

The factors affecting housing prices in malaysia economics essay

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Chapter 1

Introduction

This chapter shows the background of the study, research motivation, research objective, research question, hypotheses, significance of study, and summary of chapter.

Background of the study

Housing can be categorized as apartment, flat, condominium, terrace, semi-detach and bungalow. Owning a home for shelter and comfort is central to most families' ultimate plans and also considered definition of personal success. Housing continues to be an important expression of family aspiration and single most expensive investment by households. During periods of rapid economic growth, many have the nation that, housing prices will continue to surge to making people unaffordable especially during the years prior to Asian financial crisis in 1997 and late 1998.

Figure 1: House Price Index (2000= 100)

Source: Valuation and Property Services Department (Globalpropertyguide.com) Housing prices rise continue in Malaysia, but at a slower movement, due to Growth Domestic Product growth slightly reduce from 7.2% in 2010 to 5.1% in 2011. Malaysian houses prices have tracked inflation during the last decade, except during the recent surge. Consequently, housing industry plays an eminent role to the country's economy in terms of employment, capital market, consumption and financial wealth, thus stimulating the business cycle. On the contrary, prolong run-up in house prices makes local economy vulnerable to an economic slowdown and increasingly prone to

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financial instability and imbalance (Abraham & Hendershott, 1996). Research shows that housing prices movements are influenced by economic fundamentals which real income growth affects household's purchasing power and borrowing capacity, interest rate affects cost of capital and pay back capacity, and population growth proxy for growth rate of household (Abraham & Hendershott, 1996). At the global front, with increasingly integrated financial market, to some extent synchronization of stock prices and long term interest rates, stimulates the local housing market to be more dynamic (Otrok & Terrones, 2004) As housing is the quintessential non-tradable asset, house price cycles across countries may be synchronized if the forces driving house such as interest rate tend to move in tandem across countries, namely industrial countries where house price booms or bust were synchronized, is a reflection of synchronization of monetary and financial liberalization, in addition to general business cycle linkages (Englund and Ioannides, 1997).

1. 1 Research Motivation

Motivation to study on the factors affecting housing prices in Malaysia is due to housing prices are very high nowadays and still increasing. It is important to figure out rate and find out what are the factors.

1. 2 Research Objectives

General objectives To determine factors affecting housing prices in Malaysia.

Specific objectives To examine the relationship between interest rate and housing prices in Malaysia. To examine the relationship between population

rate and housing prices in Malaysia. To examine the relationship between household income and housing prices in Malaysia.

1. 3 Research questions

RQ1: What is the relationship between interest rate of mortgage loan and housing prices in Malaysia? RQ2: What is the relationship between population rate and housing prices in Malaysia? RQ3: What is the relationship between income and housing prices in Malaysia?

1. 4 Hypotheses

From the above research question, several hypotheses are figure out. H11: There is negative relationship between interest rate and housing prices in Malaysia. H12: There is positive relationship between population rate and housing prices in Malaysia. H13: There is positive relationship between household income and housing prices in Malaysia.

1. 5 Significance of study

This study will be a significant attempt in find out the factors affecting housing prices in Malaysia. The study helps investor in knowledge of factors affect housing prices in Malaysia and can try to invest housing in a lower price. Moreover, this research will indicate possible factors which can use by investor for measuring and buying their housing. It was important to know the housing prices in the country. It will also serve as a future reference for researcher on the housing prices and changes in economic growth. This research will educate investor the effect may face when there are significant changes in growth of economic which will lead to price in housing.

1. 6 Summary of chapter 1

This chapter describes the overview and motives of the study will be conducted to determine the factors affecting housing prices in Malaysia.

Chapter 2

Literature review

2. 0 Introduction

This chapter shows the literature review which used in this study. Literature review includes interest rate, population rate and household income. Besides that, this chapter also shows the framework of literature review and summary of the chapter.

2. 1 Interest rate

A higher interest rate of mortgage loan will increase the user cost of home buying and affect the investment decision in housing, therefore demand on housing will decrease to cause housing prices decrease at the same time. On the other hand, a lower interest rate of mortgage loan will reduce the user cost of home buying and thus will drive the investments in housing, therefore demand on housing will increase to cause housing prices increase at the same time (Chi & Yu, 2012). According to Narang Somil (2007) found that a negative relationship between interest rate and housing prices. A higher interest rate will increase the debt service charge or mortgage loan cost, it will increase burden of buyer, and therefore housing demand will decrease to cause housing prices in market decrease. On the contrary, a lower interest rate will reduce cost of purchasing house, thus housing demand will increase to cause housing prices increase. Whereas, according

to Mueller and Pauley (1995) argue that interest rates rise itself may have negligible impact on real properties. It might be better explained by fundamental economic and real estate factors along with supply of housing and its absorption. More specifically, they comment that real estate has stronger negative correlations with interest rates in a falling environment than in periods with rising interest rates.

2. 2 Population rate

According to Clapp and Giaccotto (1994) for studying the economic variables affect local dynamics and find that population has considerable forecasting ability for housing prices. High rates of net migration, decline in the average size of households and increase in population shares of cohorts of individuals in their thirties will boost housing demand by increasing the share of the population of household in their formation stage. In several countries like Ireland, Spain, Australia, Hong Kong, China, and the United Kingdom, the high shares of such households in the total population since mid-1990s have been associated with large increases in real house prices. Demographic development can affect housing prices (Hashim, 2010). According to Chi and Sze (2003), population growth will direct affect on housing demand, particularly when the growth stems from the affordable group with home buying needs. A high level of population growth tends to cause future housing prices will become more high or expensive when the housing units supply in market cannot meet the demand. According to Hashim (2010), a growing economy with a high level of housing demand will not lead to rapidly increasing housing prices, because housing supply in market able to meet the demand and the filtering process works well. However, housing supply in

market cannot meet the demand, housing prices will rapidly increasing and become more expensive. The state of Kuala Lumpur with high population growth, but land in Kuala Lumpur area was limited and cannot build any new housing around Kuala Lumpur area, therefore population growth to cause housing prices in Kuala Lumpur increase.

2.3 Household income

According to Fortura and Kushner (1986), there is positive relationship between household income and housing prices. Household income increase 1 percent increase will raises housing prices by 1.11 percent. According to Bourassa and Hendershott (1995) found that household income is generally considered the most important variable influencing housing prices. According to Giussani and Hadjimatheou (1991) and Milne (1991) were used co-integration test to show the relevance of the basis of significant, and find that household income has a strongly positive impact on housing price. Fernandez-Kranz and Hon (2006) comment that bubble is formed when there is an increase in housing price caused by unusual fluctuations in housing demand. In usual, people engage in durable buy either for investment or consumption, thus their paper investigates the relationship between price growth and bubble phenomenon in the perspectives of both the investors and homebuyers. They conclude that household income is a main key factor determining whether investors or homebuyers can engage in purchasing house. Their result show that household income is the main influential factor on housing price and the bubble size might change with an increase in income level.

2. 4 Framework

Figure 1: Proposed Conceptual Framework of Housing Prices in Malaysia.

2. 5 Summary of chapter 2

It can be summarized that this chapter describes there are negative relationship between interest rate and housing prices in Malaysia, positive relationship between population rate and housing prices in Malaysia, and positive relationship between household income and housing prices in Malaysia.

Chapter 3

Research design

3. 0 Introduction

The chapter of research design list out the methodology which use to complete this study. This chapter includes sample, sampling frame, data collection method, measurements, statistical techniques and summary of chapter.

3. 1 Sample

Sample of the data include interest rate, population rate and household income in Malaysia.

3. 2 Sampling Frame

The sample of data of interest rate, population rate and household income rate in Malaysia are taken. The data used in the study was within twenty years period which from year 1993 to year 2012.

3. 3 Data Collection Method

The data of interest rate, population rate and household income rate in Malaysia from year 2003 to year 2012 was taken from the website of International Monetary Fund and World Bank.

3. 4 Statistical Techniques

The methods which use for measure the relationship between independent variables and dependent variables are VAR model and multiple regression analysis.

3. 5 Summary of chapter 3

This chapter shows the techniques and methods that would be used by the researcher to conduct the study. The tests used to analyses the data that would be collected are stated.