



1.0 INTRODUCTION

1.1 PERCEPTION TO THE PROBLEM

The Asian financial turmoil has indeed left many property players, investors, speculator, as well as developers in inopportune disposition. Whilst there are numerous forces affecting the property market, many would agree that capital market growth (share market) and financial market growth (interest rate) had a major part to play, in view of its extensive impact on the development of the property sector.¹

The falling of KLCI and share prices has brought about a negative wealth effect on individuals resulting in a drop in consumer spending. The drop in consumer's spending is apparent in the car, property market and in the tourism industry. The volume of property transaction has also been reduced². On 22 December 1998, KLCI had plummet as much as 47% from 1,078 points on 1-7-1997 to 569.83 points on December 1998. The free fall wiped out close to RM 400 billion in market capitalization³.

As a result, the country is saddled with a sizeable property over-hang (bulk of unsold units) including residential type. According to the Property Market Report (January – June) 1999, the value of unsold properties as at June 1999 total RM 39.25 billion. Of these, RM 14.17 billion (36.1 per cent) were residential properties. Other were

¹ Lim Lay Ying (1997), "Impact Of Economic Growth On The Property Market", The Star, Aug. 18, 1997, p14.

² Evelyn Shayamala Devadason (1998), "The Currency Crisis : A Review Of The Causes And Consequences For The Malaysia Economy", Malaysia Management Review, Volume 33 No1,p67.

³ Colliers International Property Report 1998, p1.

shopping complex (RM 13.37 billion or 34.1 per cent), purpose-built office (RM 7.97 billion or 20.3 per cent), shop houses (RM 3 billion or 7.6 per cent), and industrial (RM 740 million or 1.9 per cent). These translated into 93,599 homes, 7,063 shop houses, 2,550 unit of industrial properties unsold, 23.79 million square feet of vacant office space, with another 39.83 million square feet under construction⁴.

Some people argue that the high cost of borrowing money combined with other monetary policies had disastrous effects for property industry. Most people and business have to borrow to finance property. High interest rate can create crippling short-term debts. It is, therefore, argue that a policy of high interest rate rates has helped to slim down Malaysia property sector. Consumers have thus had to resort to buying property with high mortgage cost. In recent year, the interest rates development depended very much on its effect on mortgage and the property market. It is supposed to work through three channels:-

Firstly, people with mortgage suffer a reduction in their spending power through having to pay more interest.

Secondly, with property prices no longer rising overall, personal wealth is only rising slowly. People are thus not able to use their rising house prices as an asset against which they can increase borrowing.

Thirdly, with property prices under pressure, property sales slump.

During the 1997 and 1998 Malaysia Economy Share Market Crisis, property prices are badly affected. Klang Valley property prices have dipped between 10 and 30 per cent from mid. 1997. Condominium top the lists of worst hit residential sub-sectors, suffering 10 to 30 per cent decline⁵. (Jurunilai Bersekutu, 1998) Many interested home buyers are still staying away because they anticipated the further easing of prices, as well as difficulties faced in securing loans. Market watches and property

⁴ Au Foong Yee, "Bulk Of Unsold Units In Residential Sector", The Edge, Sep. 6, 1999, p10.

⁵ Maria Khong, "Watching And Waiting: Liquidity Key To Stabilizing Prices", The Edge, Mac. 9, 1998, P i.

players are sitting tight, waiting to see where property values are heading. The local property is expected to languish in the doldrums in the coming months unless financial institution relaxing lending to the property sector. These days, there are willing sellers possibly willing buyers, but no willing bankers (see Table 1.0). Table 1.0 summarized the widespread repercussions of the KLSE and interest rate movement on Malaysia property market.

Table 1.0: Malaysia Property and Stock Market Cycles⁶ (1977 - 1998)

Year	Property Cycles	Klang Valley Average House price	Change in Price (%)	*Stock market Cycle (period)	Interest Rate (%)
1977	Up	58,315	0	Bull (4/77-81)	
1978	Up	63,143	8.3		
1979	Up	79,214	25.5		
1980	Up	132,286	67.0		
1981	Up	156,929	1806		
1982	Up	168,266	7.2	Bear (7/81-8/82)	
1983	Up	171,214	1.7	Bull (9/82-1/84)	
1984	Down	171,538	0.19	Bear (2/84-4/86)	
1985	Down	177,250	3.3		
1986	Down	166,067	-6.3		
1987	Down	147,000	-11.5	Bull (5/86-7/87) Bear(8/87-2/87)	
1988	Down	140,429	-4.5	Bull (1/88-7/90) Bear (8/90-9/90)	
1989	Up	146,607	4.4		7.00
1990	Up	163,733	11.7		7.00
1991	Up	193,635	11.3		9.00
1992	Up	187,363	2.8	Bull (8/92-12/93)	9.50
1993	Up	193,635	3.4		8.50
1994	Up	218,941	13.1	Bear (1/94-3/94) Bull (3/94-2/97)	7.05
1995	Up	264,180	20.7		7.90
1996	Up	301,748	14.2		9.25
1997	Down	301,748	0	Bear (3/97-8/98)	9.65
1998	Down	256,486	-15.0		11.70

Source: Property Market Report (1977-1999), Valuation Services Department, Ministry of Finance Malaysia and Business Times (19-7-1998)

⁶ Property Market Reports (1997 – 1999). Percetakan Nasional Berhad.

*Business Times , Jul. 19, 1999, p20.

1.2 OBJECTIVES

The objective of this paper is to study the impact of interest rates and share market performance on property market based on a comparative case study and analysis.

Specifically, the objectives of this paper are to answer the following questions relating to property market:

- (a) What are the impacts of interest rate on property prices in Klang Valley?
- (b) What are the impacts of share market performance on property prices in Klang Valley?

With the above two objectives in mind, I have conducted a comparative analysis on the impact of interest rate and share market performance on Malaysia Property market. I have also conducted a case analysis on Far East Consortium ('FEC'), a foreign property developer listed in Hong Kong Stock Exchange.

1.3 LIMITATION

Firstly, this study relied heavily on secondary data. The major disadvantage of secondary data is that they were not designed specifically to meet the present project needs. Secondly, this study is a comparative case analysis and not an empirical research. Therefore, the hypothesis of this study could not be adequately tested using a statistical model (SPSS)⁷.

1.4 ORGANIZATION OF THE REPORT

This report consist of five chapters. Chapter one is the introduction. This chapter outlines the perception to the problem, the objectives and scope of study, limitation of the study and organization of the project paper. Chapter two is the literature review. This chapter discusses some of the past studies, opinions on the impact of interest rate and share market performance on property price and its related issues. Chapter three is the methodology used in this project. This chapter explains in details the sources of data, collection and problem encountered in the study, as well as the research model and hypothesis of this study. Chapter four is the data analysis and findings on the subject issues. This chapter discusses in detail the correlation between interest rate and property prices, as well as the correlation between the performance of share market performance and property prices. Chapter five is the case study on a property developer in Klang Valley. This chapter explains the impact of the interest rate and share market performance on Far East Consortium. Chapter six is the recommendation and conclusion. This chapter outlines the author's comments, opinion and recommendation for consideration.

⁷ Statistical Package For Social Sciences.