

The housing price index in malaysia



The objective of this study is to analyze the relationship between the selected determinants of housing price and focus on the macroeconomic variables and microeconomic variables such as GDP per capita, inflation rate, interest rate, and stock market. Over the years, the floating of housing price has attracted much attention from different level of society no matter the rich or the poor and investors or researchers. For the rich, some of them buy the house for investment purpose and the poor buy house for self-living purpose. The housing price issue has become an essential component of economic growth for both developed and developing countries because the floating of the housing price could affect household consumption, banking system, and the real economy. (Glindro, Subhaniji, Szeto and Zhu, 2011).

According to Sutton (2002), house is a long term asset that provides consumption services and the implicit value of a house is the discounted value of the expected service stream. However, owning a house is not easy because the housing loan is the most expensive household expenditures and it is one of the largest investment decisions for most of the people (Ooi & Le, 2011). Besides that, the Minister of Housing, Datuk Chor Chee Heung, indicated that since Malaysia is a free economy country, the government would not control the property prices. Therefore, the housing price in Malaysia is freely floating according to its determinants.

From the economic view, the housing price is proven to be a very important factor to affect a country's economy during the financial crisis especially to developed countries. According to Lowe (as cited in Agung & Wibowo, 2009), the construction industry in developed countries had contributed around 7% to 10% while underdeveloped countries have 3% to 6% contribution from

construction industry to the real GDP. Based on the statistic report by Department of Statistic Malaysia (as cited in Tan, 2010), the construction industry had contributed around 4.8% to real GDP in Malaysia in 1997 compare to 3.5% in 1990.

In addition, it is undeniable that the housing price is affected by the macroeconomic variables and microeconomic variables. Most of the researchers have done their study at different countries with different sample period and different methodologies methods. Their studies proved the macroeconomic variables and microeconomic variables played a significant to affect housing price such as income per capital affect household's ability to buy and increase capacity of borrow more money from bank, interest rate affect the amount to payback to bank every month and increase total cost to buy a house, stock price affect household's wealth and investment alternatives, housing supply affect the availability of house and the variety of choices, population affect the quantity demanded to the housing market and others. However, the study of Lee (2009) stated that the national housing price could not represent the state housing price. He further emphasized the importance of constructing the different models for different cities in a nation. Therefore, the determinants of housing price are varied from city to city. Moreover, the determinants of housing price are also varying from country to country due to the different characteristic in every country.

Moreover, Hlavacek and Komarek (2009) stated that the sharp growing rate of housing price and busts in combination with the mispricing of subprime mortgage loans is often mentioned among the most important factors of the

crisis. Therefore, the central bank has the responsibilities to understand and concern the determinants of housing price. Apart from that, Hlavacek and Komarek (2009) also indicated that the balance sheet of the bank is negatively related with the housing price busts through the increasing Probability of Default (PD) and Loss Given Default (LGD).

Furthermore, Glindro et al. (2011) pointed out that there are two types of view which are pessimistic view and optimistic view regarding the housing bubble in Asia. The pessimistic view claims that most of the countries have overvalued their housing price and the price will face downward correction in the near future. By contrast, the optimistic view claims that since economic crisis was happened, the housing price were too low compared with their fundamental values. Therefore, the rising housing price is normal because it is recovering from the previous crisis.

Since the different locations have the different physical attributes, the housing price is differ from one place to another place. The nearer the house to the town, the higher the housing price would achieve. This is because the houses near to the town have the convenience advantages when household go to the town and the household could save a lot of time and petrol compared with the house that far away from town.

The Housing Price Index in Malaysia

Figure 1: The Housing Price Index in Malaysia from 2000 to 2009

Source: Valuation & Property Service Department (2010).

Figure 1 shows the Housing Price Index (HPI) of Malaysia from 2000 to 2010. From the graph, the HPI clearly shows that the housing price in Malaysia has continuous increasing trend. Overall, the HPI had increased 31.8% within 10 years. For example, in 2000, a household spent RM100,000 to buy a house. In 2009, the household have to spent around RM131,800 to buy the same house.

Housing Price Index (HPI) is an index that used to measure the prevailing trends of residential house price based on the hedonic approach. In other words, HPI is an analytical instrument to estimate the residential housing price. Besides that, the HPI is included the entire housing price in a country including the different areas such as state, city, or region. Besides that, Tan (n. d.) indicated that since there was no government-published house price index for residential properties before 1997, the researchers have the difficulties to monitor the movement of house price in the country.

However, the Valuation and Property Services Department has created the Malaysian House Price Index (MHPI), which represents the generally housing market in Malaysia including the 13 states and 2 federal territories and set the 2000 year as the base year (Index = 100). The main objective of the HPI is to monitor the floating of housing time over time as a result of inflation and other attributes remain constant.

Policies implemented by the Malaysia government

Figure 2: Distribution of low-cost house under PPR policy in Malaysia

Sources: Jabatan Perumahan Negara (2006).

In Malaysia, the varieties of policies have been implemented by the government to reduce the poverty rate and ensure all the Malaysians especially the poor or low-income group have access to adequate shelter and related facilities. Since Malaysia is still a developing country in Asia, the government plays a pretty important role in improving the living standards of the poor. Over the year, the housing price in Malaysia has the increasing trend. Therefore, the Jabatan Perumahan Negara, JPN has established a program named Program Perumahan Rakyat, PPR in 1998 to help the poor who cannot afford to buy a new house or rent a house. To implement the PPR, the Malaysia government has invested billions of Ringgit Malaysia to provide the affordable, adequate and quality houses. This could reduce the burden of poor when they buy their house.

Moreover, in 2006, the Malaysia government had targeted 63, 777 units of low-cost houses (refer to Figure 2). These units are distributed in whole Malaysia including Sabah and Sarawak. However, from the figure 2, most of the low-cost houses were built in KL, which have 34, 106 units over 63, 377 units, or 53. 81% of the overall low-cost houses. According to Shuid (as cited in Goh & Yahaya, 2011), only 32. 7% of households in Kuala Lumpur are afford to buy their own house in 2002.

Besides that, the Prime Minister, Datuk Seri Najib Razak established a policy under 1 Malaysia concept, which is Perumahan Rakyat 1 Malaysia (PR1MA) in 2009. The PR1MA policy construct the cheaper houses for the household with an income between RM2, 500 and RM7, 500 and the housing price is between RM150, 000 to RM300, 000. The price was 20% to 30% less than the market price (Abandonment of housing projects, 2012).

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The housing policies in the budget 2013

In Malaysia, the budgets are proposed in Parliament by the Ministry of Finance Malaysia every year. According to the Ministry of Finance Malaysia (n. d.), The main purpose of the budgets are stated as below:

To ensure the distribution of Federal funds is carried out according to national policies and objectives.

To ensure that allocations provided to Ministries and Departments are expended efficiently and effectively.

To process and approve financial grants to the State Governments and Local Authorities as provided for under the Federal Constitution and in accordance with decisions of the National Finance Council and Cabinet.

In 28 September 2012, the budget 2013 was established by the Prime Minister and Finance Minister, YAB Dato' Sri Mohd Najib Tun Haji Abdul Razak. According to the Abandonment of housing projects (2012), the housing policies in the budget 2013 are summarized as the following:

RM1. 9 billion to be allocated to build 123, 000 affordable housing units in strategic locations, to be implemented by PR1MA, Syarikat Perumahan Nasional Bhd and Jabatan Perumahan Negara.

A total of RM500 million will be spent by PR1MA to build 80, 000 houses in major locations nationwide with the selling price ranging between RM100, 000 and RM400, 000 per unit. Among the locations are Kuala Lumpur, Shah Alam, Johor Bahru, Seremban and Kuantan.

Real property gains tax (RPGT) from disposal of properties made within two years of date of purchase to be taxed at between 15 per cent and 10 per cent of disposal of property within a period of two to five years. For property disposed of after five years from the date of acquisition, RPGT is not applicable

RM100 million to be allocated to Housing and Local Government Ministry to revive 30 abandoned housing projects, and tax incentives to private sector to encourage its involvement in reviving the projects.

My First Home Scheme, which was launched under the previous Budget, will be improved by increasing the income limit for individual loans from RM3, 000 to RM5, 000 per month or joint loans of husband and wife of up to RM10, 000 per month. In addition, the requirement for a savings record equivalent to three months instalment and minimum employment of six months will be abolished.

In the 2009 Budget, the Government had given a 50% stamp duty exemption on the instrument of transfer agreements and loan agreements for the purchase of the first residential property of up to RM350, 000. The Government proposes that the stamp duty exemption is extended to 31 December 2014 with the price limit on residential properties raised to RM400, 000.

Summary Tables of Malaysia Housing Policies before 1957 to 2010

Phase

Period

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Focus of Attention

Strategies

Key Documents

Policy Analysis

Colonial Period

Before 1957

Housing for government staff quarters

Resettlement of people during communist insurgencies to the new village

Resettlement of people to Felda scheme

Provision of housing especially for low income people in urban areas.

Construction of government quarters based on department requirement.

Building of houses in the new settlements with facilities for more than 500,000 people.

Planning and development of Felda scheme with the housing and facilities.

Setting up of Housing Trust in 1952.

Briggs Plan 1952.

Land Resettlement Act, 1965

Housing Trust Ordinance, 1950's.

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Government are the key player in housing provision.

Physical oriented Ad-hoc policy

Early stage of Independence

1957 - 1970

Continuing the colonial government policies with minor improvement

Emphasis on housing especially for low income group in urban area.

Private sector involvement in housing provision.

Improvement of basic infrastructure.

Implementation follow the colonial policies with limited budget.

Housing trust involved actively low cost housing development in urban areas such as KL and Penang.

Private sector to concentrate on medium and high cost housing.

First and second Malaysia Plan (1955- 1964).

First Malaysia Plan (1965-1969).

Government as key player in housing provision especially low cost.

Private sector to focus on medium and high cost housing.

New Economy Policy

1971 - 1990

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Eradication of poverty and restructure the society

Implementation of Human Settlement Concept in housing Development

Housing for low income group was given priority in national policies

Private sector plays as key player in provision

High rate of rural-urban migration

Private sector was responsible to build large portion of housing for people including low cost.

Ceiling price for low cost was set at RM25, 000 in 1982.

Government established state agencies Encourage national unity in housing development.

New Economy Policy, 1971

Second Malaysia Plan to Fifth Malaysia Plan (1971-1990).

Private sector as key player in housing provision including low cost.

National Development Plan

1991-2000

Continue implementation of NEP policies and strategies

Human Settlement Concept with emphasize on sustainable development

To ensure all people regardless of their income to live in decent house.

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Private sector continue to responsible in housing provision for the people.

To build more affordable housing especially low and low medium cost housing.

Low medium cost as major component in housing provision since seventh Malaysia plan (1996-2000).

Emphasize on squatters elimination by year 2005.

Government created new laws and guidelines to control private sector.

National Development Plan 1991

Sixth and Seventh Malaysia Plan (1991-2000)

Agenda 21 (UNCHS), 1994.

The Habitat Agenda 1996

Private sector still play as key player in housing provision but government created many new laws and guidelines to ensure quality housing.

Vision Development Plan

2001 - 2010

Emphasis on sustainable urban development and adequate housing for all income groups.

Housing development will be integrate with other type of development such as industry and commercial.

Emphasis on ICT

Government as key player in low cost housing provision and private sector for medium and high cost housing.

Continue effort to provide the guidelines and inculcate the citizen understanding towards sustainable development and encourage citizen to participate in housing development in Line with local Agenda 21.

Encourage more private developers to constructs low medium cost house.

Setting up Human Settlement Research Institute (MAHSURI) to encourage research and development in housing.

Vision Development Plan 2001.

Eight Malaysia Plan 2001 – 2005.

Government as key player in Provision of low cost housing provision.

Sources: Idrus and Siong (2008).

Problem Statements

Recent years, the studies related to the housing price have gained attentions from the economic researchers because of the overvaluing housing price.

The housing price played a significant role to affect the economics of developing countries and developed countries as well. There are many determinants have been used in the previous study to examine the relationship with the housing price. However, the housing model in housing market is failed due to the confusion and uncertain of the actual relationship

between housing price and its determinants (Sutton, 2002; Chen & Patel, 1998). Chen and Patel (1998) further indicated that the actual relationship between house price and its determinants are complex because of their nature, or the housing market environment is in a state of flux. Therefore, the actual relationship and determinants of housing price is still an argumentative issue in housing market.

According to Meidani et al. (2011), the housing market is one of the most capricious sectors in the economy. From the conventional economic view, the gross domestic product is equal to the total consumption, investment, government expenditure, and net export. Therefore, the floating of housing price is an important aspect of the Malaysia's economy because the housing market could play an important role in affecting the consumption, investment, and government expenditure.

There are some research questions dealing with the study of the actual relationship between the housing prices with its determinants in Malaysia. The research questions are listed as below:

What are the actual relationship between the housing price and its determinants in the Malaysia in the short run?

What are the actual relationship between the housing price and its determinants in the Malaysia in the long run?

OBJECTIVE

1. 3. 1 General Objective

The objective of this study is to investigate the long run cointegration and causality relationship between the selected variables such as GDP per capita, inflation rate, interest rate, and stock market with the housing price in Malaysia from 2000 to 2009.

Specific Objective

To test if the selected variables such as GDP per capita, inflation rate, interest rate, stock market price and house price are related in the long run.

To examine the short run causality relationship between the selected variables such as GDP per capita, inflation rate, interest rate, and stock market price with the housing price in Malaysia.

To examine the long run causality relationship between the selected variables such as GDP per capita, inflation rate, interest rate, and stock market price with the housing price in Malaysia.

SIGNIFICANT OF STUDY

This study focused to examine the relationship between the determinants of housing price in Malaysia housing market. According to Lee (2009), the housing value has the major contribution to the total assets of many household. Therefore, the floating of housing price could bring a great impact toward the total wealth of many household. Besides that, there are still many young generations or even middle-aged households are saving money to buy their first house in their life. The increasing house price could destroy their efforts and plans to buy their first house.

Therefore, it is significant to provide a clear and deeper insight for household and investors who planned to buy or invest in the housing market and the policy maker that has the responsibility to control the house price. By doing this study, the relationship between the selected determinants of housing price could be clarified and provide the clear and deeper insight of the relationship between the determinants of housing price in short run and long run. Moreover, the policy maker could stabilize the housing price and the home buyer could avoid from suffering to buy an expensive house.

ORGANIZATION OF STUDY

This study aimed to provide a clear and better understanding on the relationship between the determinants and housing price in Malaysia. This study is divided into five chapters. The chapter one provides an introduction of housing market in Malaysia and the objective of this study. Chapter two review related literature. Chapter three explain the methodologies used in this study. Chapter four shows the empirical results and discussion from the results. Chapter five provide the conclusion and recommendation of housing market in Malaysia.