HOUSING BUBBLE PHENOMENA AND THEIR DETERMINANTS IN KUALA LUMPUR

AQMAR BIN HAMID

MASTER OF SCIENCES (MANAGEMENT)
UNIVERSITI UTARA MALAYSIA
DECEMBER 2014
HOUSING BUBBLE PHENOMENA AND THEIR DETERMINANTS IN KUALA LUMPUR

BY

AQMAR BIN HAMID

Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Partial Fulfillment of the Requirement for the Master of Sciences (Management)
PERAKUAN KERJA KERTAS PROJEK
(Certification of Project Paper)

Saya, mengaku bertandatangan, memperakukan bahawa
(I, the undersigned, certified that)
AQMAR BIN HAMID (815937)

Calon untuk ijazah Sarjana
(Candidate for the degree of)
MASTER OF SCIENCE (MANAGEMENT) - INTAN

telah mengemukakan kertas projek yang bertajuk
(has presented his/her project paper of the following title)

HOUSING BUBBLE PHENOMENA AND THEIR DETERMINANTS IN KUALA LUMPUR

Seperti yang tercatat di muka surat tajuk dan kulit kertas projek
(as it appears on the title page and front cover of the project paper)

Bahawa kertas projek tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan
memuaskan.
(that the project paper acceptable in the form and content and that a satisfactory knowledge of the field is covered by
the project paper).

Nama Penyelia : DR. WONG WOEI CHYUAN
(Name of Supervisor)

Tandatangan : [Signature]
(Signature)

Tarikh : 26 NOVEMBER 2014
(Date)
PERMISSION TO USE

In presenting this project paper in partial fulfilment of the requirements for a Post Graduate degree from the Universiti Utara Malaysia (UUM), I agree that the Library of this university may make it freely available for inspection. I further agree that permission for copying this dissertation in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor(s) or in their absence, by the Dean of Othman Yeop Abdullah Graduate School of Business where I did my dissertation. It is understood that any copying or publication or use of this project paper parts of it for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to the UUM in any scholarly use which may be made of any material in my dissertation.

Request for permission to copy or to make other use of materials in this project paper in whole or in part should be addressed to:

Dean of Othman Yeop Abdullah Graduate School of Business
Universiti Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman
ABSTRACT

Housing could be perceived as both a principal of residence and an investment asset. In the past 15 years, this asset class witnessed a dramatic increase in prices, especially in the Kuala Lumpur. The rampant increase in house prices has widening the gap between a house’s expected value and its fundamental price. A wide deviation of house price from its fundamental price could cause a housing bubble, which would have a negative impact on the financial market. This paper examines the potential emergence of a housing bubble by using rent to price ratio and employing economic fundamental factors to estimate housing fundamental value, and take difference between actual house price and fundamental value as bubble. Based on the time series regression of the economic fundamental factors, shows that properties in Kuala Lumpur were priced at 4.2% and 11.3% above their fundamental value in years 2012 and 2013 respectively. This finding also were supported by the simple test indicator of rent to price ratio where the ratio were declining drastically after 2011. With the divergence of market price and fundamental price shows an increasing gap each year proved that housing bubble are likely to appear.

Keywords: Housing, Bubble, Assets Price Bubbles, Kuala Lumpur, Time Series, Rent to Price Ratio
ABSTRAK


Kata Kunci: Perumahan, Gelembung Pelaburan, Aset, Kuala Lumpur, Kajian Masa, Krisis Subprima, Kediaman
ACKNOWLEDGEMENTS

In the Name of Allah the Most Gracious and Most Merciful,

Alhamdulillah and my whole gratitude are to Allah SWT for His blessing this Master research paper can be completed. I would like to express my appreciation to Government of Malaysia for the scholarship and study opportunity given to me and to my supervisor Dr. Wong Woei Chyuan, whom I am truly indebted for your guidance, help and encouragement that enabled me to complete this research journey.

To my colleagues of MSc. Management UUM/INTAN year 2013/2014, thank you for the help, support and commitment in going through the classes and research paper writing.

Lastly, for all the people who had helped me throughout this fun, precious and adventurous journey, thank you very much from the bottom of my heart and may Allah SWT bless you all.
TABLE OF CONTENTS

PERMISSION TO USE ................................................................................................................. ii
ABSTRACT ................................................................................................................................. iii
ABSTRAK ................................................................................................................................. iv
ACKNOWLEDGEMENTS ............................................................................................................ v
TABLE OF CONTENTS ............................................................................................................. vi
TABLES AND CHARTS ............................................................................................................ viii
Chapter 1 .................................................................................................................................... 1
INTRODUCTION ......................................................................................................................... 1
  1.1 Background ....................................................................................................................... 1
  1.2 Problem Statement .......................................................................................................... 5
  1.3 Research Questions: ........................................................................................................ 7
  1.4 Research Objectives ........................................................................................................ 7
  1.5 Significance of the Study ................................................................................................. 8
  1.6 Scope and Limitation of the Study .................................................................................. 9
Chapter 2 .................................................................................................................................. 10
LITERATURE REVIEW ........................................................................................................... 10
TABLES AND CHARTS

Table 1.1: House Price Indexes Movement during and after the Asian Financial Crisis for Selected Asian countries ................................................................. 3

Table 1.2: Malaysian House Price Index for All Types of Houses (2000-2013) ............... 5

Table 4.1: Descriptive Statistics .......................................................................................... 24

Table 4.2: Change in Rent to Price Ratio ............................................................................. 26

Table 4.3: The Determinants of House Prices in KL ............................................................... 27

Table 4.4: The Gap percentage between the all type of House Index and Expected house index ................................................................................................. 31

Chart 1: Rent-to-price ratio between 2000 to 2013 ............................................................... 25

Chart 2: Estimated Value of House Price Index against the Actual Price Index ............... 28

Chart 4: House Index for Terrace vs Estimated House Index for Terrace ....................... 29

Chart 6: House Price for Detached vs Estimated for Detached ....................................... 30
CHAPTER 1

INTRODUCTION

1.1 Background

Financial crisis over the years have been a feature of the economic cycle in both the advanced and developing countries. It is a well-known fact that the 1997 financial crisis and the global financial crisis in 2008 happened primarily due to the burst of housing bubble. Housing bubbles are carefully monitored by the regulators for it often leads to a surge housing loans default and corporate bankruptcy which eventually pull a country economy into recession. For this reason, regulators worldwide strive to contain the rapid growth in house prices before it developed into a bubble. In Malaysia for instance, house prices have escalated during the past four years by nearly 47% for the national average and 58% for Kuala Lumpur (NAPIC, 2013). In response to these predicaments, Malaysian government has resorted to a two pronged approach to contain the price hike in the housing sector. On the demand side, property-cooling measures are initiated effective January 2014 to curb speculative activities in the property market. The cooling measure includes the removal of Developer Interest Bearing Scheme (DIBS)$^1$, the hike in the real property gain tax (RPGT) from 15% to 30%, the decrease in margin of financing to 70% for the purchase of third property and a more stringent housing loan approval criteria On the supply side, serious efforts are made to increase the supply of affordable houses in prime areas in Malaysia through the Perbadanan PRiMA Malaysia$^2$ National Housing Department and Syarikat Perumahan Negara Berhad

---

$^1$ DIBS is a scheme where the developer will bear the interest payment of the buyer’s mortgage loan during the construction period. Buyer will only pay the deposit and will serve the loan once the house is completed. For speculator, they will take this opportunity to ‘flip’ the property due to its low deposit. On the other hand, if the project s abandon, the buyer still need to bear the cost of whatever amount has been disbursed to the developer.

$^2$ PRIMA is a government owned company under the Prime Minister Department which the role to plan, develop affordable housing between the price of RM100,000 to RM400,000 for the middle income group in Malaysia. It is govern under PRIMA Act 2012
The contents of the thesis is for internal user only
REFERENCES


