. Slightly over 15% of these residents are 60 years and older while 10% are children under the age of 16. Elderly couples with and without mature children make up about 22% of the total households within the site. Young families ie. married couples with small children, teenage children and mixed aged children make up 6.1%, 6.5% and 10.1% of the household population respectively. Multiple family households ie. married couples with children and extended family form 11.2% of the household typology in GTWHS. Notably, non-family households ie. one person households and groups of workers make up a large part of the household typology in GTWHS, at 13.6% and 15.3% respectively, for a combined total of 28.9%\textsuperscript{12}.

Of these residents, 63.9% are renters\textsuperscript{13}. Figure 4 below shows both the locations of residential renters and owner occupiers per number in a building.

**Figure 3: Residential Renters and Owner Occupiers**

![Image of Figure 3: Residential Renters and Owner Occupiers](image.png)

Source: Geografia, *George Town World Heritage Site*.

The large proportion of rental properties within the World Heritage site illustrates the striking fragility of the existing social fabric of communities living in GTWHS. Because a tenant’s ability to occupy his or her residential space depends entirely on the negotiated tenancy agreement between himself/herself and the property owner, shifts in policy or market demands that directly or indirectly impact housing affordability and property values can lead to a further hollowing out and subsequent deterioration of the living heritage in GTWHS. Landlords or building owners seeking to benefit or maximize profits from these changes can simply raise rentals to attract higher value uses or new tenants who are able to pay higher rents. It is therefore vital to ensure that property owners take into consideration the invaluable social and cultural history that their respective tenants bring into the community within the heritage site and for tenancy agreements to reflect this intangible contribution.

\textsuperscript{12}  Geografia, *George Town World Heritage Site*.
\textsuperscript{13}  Ibid.
The Need to Intervene: Provide Options for Tenants to continue Renting in a Sustainable Way

Prior to its inscription in mid-2008, GTWHS had a total of 18,660 residents. By the end of 2009, this number had almost halved to only 10,159 residents. The population of GTWHS had continued to decline, albeit at a slower rate. Between 2009 and 2013, it is estimated that as many as 591 households left GTWHS. Unfettered gentrification creates displacement of the original communities and their multicultural lifestyles. The sale of buildings from one owner to another has contributed to rents becoming more expensive for the existing renting population.

Examples in other cities regionally have shown that uprooting communities from their conventional and historical communal physical settings have had mixed outcomes in terms of success or failure. When communities are relocated, some do well in new residential places. This may be due to several reasons ranging from better social amenities to readily available transportation facilities. These factors are congenial to the emergence of a social fabric where new communities thrive. Other sites have struggled. In later years, these new residential sites become the ‘new’ urban slums. The salient point to note is that most of these programmes are planned and driven by technical professionals without engaging the most relevant stakeholders, the communities themselves. As a result of this non-participatory approach, the suggested initiatives usually fail to address the problems faced by the communities themselves.

The Pilot Project had this objective of addressing this non-participatory approach gap by introducing mechanisms for both the tenants and landlords to decide on the rental rates that are sustainable for both parties. By doing this, rents are determined by the ‘market forces’ at the localised street level, which were lower from the city’s ‘market forces’. The Pilot Project was conceived and executed by two agencies; Think City (TC), a local grants programme agency and Asian Coalition for Housing Rights (ACHR), a regional NGO based in Bangkok.

Pilot Project
Inception- Phase 1: The Application for a Physical Restoration Grant from the Owners of the Property

An opportunity to pilot this scheme came in September 2010, when the trustees of Hock Teik Cheng Sin Temple submitted their application for a physical restoration grant to a grants programme (TC) specifically for restoring buildings in the GTWHS. The application was for the physical restoration of the 10 shop houses at Armenian Street that were part of the Hock Teik Cheng Sin Temple building complex. At the time of the application, 8 of the 10 shop houses were tenanted.

The Trustees/ Owners

Hock Teik Cheng Sin’s Board of Trustees holds the property for the use of the four brotherhood societies. Each society appoints four representatives to sit on the Board of Trustees.

The Tenants

The temple building and shop houses on Armenian Street were built between 1850 and 1867. As with most typical shop houses, the upper floor is used for residential purposes and the

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ground floor as commercial shops. The back portion of the commercial ground floor normally serves as kitchen spaces for the families. Six families have lived there for a span of three generations, whilst two households have just moved in within the past 6 to 7 years. The barber shop and the bicycle shop were opened in 1960 and 1950 respectively.

Figure 4: Details of Tenants at their respective homes

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<th>No. of tenant</th>
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<tr>
<td>57</td>
<td>Temple meeting room &amp; storeroom/n.a.</td>
<td>Barber shop and residential/ 3 generations</td>
<td>Residential/approx. 20 years</td>
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Source: Ooi and Sia, "Dilapidation Report". Ng “Proposal”. KRI calculations.

Inception – Phase 2: Identifying Needs for both Owners and Tenants

The assessment of the grant application had the preliminary findings:

- There is an urgent need to execute major repairs to the roof structure of the 10 shop houses but the owners suffer from insufficient funds. Their sources of funds come from a) the rents from the shop houses and b) the general public’s donations to the temple. The rent tenure has been changed to a monthly basis due to the impending proposed repair works. Tenants are not allowed to occupy the building during the construction period. The owners would want to recoup the costs of repairs by increasing the rents.
- The tenants’ anxieties were concentrated on tenancy security. They have less concerns on the actual poor building conditions. The move by the owners to convert the tenancy agreements from yearly to a monthly basis further exacerbated the tenants’ fears.

Due to the monthly renting tenures, the tenants suffered high anxieties and distress due to the probability of being evicted from their homes every month. On the other hand, the owners complained of the tenants’ duplicity for conducting repair works without informing them. In

15 “Directory of Traditional Trades and Occupations in George Town World Heritage Site 2012 (by streets).”
addition, the owners considered the current rents as too low and therefore inadequate for the purposes of maintaining the physical conditions of the shop houses.

Who Determines the Rent?

Phase 1: Owners Receive a Matching Grant for Building Repairs from TC

The matching grant to the owners for the a) repairs of the roof structure and b) façade retention of all 10 shop houses was approved in November 2010. A matching grant means that the grant given cover only half of the building repairs’ costs. The owners will ‘match’ or supply the other half of the costs from their own coffers. The owners however were requested to participate in a Tenant-Owner workshop before they start on the repair works.

The team TC-ACHR team attended several separate meetings with tenants and owners to identify each party’s needs regarding the tenancy agreement. During that period, TC-ACHR formulated a mechanism for rent determination for both parties. The other objective, which was more important, was to build tenants’ confidence in devising feasible tenancy proposals for owners to consider.

Photo 1: Tenants listening intently to the TC-ACHR’s community facilitator

Phase 2: Tenant-Owner Workshop

The first Tenant-Owner workshop was conducted in April 2011. This was the critical point of the rent determination process since participants were introduced to the collaborative funding strategy. There were several discussions on the roles and responsibilities of both trustees and tenants in the historical/traditional sense (where clan leaders were custodians for new comers to GTWHS) and how those notions of pastoral responsibilities have been eroded since the colonial period.
ACHR introduced the concept of having a ACCA loan (see Figure 5) for tenants. They explained that ACCA funding, as part of the Community Development Fund (CDF) has been used in cities across Asia to provide funding for community-led processes to address issues of land tenure security, infrastructure access, housing improvement and social and economic development of poor and vulnerable communities.

ACHR suggested to the tenants to utilize the funds to cover the costs of internal repairs of the shop houses. This act will demonstrate to the owners that tenants are active partners for the betterment of their physical living conditions. The tenants have now invested their own funds into this redevelopment project. Therefore, it is justifiable that they can have a ‘say’ in the direction of the said redevelopment.
Phase 3: Post Workshop – Forming the Armenian Tenants Group to secure ACCA funding

Initially, the tenants were hesitant with the idea of taking a loan to renovate houses they do not own. However, the tenants finally agreed due to the shared need of having to negotiate with the owners as a collective group. The next step was to determine the extent of repairs each shop house would require and calculate the total funds the tenants would want to invest in their rented properties. Each household calculated the estimated costs of building repairs for their own individual unit. The total costs of repairs were exorbitantly high. TC-ACHR team scrutinised the estimations and found unnecessary refurbishment items under the costing. Moreover, it was highly unlikely that the tenants could afford to pay back such a hefty sum.

The team moved to a different strategy to facilitate a more consistent and coherent assessment of the actual need for repairs. They facilitated several inter-house site visits amongst the tenants. All tenants visited each other’s house in a group and determine collectively what should be included in the list of repairs works and therefore be the loan amount.

Initially, some tenants felt that their homes were in faulty conditions, but the inter-house visits made them realise that others endured worst conditions. The visits have created the awareness to tenants that a proper building dilapidation assessment must be executed to ensure the repairs are done on a professional and needs basis, and not on the wants of each household.
Rethinking priorities

After the site visit, the tenants detailed out the physical damages with the help of the facilitators and a technical building dilapidation and defects report. They revised the costing and prioritised repairs according to the severity of the damages incurred by each shop house. Along with the team’s assistance, the tenants discussed, prepared and submitted the application for ACHR’s funding together as one community.
Figure 6: Building Dilapidation and Defects Report: Repair List

No. of tenant: 5
Tenancy/history: Residential / 40 years approximately

Repair work list
- Termite infestation in second floor and door frame (decaying)
- Peeling wall on ground floor
- Timber stairs decaying and shaky
- Leaks in balcony roof
- Second floor ceiling seriously broken
- Rusted gutter in kitchen (leaks)

Source: Ooi and Sia, “Dilapidation Report”.
Figure 7: Building Dilapidation and Defects Report: Building Plans of required repairs

Source: Ooi and Sia, “Dilapidation Report”.
Based on the Building Dilapidation Report and inter-house visits, the tenants prioritised their requests for building repairs. They strategized on the number of building rectification works needed and a viable loan repayment scheme for each unit.

In May 2011, ACHR announced the approval of funds for CDF in Penang. A total of USD 58,000 was allocated with a breakdown as follows:

- USD 40,000 for city upgrading project
- USD 15,000 for small upgrading project
- USD 3,000 for capacity building

The amount used for the Pilot Project was USD 15,000 or approximately RM 40,000\(^\text{16}\). Once the application was approved, the tenants negotiated with the trustees on their tenancy agreement. The tenants proposed for the monthly lease to be converted to 10-year period at a rent of RM 400 per month.

\(^\text{16}\) Exchange rate in May 2011

Photo 5: Tenants working out the loan repayment schedules
The determination of rent was based on two factors:

a) The calculations of paying back the loan/investments by the tenants on top of monthly rental payments

b) The calculated gains for the owners who benefitted from TC’s matching grant for structural building repairs

On both accounts, the owners will have the benefit of low maintenance costs. Maintenance costs is a significant determinant in the calculation of rent increments. The owners eventually agreed to the terms requested by the tenants, with the provision that subsequent rent increments must be made to reflect general inflationary trends.

It was a financially viable solution for both owners and tenants. The owners managed to refurbish their properties and the tenants attained a better tenancy agreement with affordable rents. More importantly, this process has strengthened the owner-tenant relationships, the tenants are now ‘partners’ to the project. The tenants are also confident that they can negotiate a new deal with the owners after the 10-year period has expired.
Figure 8: The Process

Bringing it all together: A Rent Determination and Stabilization Mechanism at a Local level

The entire process took 10 months, and involved delicate handling of difficult operating environment. However, the tenants now have a 10-year affordable rent stabilization policy that does not need any policing nor monitoring from a central agency, as evident in the many rent control systems in other cities\textsuperscript{17}. The tenants themselves have come together as a collective to monitor and maintain the rent stabilization initiative with the tenants. Since they have parked their own money in their rented spaces, the incidences of vandalism and inappropriate use of the facilities are kept at the bare minimum.

\textsuperscript{17} Kristof, “The Effects of Rent Control and Rent Stabilization in New York City”, 123-147
TC-ACHR small grants programme and loan facility, the “Community Development Fund” afforded the opportunity to engage closely with both tenants and owners. The facilitation process warranted experts who have a deep understanding of the social and commercial environment as well as the technical competence of the development process. This was especially important in issues of investing monies in specific aspects of the development process.

It was equally important to identify the key needs within the project and to locate it within the larger development agenda. If not, one can get entangled with the specific demands of the project in hand and lose sight on making the necessary structural improvements to the larger development agenda. Structural improvements are needed for the initiative to be sustainable. The structural improvements included nurturing a positive working relationship between communities and their building owners as well as local governments.

Decisive and informed decision-making by the facilitators based on the wider objectives of preventing social dislocation was evident. This includes improving the process, continuously readapting the proposal and engagement strategy to reflect the changing circumstances. Therefore, the nature of a small grants programme that is agile and swift to respond to this dynamic operating environment was critical in the successful completion of the project.

**Conclusions: Scaling it up Street by Street?**

The CDF was used as a strategic tool to induce a participatory process of a ‘price-discovery of an affordable rent and rent stabilization’ in the Pilot Project.

The guiding principle of CDF is to instil a collaborative process in addressing rapid rent escalation challenges. It is only useful if communities themselves can articulate their problems in an informed manner. However, not all communities will possess the right technical skills. Therefore, the existence of a technical support group at the city level to provide this service to disadvantaged communities is crucial. Together, both the communities and the technical professionals will be able to conceptualize a more robust and sustainable solution.

The act of articulating solutions within a collective will induce participatory-led development initiatives. Once the social networks of participatory-led development are embedded in the local culture, the process of institutionalizing the CDF into a formal entity would be more effective.

In the case of GTWHS, it was thought best that the CDF is hosted by the George Town World Heritage Incorp (GTWHI), an agency of the state government\(^\text{18}\). The governance structure follows the participatory process and has representatives from technical professionals, local governments and communities. By institutionalizing CDF (concurrent with the strong presence of social networks), more tenants who are disadvantaged by rapid rent escalations can devise their own plans at their own neighbourhood.

CDF is a strategic funding model that engage and empower vulnerable communities to actively participate, design and lead community based initiatives that aim to improve their living conditions.

It is an investment in one of the main pillars of making cities more inclusive.

\(^{18}\) Many grants programme can be anchored at government agencies, refer to Greater London Authority Regeneration Initiative.
References


UNESCO. “Melaka and George Town (Malaysia).” 2008.