

## CHAPTER I INTRODUCTION

### A. Background of study

Residence is recognized as an important component of an individual and refers to the quality of life, which means for most people, housing or residence is the largest consumption item in their lifetime. Home is where one most often finds refuge, rest, and satisfaction. This means that the degree to which an individual's needs and aspirations are met by their housing condition is a concern for researchers, but most importantly for planners, developers, and specifically for housing policy-makers alike. Achieving Sustainable Development Goals (SDGs) includes ensuring access to adequate and affordable housing, recognized as a fundamental human right in international declarations such as the Universal Declaration of Human Rights and the International Covenant on Economic, Social, and Cultural Rights (UN-HABITAT, 2014). However, many cities worldwide, both in developed and developing nations, face persistent housing affordability challenges (UN-HABITAT, 2019).

The concept of housing affordability emerged from early poverty and cost-of-living research that heavily influenced national social policies. In the 19th century, German statisticians Engel and Schwabe developed empirical measures of urban housing costs in industrializing societies (Galster & Lee, 2021). These early insights eventually set the scene for the constituting definitions of housing spending and affordability principles into law. It is cited, for example, that the rule of thumb in the U.S. that residents must spend one week's wage monthly on rent, heat, and hydro can partially be traced back to Engel's law of proportionality in Belgium (Hulchanski, 1995). Over time, this rule evolved into the "ratio strategy," institutionalized by the 1920s, requiring mortgage borrowers to allocate at least 25% of their income to housing costs (Galster & Lee, 2021). Today, a widely accepted benchmark for housing affordability is that housing expenses should not exceed 30% of a household's gross monthly income. Households that spend more than this are considered cost-burdened and may struggle to afford other essential needs such as food, transportation, and medical care (Bujang et al., 2015).

While the affordability indicators offer an understandable snapshot of housing affordability across the country, critics contend that they can also oversimplify multifaceted

economic and social factors. for instance, lambasted affordability ratios for practically ignoring intra-market and extra-market differences in the availability of the local housing market, as well as personal financial capacity. However, these indicators keep being used around the world as they are simple and easy to apply in housing policy-making. Given their great value, these affordability indicators have been criticized for reducing complicated social and economic processes to one-dimensional scales. Affordability ratios, according to (Glaeser & Gyourko, 2002), do not adequately account for differences in regional housing markets and personal financial situations. Across the globe, these measures continue to drive contemporary housing policy due to their simplicity and convenience.

Phnom Penh, the capital of Cambodia, presents a compelling case study for understanding housing affordability among working households. While Cambodia has experienced rapid economic growth driven by industries like tourism and garment manufacturing, income inequality remains significant (UN-HABITAT, 2019). Affordable housing is tough to come by in Phnom Penh, the capital of Cambodia, given that many people are still living in poverty. Nonetheless, as a result of the Khmer Rouge legacy, efforts to secure affordable housing continue to be complicated by insecure land ownership and informal settlements (UN-HABITAT, 2019). The financialization of the housing sector has also been boosted by foreign investment, which has primarily targeted luxury projects for foreign and elite customers, leaving lower-income households marginalized (Traub & Sweeting, 2020).

This research focuses on exploring the challenges faced by working households in Phnom Penh concerning housing affordability. By analyzing household income data, housing market trends, and the impact of policy, the study seeks to provide a comprehensive understanding of the affordability challenges residents face. Ultimately, the goal of this research is to explore best practices for policymakers, urban planners, and developers to promote equitable access to housing. The findings are expected to contribute to sustainable urban development strategies that enhance the quality of life for Phnom Penh's residents and inform housing policies that address the pressing affordability issues.

## B. Statement of the problems

Phnom Penh has rapidly transformed from a city troubled by conflict to a center of rapid urbanization and economic growth. However, like other fast-growing Asian cities such as Jakarta and Bangkok in the past, Phnom Penh's development has been largely unplanned. This lack of planning has a significant strain on the city's infrastructure due to a sudden increase in population, inadequate urban planning, and rapid real estate growth. Particularly, affected low-income and middle-income families who struggle to find affordable housing (The World Bank, 2017).

The housing crisis was compounded by Phnom Penh's growing population and significant income inequality. By 2014, the continued migration to Phnom Penh had created sustained demand for new housing. Currently, the average household living space is 46.3 m<sup>2</sup>; however, high housing costs relative to median incomes in urban areas, especially in Phnom Penh, make home ownership unattainable for many. According to the Ministry of Land Management, Urban Planning, and Construction (MLMUPC), only 10% of the population can afford a home under market conditions, leading to the proliferation of informal settlements that are inadequate for many residents (Royal Government of Cambodia, 2017).

The problem is further exacerbated by a widening gap between housing supply and demand. The (MLMUPC) projects that Cambodia will need around 1.5 million affordable housing units by 2030 to address this pressing demand. However, the current supply of affordable housing significantly falls short, with only five government-approved projects providing a total of 15,587 units.

These projects face multiple challenges, including:

- Substandard quality of housing units.
- Inconvenient locations that reduce accessibility to workplaces and essential services.
- Lack of supporting infrastructure, such as transportation, healthcare, and schools.
- Limited financing options, which restrict access to homeownership for low- and middle-income families.

Despite regulatory and tax incentives designed to attract private-sector investment, the government has struggled to garner significant interest from developers, who are deterred by the limited profitability of affordable housing projects. This reluctance has



resulted in a market dominated by luxury developments catering to wealthier individuals and foreign investors, leaving lower-income households marginalized (Global Green Growth Institute, 2022; The Phnom Penh Post, 2020).

The lack of affordable housing has resulted in significant socio-economic issues, with many families forced to allocate a large portion of their income to housing at the expense of essential needs like food, healthcare, and education. This financial strain is particularly severe for low-income and middle-income families, who often incur debt or compromise their well-being to secure shelter. Global Green Growth Institute, (2020) mentioned income analysis at least 20% of Phnom Penh's residents cannot afford homes priced at USD 15000 or above, indicating a pressing need for alternative housing models solutions such as structured rental markets, rent-to-buy schemes, and shared quality models are being considered to help people to access the housing (Global Green Growth Institute, 2022; UN-HABITAT, 2019).

Government efforts, including the National Housing Policy (NHP) of 2015, have failed to fully address the housing crisis. Fragmented coordination among government agencies, private developers, NGOs, and other stakeholders has further hindered progress (Traub & Sweeting, 2020). Limited implementation of policies and inadequate funding mechanisms exacerbate the situation, leaving the majority of Phnom Penh's working households with limited or no access to affordable housing.

While precise studies have examined housing affordability globally and in Cambodia, critical gaps remain. Key factors influencing affordability, such as income levels, housing market dynamics, urban planning, and policy interventions, require deeper exploration in the context of Phnom Penh. There is also a lack of empirical evidence on the broader impacts of housing affordability on quality of life, social inclusion, economic empowerment, environmental sustainability, and urban development.

Given these challenges, there is an urgent need for comprehensive research that examines housing affordability in Phnom Penh, focusing on working households who are disproportionately affected by these issues. This study seeks to this gap by addressing the following key questions:

1. What are the housing affordability problems among working households, and what factors contribute to the issues?

2. What is the level of affordable housing prices in urban areas of Phnom Penh?
3. What strategies and policies can the government implement to address housing affordability challenges?

### **C. Research Objectives**

This overarching goal is supported by several specific research objectives, outlined as follows.

1. To identify the housing affordability problems among working households in Phnom Penh.
2. To assess the affordability levels of housing prices in Phnom Penh's urban areas.
3. To provide actionable recommendations for policymakers and stakeholders to improve housing affordability.

### **D. Significance of the study**

The significance of this study is in its ability to provide insights into the housing affordability challenges faced by working households in Phnom Penh. This study examines the socio-economic and perception aspects leading to the affordability problem and its influence on households' quality of life as the city experiences rapid urbanization and growing costs for housing.

The findings can guide policymakers, urban planners, and developers in creating targeted interventions, such as affordable housing projects, financial support, and policy improvements. These recommendations can help ensure sustainable urban development, improve living conditions, and promote housing accessibility for working households.

Additionally, the research identifies key barriers to homeownership and suggests actionable solutions to address them, contributing to financial stability, social inclusion, and well-being for Phnom Penh residents.

### **E. Scope of study**

This study examines housing affordability among working households in Phnom Penh, focusing on the factors influencing access to affordable housing. It explores key

issues such as financial constraints, housing market dynamics, and policy effectiveness in addressing affordability challenges.

This research uses primary data collected through surveys and secondary data from literature, government reports, and market studies. Statistic techniques, including factor analysis, are applied to identify and evaluate the determinants of housing affordability. The geographical scope is limited to Phnom Penh, reflecting the city's rapid urbanization and its impact on housing demand and affordability. This study also incorporates lessons from housing policies in other Southeast Asian countries to suggest practical solutions for improving access to affordable housing in Cambodia.

#### **F. Limitations**

This study faced several limitations, primarily centered around data collection and the availability of comprehensive datasets. Due to privacy concerns and cultural sensitivities, sensitive personal information, such as household income, was challenging to obtain. Many respondents were uncomfortable sharing their exact income, so the researcher used income ranges instead. This made people more willing to participate and ensured the data was reliable.

The reliance on convenience sampling may introduce a degree of bias, as the findings may not fully represent the diverse population of working households in Phnom Penh. Additionally, secondary data sources, such as the Cambodia Socio-economic Survey, offered limited insights into specific housing demand, supply, and quality aspects. Another limitation lies in the scope of policy analysis. While the study incorporates lessons from Southeast Asian housing policies, it does not provide an exhaustive evaluation of all policies due to time and resource constraints.

Despite these limitations, the study provides a valuable foundation for understanding housing affordability challenges and offers actionable recommendations. Future research can address these gaps by expanding data collection methods, incorporating longitudinal studies, and exploring more granular policy analysis.