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The Impact of Interest Rates and Share Market
Performance On Klang Valley Property Prices.
A comparative Case Study.

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ABSTRACT

This study is an attempt to determine the impact of some major aspect of interest (increase / decrease) and stock market (bull/ bear) on property prices at Klang Valley. Firstly, Malaysia has been witnessing an interesting debate over the issue of interest rates. Malaysian borrowers are paying 15 to 18 per cent per annum during the Asian Financial crisis cum stock market collapse. Prior to crisis, they were paying between 9 to 12 percent per annum. Secondly, the collapse of KLSE stock market .The KLSE suffered severe declines, as the composite index plunged from 1271.25 points on 25 February 1997 to 262.7 points on 1 September 1998.

The study on the Kuala Lumpur and Selangor property market (1989 – 1998) showed that the falling share price has brought a negative wealth effect on individuals, resulting in a drop in consumer spending. The drop in consumer spending is apparent in the property market. The volume of property transactions has been reduced. The study also showed that in the property market, interest rate plays an important role. The high interest rate in housing loan will increase the cost of borrowing which will increase the monthly loan repayment. As a result, house buyers find it difficult to repay the loan. Conversely, lower interest rates on housing loans reduce cost of borrowing and monthly repayment, which reduce the burden of house buyers.

Finally it is hoped that this study will give a clearer picture and understanding of the relationship of share market performance, interest rates and property market prices.