



4.0 DISCUSSION OF RESULTS AND FINDINGS

In this chapter, I will discuss the results and findings of this study. Three sets of data were obtained and tested for the purpose of this study. They are:

- (i) 1998 and 1999 Chief Executive Opinion Survey ("CEO");
- (ii) Economy Indicators, Share Market Performance, Interest Rate and Malaysia House Price Index, and
- (iii) Comparative analysis and critical assessment of the performance of the property firm listed in KLSE and a foreign property firm in Malaysia.

I will then explore and evaluate the relationship between property market (prices), share market performance and interest rates movement in order to establish the accuracy and reliability of the following well known hypothesis. They are:

Change in Bank Lending → Change in Money Supply → Change in Interest Rate → Change in Expenditure → Change in Property Market (Prices)

Change in Stock Market → Change in Wealth → Change in Disposable Income → Change in Expenditure → Change in Property Market (Prices)

4.1 CHIEF EXECUTIVE OFFICERS' ("CEO") OPINION SURVEY

The annual WTW property sector CEO survey was conducted in 1998 and 1999. The main objective of this survey is to ascertain the views on the prevailing property market conditions and the expectation in 1998.

The selected sample is represented by a cross section of professional and businesses involved in the property sector. This year the sample comprised developers (25%), public listed companies (15%), builders (12%), property professionals and consultants (23%), financiers, building materials suppliers and government agency. The property sub-sectors considered in the survey include housing, country homes, condominiums, apartments, offices, retail, hotels and resort / golf ²⁸. The result of which are as follows:-

²⁸ C H William Tahar & Wong, International Report (1998 & 1999), WTW International, Kuala Lumpur, pp4-7.

TABLE 4.0: 1998 AND 1999 CEO OPINION SURVEY

Variable	Major effect		Moderate		Minor effect		No effect		No opinion	
	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999
Stock Market	75	71	21	21	1	4	1	1	2	3
Foreign Exchange	49	31	34	43	15	21	2	3	0	2
Economic Growth	50	75	38	20	8	4	2	1	2	0
Inflation	0	27	0	46	0	23	0	3	0	1
Employment	30	47	36	44	20	6	11	2	3	1
Income	44	57	33	32	18	9	5	1	0	1
Investment	34	43	43	41	15	12	5	2	3	2
Population Growth	15	17	38	31	34	38	11	11	2	3
Cost of Mortgage	27	32	41	33	21	24	8	6	3	5
Zoning and Land use	15	17	27	28	36	36	14	16	8	3
Urbanization	22	16	32	33	34	36	8	12	4	3
Transportation & infra	33	26	39	41	21	16	4	13	3	4
Environment	11	13	34	35	41	32	10	16	4	4
Political Stability	0	37	0	36	0	16	0	9	0	2

Source: C.H. William, Tahar & Wong 1998 and 1999 International Property Report.

Note: Political stability and current rate of inflation which has been not included in WTW previous surveys, is shown to have major-moderate effect on the performance of property market.

4.1.1 OBSERVATION

The property market is perceived to be positively sensitive to changes in the social-economic climate. The stock market performance, current rate of economic growth and cost of mortgage funds are the foremost factors affecting the performance of the Malaysian property market for 1998. The survey result showed that 75 respondent (1998) and 71 respondent (1999) were of the view that the stock market scenario is the most important factors affecting the Malaysia property market. Whilst, 27 respondent (1998) and 32 (1999) were of the opinion that the current cost of mortgage funds are foremost important affecting the Malaysia property market. As such, the survey result showed that the interest rates and stock market performance, indeed, has an impact on the Klang Valley property market and / or prices.

4.2 MALAYSIA ECONOMIC INDICATOR, SHARE MARKET PERFORMANCE,
INTEREST RATES AND NATIONAL HOUSE PRICE INDEX

4.2.1 MALAYSIA KEY ECONOMIC INDICATORS

Economy is a social science study on human behaviour in choosing alternatives for their wants and needs from limited resources (Miller, 1985) ²⁹. This would also include product distribution and the use of goods and services (Hailstone, 1988) ³⁰. Generally the economy performance of a country is measured by the growth of GDP. However, there are other indicators that need to be examined that may influence demand and supply of properties (prices). Some of these indicators are GDP, Per Capital Income, Consumer Price Index, Unemployment Rate, KLSE Composite Index and Interest rates.

Table 4.1 and figure 4.1 showed the growth of the GDP, CPI, Unemployment rates, Interest rates, National House Price Index and KLCI from 1989 to 1998. Table below showed that the National HPI recorded an increase of average 10.25% from 1989 to 1997 and negative 9.4% for 1998. The increase of property price is due to the positive growth of GDP, positive growth of KLCI and consistent growth of interest rate for the same period. For instances, the growth of average 8.65% GDP, gradual increasing trend of KLCI from 1990 to 1996 (reached its peak at 1,37.96 points on 1993 and at 1,275.32 point on 1996) and the interest rate recorded an average of 8.30% for the period of 1989 to 1997. Conversely, the national HPI recorded negative 9.4% on 1998. The decrease in property price is due to the negative growth of 4.8% GDP, drop in the KLCI from 1,237.96 (1996) to 586.13 (1998) and high interest rate i.e. 11.7% (1998) imposed by the financial institution.

²⁹ Miller, Roger Leroy (1985), "Economic Today", New York: Harper & Row Publishers Inc. p11.

³⁰ Hailstone, Thomas J. & Mastrianna, Frank V. (1998), " Basic Economic", Ohio: South Western Publishing, p225.

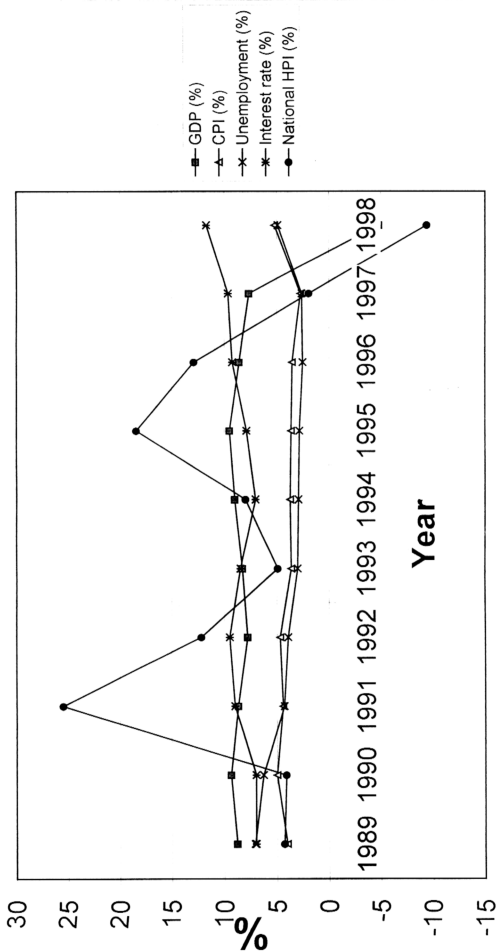
TABLE 4.1: KEY ECONOMIC INDICATORS FROM 1989 – 1998.

Table below detailed six major economic indicators are normally the main contributors to the growth of the of the national economy and property market.

Year	GDP (%)	CPI (%)	Unemployment (%)	KLCI	Interest rate (%)	National HPI (%)
1989	8.80	4.00	7.10	562.28	7.00	4.30
1990	9.40	5.00	6.30	505.92	7.00	4.10
1991	8.70	4.40	4.30	532.09	9.00	25.5
1992	7.80	4.70	3.90	643.96	9.50	12.2
1993	8.30	3.60	3.00	1275.32	8.50	4.90
1994	9.00	3.70	2.90	971.21	7.05	8.00
1995	9.50	3.60	2.80	995.17	7.90	18.4
1996	8.60	3.50	2.50	1237.96	9.25	12.9
1997	7.70	2.70	2.60	594.44	9.65	1.90
1998	(4.8)	5.20	4.90	586.13	11.7	(9.4)

Source : Property Report, Valuation and Property Services Department (1988 – 1998).
Economic Report, Bank Negara Malaysia (1988 –1998).
The Edge. Jan. 17, 2000.

Fig.4.1 - Economic Indicators & Property Price

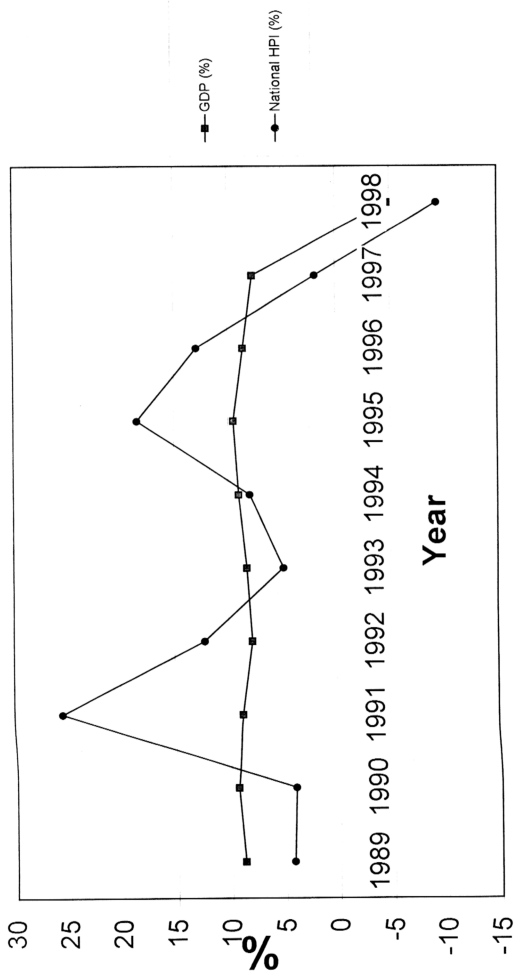


Having established the performance of the country GDP, Unemployment rate, Share Market Performance, Interest Rate and Malaysia House Price Index (Volume and value of transaction and rental capital price movement) for the last 10 years period, it is necessary to see the demand and supply of real property for the same period and study the trends so that comparison between these variables will be studied to find out if they have an impact on the demand and supply of the real properties in Klang Valley.

4.2.2 GROSS DOMESTIC PRODUCT ("GDP")

The GDP is the total product in terms of goods and services for a particular year obtained by a particular country. The calculation of GDP does take into consideration income obtained from other countries such as income obtained from Malaysia properties in other countries and also payments made to other countries such as income obtained from property owned by oversea investors. The GDP of Malaysia enjoyed increased growth since 1987 when it recovered from the recession which produces a decrease of 1% in 1986. The increase in GDP reached its peak in 1990 with an increase of about 9.8%. Figure 4.1(i) show the development of Malaysia's GDP from 1989 to 1998.

Fig. 4.1 (I) - GDP & Property Price



4.2.3 KLSE : COMPOSITE INDEX AND MARKET CAPITALIZATION

The KLSE was established in May 1973. The KLSE has undergone a remarkable growth in 23 years span since its incorporation. The table below tracks the growth of KLE in terms of market capitalization and Composite Index from 1973 – 1999. The positive macro-economic fundamental of the Malaysia economy is an important underlying factor which provides strong support to the performance of KLSE. 1993 was a record year, the KLSE experienced a strong bull trend which saw the market move into uncharted territories and pose new records in trading volume and values and market capitalization.

A total RM 107.7 billion shares valued at RM 387.3 billion were traded on the KLSE in 1993 compared to RM 19.3 billion shares valued at RM 51.5 billion in 1992. On April 15, 1993, a record of 1.04 billion shares valued at RM 2.41 billion was transacted on the KLSE. The market capitalization of KLSE surged by 96 per cent from January to December 1993. The KLCI which tracks the performance of the stock market rose from 643.96 points as at December 1992 to 1,275.32 points on December 31, 1993 - a rise of 98 per cent³¹. KLCI is a stock market index measures the performance of a stock exchange. If the stock market index is sufficiently efficient and reliable, investor would have confidence in using it for both short to medium-term portfolio. The stock market index also served as an indicator of economic performance. It is a sensitive parameter of short-term political and economic development as well as a useful monitor of long term structural changes in the economy. KLSE Composite Index ("KLCI") for 1989 to 1998 is shown in Figure 4.1(ii). Figure 4.1(ii) showed that the KLCI have increase from 562.28 points (1989) to 1,275.32 points (1993). Thereafter, the KLCI recorded 971.21 points (1994) and 995.17 points (1995) before reached its peak gain on 1996 at 1,237.96 points. KLCI recorded 594.44 and 586.13 points on 1997 and 1998.

³¹ Faridah Ali (1997), "Effective Stock Market Investment in Malaysia", Kuala Lumpur: Berita Publishing Sdn Bhd, p23.

▪ KLSE MARKET CAPITALIZATION, ANNUAL TURNOVER AND KLCI

Table 4.1(a) below shows the market capitalization, annual turnover and KLCI for the period of 1992 to 1999. The KLSE market capitalization recorded an increasing trend from the low of RM245.8 billion (1992) to RM786.9 billion (1996) and thereafter reduced to RM 376.52 billion (1997) and RM374.52 billion (1998) respectively. KLSE turnover also showed the similar trend.

TABLE 4.1(a): KLSE MARKET CAPITALIZATION, ANNUAL TURNOVER AND KLCI

Year	KLSE Market Capitalization (RM billion)	KLSE Market Capitalization By sector (%)	KLSE Annual Turnover Volume (billion)	KLSE Annual Turnover Value (billion)	KLCI
1992	245.8	Trading: 33.95			643.96
1993	619.6	Industrial: 13.88	107	381	1275.32
1994	508.9	Finance: 20.14	60	327	971.21
1995	565.6	Consumer: 8.92	34	185	995.17
1996	786.9	Other: 23.14	66.5	463.2	1237.96
1997	376.16		72.8	408.56	594.44
1998	374.52		60.85	122.16	586.13
1999	503.17		86.49	189.74	778.16

Source : The Edge, Dec. 27, 1998.

• PERFORMANCE OF KLCI (1989-1999)

Table 4.1 (b) below showed the development and performance of KLCI from 1989 to 1999.

TABLE 4.1 (b): THE PERFORMANCE OF KLCI³²

Year	KLCI	% Change	Year	KLCI	% Change	Year	KLCI	% Change
01-89	390.50	9	01-91	497.26	-2	01-93	624.49	-3
02-89	391.30	0	02-91	562.40	13	02-93	638.19	2
03-89	409.70	5	03-91	587.05	4	03-93	643.25	1
04-89	441.25	8	04-91	588.72	0	04-93	719.61	12
05-89	448.65	2	05-91	629.54	7	05-93	735.25	2
06-89	445.55	-1	06-91	618.69	-2	06-93	721.17	-2
07-89	462.10	4	07-91	602.32	-3	07-93	766.08	6
08-89	462.74	0	08-91	553.46	-8	08-93	808.49	6
09-89	496.15	7	09-91	522.69	-6	09-93	853.83	6
10-89	475.20	-4	10-91	531.40	2	10-93	971.99	14
11-89	509.52	7	11-91	532.09	0	11-93	996.45	3
12-89	562.28	10	12-91	556.22	5	12-93	1275.3	28
01-90	570.21	1	01-92	570.64	3	01-94	1106.9	-13
02-90	603.18	6	02-92	605.06	6	02-94	1125.6	2
03-90	583.60	-3	03-92	593.21	-2	03-94	952.72	-15
04-90	520.57	-11	04-92	591.63	0	04-94	1054.5	11
05-90	583.87	12	05-92	589.09	0	05-94	993.73	-6
06-90	584.65	0	06-92	592.33	1	06-94	1011.5	2
07-90	630.29	8	07-92	599.30	31	07-94	1027.5	2
08-90	540.85	-14	08-92	574.73	-4	08-94	1130.0	10
09-90	459.08	-15	09-92	602.28	5	09-94	1129.7	0
10-90	491.71	7	10-92	641.31	6	10-94	1108.8	-2
11-90	464.71	-5	11-92	641.89	0	11-94	1013.1	-9
12-90	505.92	9	12-92	643.96	0	12-94	971.21	-4

Source: The Edge, Jan. 17, 2000.

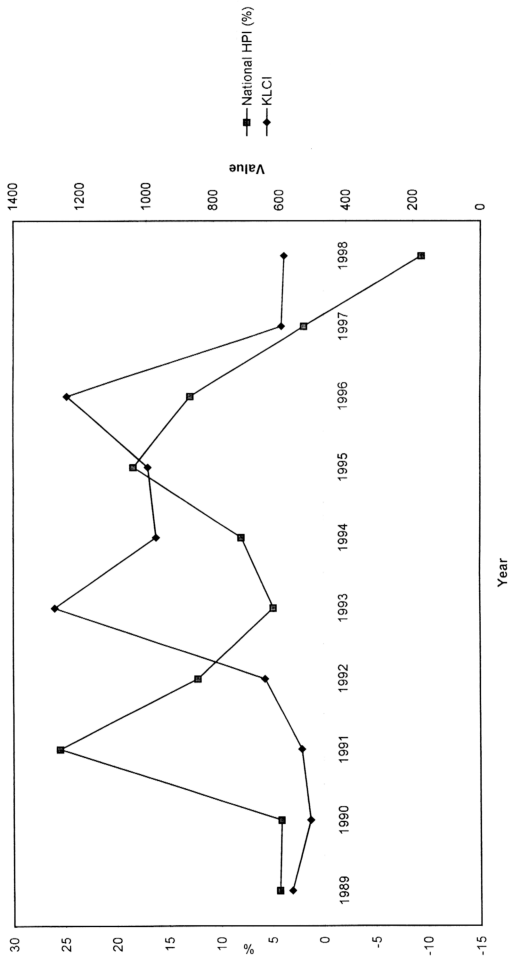
³² Kee Kin Onn and Kon Wui Seng, "KLCI At 2400 and Beyond", The Edge, Jan. 17, 2000. Kuala Lumpur, pp 26-28.

Continue..

Year	KLCI	% Change	Year	KLCI	% Change	Year	KLCI	% Change
01-95	883.29	-9	01-97	1216.72	-2	01-99	591.43	1
02-95	979.64	11	02-97	1270.67	4	02-99	542.23	-8
03-95	983.1	0	03-97	1203.10	-5	03-99	502.82	-7
04-95	951.8	-3	04-97	1080.17	-10	04-99	674.96	34
05-95	1950	10	05-97	1104.83	2	05-99	743.04	10
06-95	1026.6	-2	06-97	1077.30	-2	06-99	811.10	
07-95	1060.2	3	07-97	1012.84	-6	07-99	768.70	
08-95	1015	-4	08-97	804.40	-21	08-99	767.10	
09-95	1000.6	-1	09-97	814.57	1	09-99	675.50	
10-95	957.61	-4	10-97	664.69	-18	10-99	742.90	
11-95	951.69	-1	11-97	545.44	-18	11-99	734.70	
12-95	995.17	5	12-97	594.44	9	12-99		
01-96	1055.4	6	01-98	569.51	-4			
02-96	1084.4	3	02-98	745.36	31			
03-96	1149	6	03-98	719.52	-3			
04-96	1189.5	4	04-98	625.97	-13			
05-96	1141	-4	05-98	538.24	-14			
06-96	1136.3	0	06-98	455.64	-15			
07-96	1068.2	-6	07-98	402.65	-12			
08-96	1118.5	5	08-98	302.91	-25			
09-96	1135.2	1	09-98	373.52	23			
10-96	1168.3	3	10-98	405.33	9			
11-96	1226.5	5	11-98	501.47	24			
12-96	1237.9	1	12-98	586.13	17			

Source: The Edge, Jan. 17, 2000.

Fig. 4.1(ii) - KLCI & Property Price

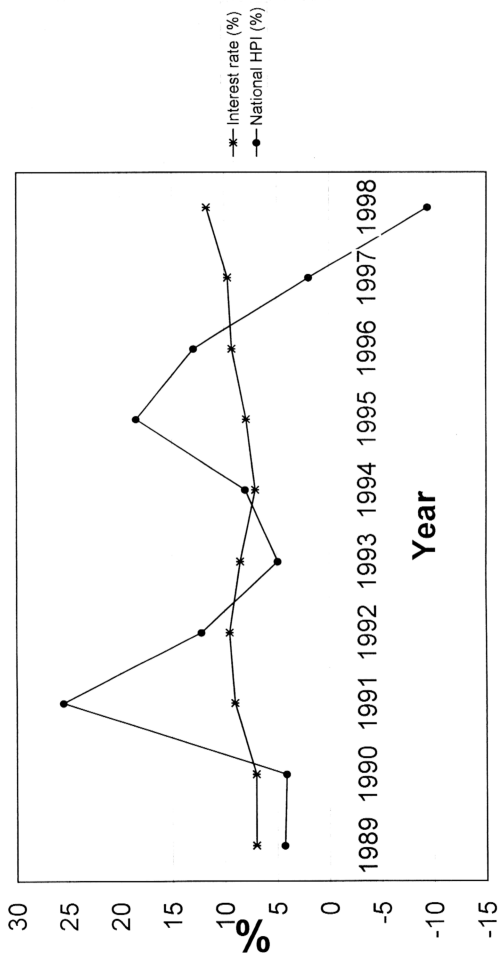


4.2.4 INTEREST RATE

In Islamic banking terminology, interest is “riba” and it is the cost of borrowing money, or the return earned on funds loaned or invested. The rate a bank charge its best customers is called Base Lending Rate (“BLR”)³³. Less favoured customers are charged a rate above BLR – up to maximum of four percentage points. Since interest rates reflect the supply and the demand of the money, high interest rates suggest there is greater demand for money than supply or tight money supply. Conversely, low interest rates suggest there is greater supply of money than demand of money. The debate over the level of interest rate level is interesting. The “maintainers” (of high interest rate) tend to emphasize low inflation, confidence in ringgit and interest of savers. The “lowerers” emphasize full employment, economic growth and investor confidence. If we have high interest rates, investors and businessmen will lose money, economy activity will decline, individuals can't purchase houses, and serve to depress the stock and property market. If we reduce interest rates, we will face capital flight, further weakening of the ringgit, individuals can purchase houses, very high inflation and serve to stimulate the stock and property market. Figure 4.1 (iii) show the development of the Base Lending Rate from 1989 to 1998. Figure 4.1 (iii) showed that the interest rate charged by the banks increased from 7% (1989 and 1990) to 9.85%. Thereafter, reduced to 8.5%, 7.05% and 7.9% for 1993, 1994 and 1995 respectively. The interest rate increase to 9.25% (1996), 9.65% (1997) and 11.7% (1998).

³³ Syed Ahmad Idid (1993), “Interest Rate”, Banker Journal Malaysia, p43.

Fig 4.1(iii) - Interest Rate & Property Price

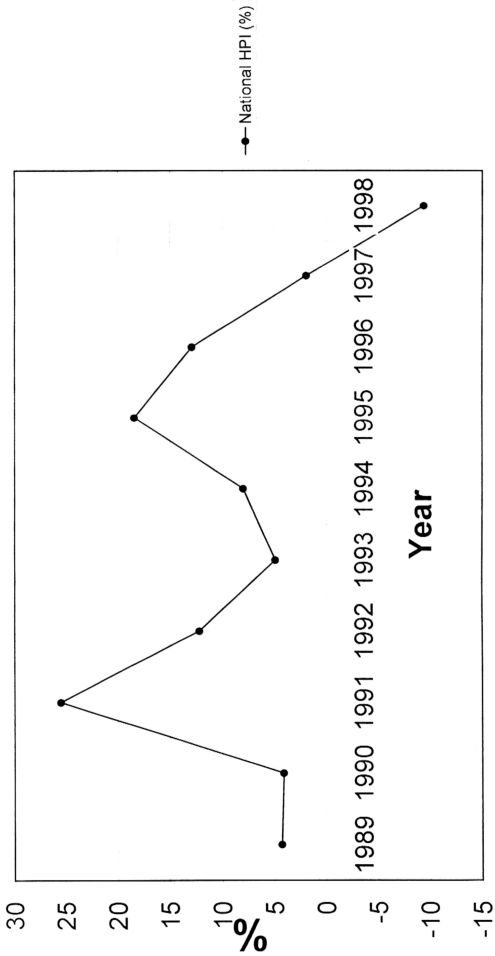


4.2.5 MALAYSIA HOUSE PRICE INDEX

House Price Index ("HPI") is the change in prices of houses (properties). It is being determined by comparing prices of different type of houses (properties) for a specific time such as one a year. HPI indicates whether the country is facing inflation or deflation and percentage change. Inflation exist where price and cost increase or increase in properties price. A deflation is a situation where generally prices and cost decreases.

The MHPI launched by the Valuation and Property Services Department tracks the performance of the housing sector. From 1989 to 1996 the MJPI had grown on an average of 11.3%. However, until 1998 this average has been reduced to 8.3% only. HPI for 1989 to 1998 is shown in Figure 4.1(iv).

Fig 4.1(iv) - Malaysia House Price Index



4.3 CORRELATION BETWEEN INTEREST RATES, SHARE MARKET PERFORMANCE ("KLCI") AND PROPERTY PRICES

In Malaysia, the government has taken several steps to jump-start consumer spending – slashing interest rates near inflation level to encourage people to spend rather than save; easing credit card payment requirements and pressuring banks to lend more. At present, Malaysians are not spending. Malaysia savings rate is 40 per cent.. The interest rate is basically the price of money. Just like the price of any goods, the rate of interest is formed through the interplay of market forces based on the supply and demand for money. The direction of change in the interest rate will affect the economic decision of businesses and individuals to consume or to invest. Indeed interest rate is a crucial variable in determining the property prices.

According to Evelyn Shayamala Devadason (1998), the falling of Kuala Lumpur Composite Index (KLCI) and share prices have had two-pronged effect on the economy. First, it has brought about a negative wealth effect on individual, resulting in a drop in consumer spending. Second, the drop in consumer spending is apparent in the car, **property markets** and in the tourism industry. The performance of share market have been identified as one of the foremost factors affecting the performance of property sector.

In an economy which was booming and a stock market which was highly liquid, investor funds poured into the market to drive up property related stocks as well as property prices. Property companies listed on the stock exchange, being flushed with funds, went after properties they held and further added to their appeal to investors. In a spiral that fed upon itself, the "Siamese Twin", property and stocks, built on each other in the upward push on their respective prices. Theoretically, and in actual practice, it was possible for a property company to pay a premium on property prices and pass on that cost to the investor in the even higher premium that the investor had to pay but was quite happy to. As long as property and stock prices sustained the upward momentum, no one complained. Even for the individual who is invested in both property and stocks, in a boom environment, surplus funds could be easily generated by disposition of either stocks or properties for reinvestment. Again, as long as the boom continued, liquidity was not a problem.

The KLSE showed one of the worst declines of any market from a high in late July at set index 1143.78 to 687.93 on September 18, a dramatic drop of 40 per cent. With the drop, investors rerated property plays in a dramatic fashion which reflected a drastic change in the valuation of property related stocks. Price to earning and price to book value dropped by half for direct plays but less dramatically for indirect plays. Most notable, however, is the impact of the "BUBBLE BURST" on this sector's share of total market capitalization. The entire publicly quoted property stocks were only worth RM10.4 billion. This was less than Telekom Malaysia's market capitalization of RM13.1 billion (The Edge' 2-8-1999).³⁴

What this suggests is that investors are wary that property prices are vulnerable to a decline perhaps as drastic as that of property related stocks. Will property prices follow in the footsteps of its "Siamese Twin" partner? If such were to occur, the ramifications could be beyond anyone's expectations. My assessment is that property is not likely to decline in price as dramatically as the share prices of property related stocks, and in that process may help to reverse the current decline in the value of its "Siamese Twin".

³⁴ The Edge, AUG. 2, 1999.

4.3.1 IMPACT OF INTEREST RATES AND STOCK MARKET PERFORMANCE ON PROPERTY PRICES

- **INTEREST RATE**

Interest rate movements can change the habit of depositors especially those with high and medium disposable incomes. BNM usually controls money supply in the country through use of various instruments. Changes in interest rates can transmit the impact of its policy on the economy, The interest rate is basically the price of money.

Just like the price of any goods, the rate of interest is formed through the interplay of market forces based on the supply of and demand for money. The BNM influences the change in interest rate through the supply of money. The direction of change in the interest rates will affect the economic decisions of business and individuals to consume or to invest. According to BNM report 1991: Indeed, the interest rate is a crucial variable in determining growth, employment, price level, exchange rates and the balance of payments. The BNM efficient management of interest rate is, therefore, of utmost importance." Table 4.2 show the impact of interest rate on Klang Valley property prices.

According to the permanent income theory, households save in order to accumulate wealth that they can use during their retirement. Suppose that there is an unexpected rise in wealth. This will means that less of current disposable income needs to be saved for the future, and it will tend to cause a larger fraction of disposable income to be spend on consumption and a smaller fraction to be saved. Pursuant to wealth and the consumption and investment function, a fall in wealth increase the incentive to save in order to restore wealth. Other things being equal, the higher the interest rate, the higher is the cost of borrowing money for investment purpose and the less is the amount of desired investment expenditure (Chrystal & Lipset: 1998).

Most houses are purchased with money that is borrowed by means of mortgages. Interest on the borrowed money typically account for over one half of the purchaser's annual mortgage payments. The reminder is repayment of the original loan called the principal. Because interest payments are such a large part of mortgage payments, variations in interest rates exert a substantial effect on the demand for housing. During the mid-1980, interest rates fell sharply, and these was a boom in the demand for housing, that boom persisted until late 1988. When interest rates started to rise again the housing market collapsed and house price fell. The lower interest rates than arrived in 1992 and 1993 permitted the beginning of a recovery in the housing market. However, this recovery was very slow and house prices did not pick up until 1996.

• SHARE MARKET PERFORMANCE

In summary, basically the impact of share market performance on property price can be summed up as follows:-

Firstly, the average house price in the Klang valley has increased by approximately 38% during the 35 month bull run in the KLSE between March 1994 and February 1997.

Secondly, the longest KLSE bull run which lasted 50 months from April 1977 to June 1991 pushed Klang Valley house prices up by 169% from RM58,315.00 in 1997 to RM156,929.00 in 1981.

Thirdly, property market don't exist in vacuum; they are function of both macroeconomic trends, such as KLCI, interest rates, company and individual specific factors, such as earnings growth and disposable income. Dr Mansor Isa (1999), in his recent study on KLSE market trends, discovered that investments in the KLS yielded between 13% and 14% per year over the 20-year period from 1977 to 1996.

Any investor buying a stock is essentially buying a future stream of earnings and any wise investor who made substantial gains in equity investments would quite likely go property hunting. Undoubtedly, landed homes have proven to be sound investments. The price of a standard double-storey link-house in a well-established location in the Klang Valley has increased more than five-fold over the past twenty years, between 1997 and 1996. (See Table 4.1 (c) below)

TABLE 4.1 (c): MALAYSIA PROPERTY & STOCK MARKET CYCLES (1977-1998)

Year	Property Cycle	Klang Valley average house price (RM)	Change in price (1%)	* Stock market cycle (period)
1977	Up	58,315	-	Bull (4/77 – 6/81)
1978	Up	63,143	8.3	
1979	Up	79,214	25.5	
1980	Up	132,286	67.0	
1981	Up	156,929	18.6	
1982	Up	168,266	7.2	Bear (7/81 – 8/82)
1983	Up	171,214	1.7	Bull (9/82 – 1/84)
1984	Down	171,536	0.19	Bear (2/84 – 4/86)
1985	Down	177,250	3.3	
1986	Down	166,071	- 6.3	
1987	Down	147,000	- 11.5	Bull (5/86 – 7/87)
				Bear (8/87 – 12/87)
1988	Down	140,429	- 4.5	Bull (1/88 – 7/90) Bear (8/90 – 9/90)
1989	Up	146,607	4.4	
1990	Up	163,733	11.7	
1991	Up	193,635	11.3	
1992	Up	187,363	2.8	Bull (8/92 – 12/93)
1993	Up	193,635	3.4	
1994	Up	218,941	13.1	Bear (1/94 – 3/94)
1995	Up	264,180	20.7	Bull (3/94 – 2/97)
1996	Up	301,748	14.2	
1997	Down	301,748	-	Bear (3/97 – 8/98)
1998	Down	256,486	- 15.	

Source : Property Market Reports, Bank Negara Reports
 * Business Times, (July 19,1999)

4.3.2 INTEREST RATE, STOCK MARKET PERFORMANCE AND KLANG VALLEY HOUSE PRICE INDICES

From 1989 to 1996 the MHPI had grown on an average of 11.3%. However, until 1998 this average has been reduced to 8.3% only. Generally house prices have kept pace with per capital income which produced annual growth rates of 10.6% up to 1996 and 9.1% up to 1998. The terrace houses grew at 7.1% over the ten years whilst the high rise was the laggard at 3.1%.

Table 4.2, figure 4.2 (I) and figure 4.2(ii) shows the correlation between interest rate, KLCI and Klang Valley property prices. Table 4.2 shows that the terraced house price recorded an increase of average 8.4% for the period of 1988 to 1997 and negative 4.8% for 1998. The Semi Detached house price recorded an increase of average 5.9% (1988 to 1997) and negative 8.1% (1998). The detached house price recorded an increase of 8.8% (1988 to 1997) and negative 13.6% (1998). The high rise property price recorded an increase of average 5.1% for the period of 1988 to 1992 and negative 1.4% for 1993. Thereafter, the price recorded an increase of an average 5.2% (1994 and 1995) and negative 4% (average) for 1996 to 1998.

TABLE 4.2: KLCI, INTEREST RATE AND KLANG VALLEY HOUSE PRICE INDEX

Year	Terraced		Semi-Detached		Detached		Highrise		INT (%)	KLCI
	Index	Annual CHG (%)	Index	Annual CHG (%)	Index	Annual CHG (%)	Index	Annual CHG (%)		
1988	93.4	0	95.6	0	97.1	0	78.1	0		
1989	95	1.7	96.2	0.6	98.7	1.6	92.6	18.6	7.00	562.28
1990	100	5.3	100	4.0	100	1.3	100	8.0	7.00	505.92
1991	113.5	13.5	110.	10.0	114.3	14.3	107.2	7.2	9.00	532.09
1992	123.5	8.8	118.2	7.5	125.8	10.1	107.3	0.1	9.50	643.96
1993	128.9	4.4	122.1	3.3	135.2	7.5	105.8	-1.4	8.50	1275.3
1994	140.1	8.7	130	6.5	148.7	10	112.2	6.1	7.05	971.21
1995	158.4	13.1	142.7	9.8	172	15.7	116.9	4.2	7.90	995.17
1996	174.5	10.2	154.2	8.1	196.2	14.1	115.9	-1.0	9.25	1273.9
1997	192	10.0	158.6	2.9	204.9	4.3	110.2	-4.8	9.65	594.44
1998	182.7	-4.8	145.7	-8.1	176.7	-13.6	103.4	-6.2	11.7	586.13

Source : Property Report, Valuation and Property Services Department (1988 – 1998).
Economic Report, Bank Negara Malaysia (1988 –1998).
The Edge. Jan. 17, 2000.

FIGURE 4.2(i): IMPACT OF INTEREST RATE ON KLANG VALLEY PROPERTY PRICE

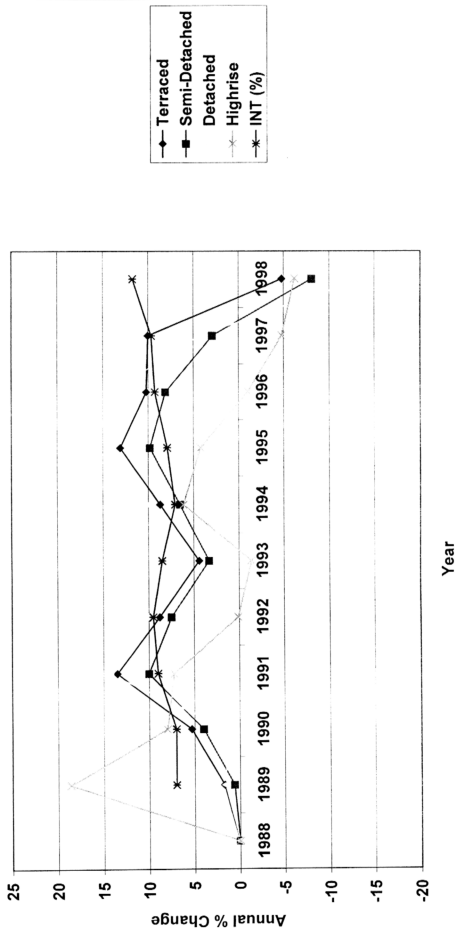


FIGURE 4.2 (ii): IMPACT OF KLCI ON KLANG VALLEY PROPERTY PRICE

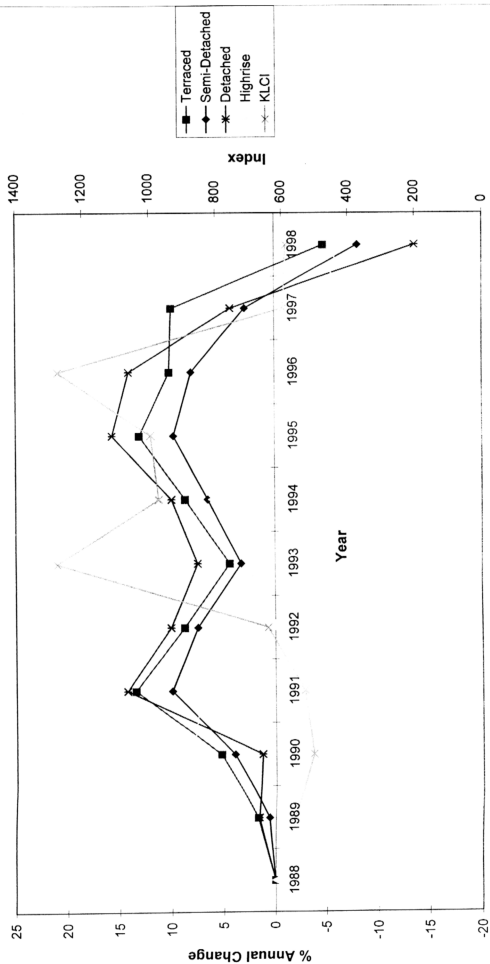


Table 4.3, figure 4.3(i) and 4.3 (ii) shows the correlation between interest rate, KLCI and Kuala Lumpur property prices. The terraced house price in Kuala Lumpur has recorded an increase of average 8.6% for the period of 1988 to 1997 and thereafter recorded negative 7% for 1998. The Semi Detached house price recorded an increase of average 17.6% (1988 to 1997) and thereafter recorded negative 28.7% for 1998. The detached house price recorded an increase of an average 20.4% for the period of 1988 to 1997) and thereafter recorded negative 32.1 for 1998. The high rise property price recorded an increase of average 16.5% (1988 to 1991), 8.75 (1992 to 1993), 11.6% (14 to 1995) and recorded negative 6.9% (average) for the period of 1996 and 1998.

TABLE 4.3: KLCI , INTEREST RATE AND KUALA LUMPUR HOUSE PRICE INDICES

Year	Terraced		Semi-Detached		Detached		Highrise		INT (%)	KLCI
	Index	Annual CHG (%)	Index	Annual CHG (%)	Index	Annual CHG (%)	Index	Annual CHG (%)		
1988	90.8	0	88	0	86.5	0	70.7	0		
1989	95.2	4.9	93	5.7	91	5.2	86.4	22.2	7.00	562.28
1990	100	5.0	100	7.5	100	9.9	100	15.7	7.00	505.92
1991	104.8	4.8	127.1	27.1	122.8	22.8	112.5	12.5	9.00	532.09
1992	110	5.0	150.5	18.4	145.3	18.3	105.1	-66	9.50	643.96
1993	115.1	4.6	157.5	4.7	153.9	5.9	93.8	-10.8	8.50	1275.3
1994	125.9	9.4	193.7	23.0	206.5	34.2	102.6	9.4	7.05	971.21
1995	148.2	17.7	246.0	27.0	330.4	60.0	116.1	13.7	7.90	995.17
1996	181.9	22.7	309	25.6	376.0	13.9	107.3	-7.6	9.25	1273.9
1997	187.4	3.0	369.2	19.5	427.4	13.7	101	-5.9	9.65	594.44
1998	174.2	-7.0	263.2	-28.7	290.1	-32.1	93.7	-7.2	11.7	586.13

Source : Property Report, Valuation and Property Services Department (1988 – 1998).
Economic Report, Bank Negara Malaysia (1988 –1998).
The Edge. Jan. 17, 2000.

FIGURE 4.3(i): IMPACT OF INTEREST RATE ON KUALA LUMPUR
PROPERTY PRICE

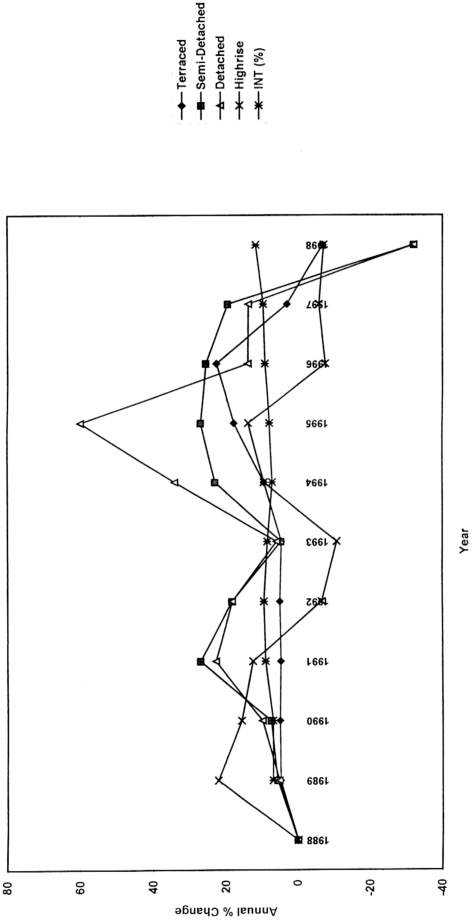


FIGURE 4.3 (ii): IMPACT OF KLCI ON KUALA LUMPUR PROPERTY PRICE

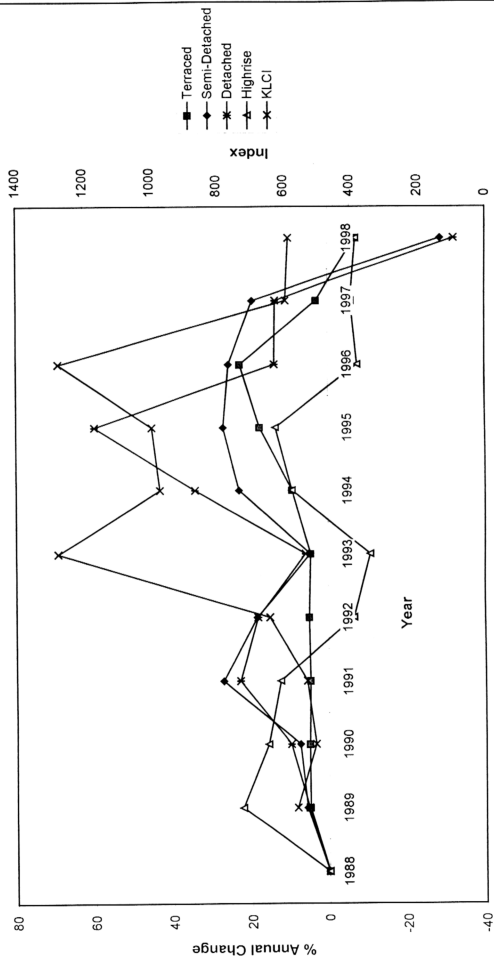


Table 4.4, figure 4.4 (i) and figure (ii) shows the correlation between interest rate, KLCI and Selangor property prices. The terraced house price recorded an increase of average 7.4% for the period of 1988 to 1997 and thereafter recorded negative average 5.8% for 1998. The semi detached house price recorded an increase of average 8.3% (1988 to 1997) and thereafter recorded negative average 10.2% (1998). The detached house price recorded an increase of average 9.02% (1988 to 1997) and thereafter recorded negative 20.2% (1998). The high rise property price recorded an increase of 5.2% for the period of 1988 to 1997 and recorded negative 6% for 1998.

TABLE 4.4: KLCI, INTEREST RATE AND SELANGOR HOUSE PRICE INDICES

Year	Terraced		Semi-Detached		Detached		Highrise		INT (%)	KLCI
	Index	Annual CHG (%)	Index	Annual CHG (%)	Index	Annual CHG (%)	Index	Annual CHG (%)		
1988	93.9	0	90.5	0	94.7	0	97.2	0		
1989	95.8	2.00	95.1	5.10	96.6	2.00	98.2	1.20	7.00	562.28
1990	100	4.40	100	5.20	100	3.50	100	1.60	7.00	505.92
1991	106.5	6.50	106.4	6.40	110	10.0	106.2	6.20	9.00	532.09
1992	111.3	4.50	112.5	5.70	115.5	5.00	111.7	5.20	9.50	643.96
1993	115.7	4.00	117.3	4.30	118.7	2.80	112.9	1.10	8.50	1275.3
1994	126.1	9.00	130.9	11.60	139.1	17.2	121.3	7.40	7.05	971.21
1995	140.3	11.3	148.2	13.20	163.8	17.8	134.6	17.0	7.90	995.17
1996	155.5	10.8	165.7	11.80	186.3	13.7	144.2	7.10	9.25	1273.9
1997	176.9	13.7	185	11.60	203.5	9.20	144.6	0.30	9.65	594.44
1998	166.6	-5.80	166.1	-10.20	112.5	-20.2	136	-6.00	11.7	586.13

Source : Property Report, Valuation and Property Services Department (1988 – 1998).

Economic Report, Bank Negara Malaysia (1988 –1998).

The Edge. Jan. 17, 2000.

FIGURE 4.4(i): IMPACT OF INTEREST RATE ON SELANGOR
PROPERTY PRICE

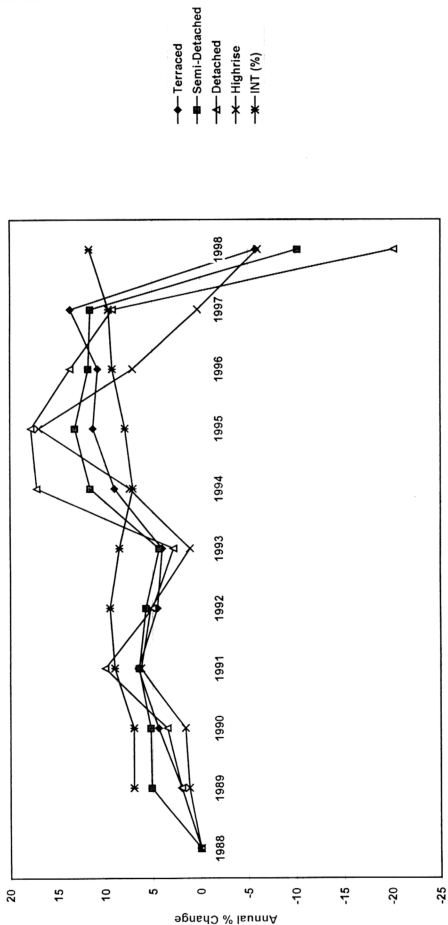
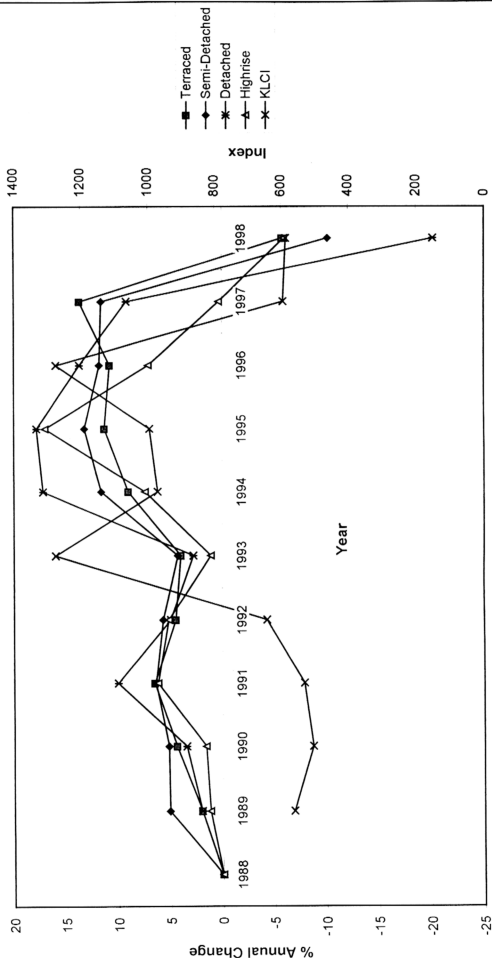


FIGURE 4.4 (ii): IMPACT OF KLCI ON SELANGOR PROPERTY PRICE



4.4 FINDINGS AND EVALUATION

For the purpose of establishing the above relationship, both the qualitative and quantitative approach that will be used is to plot the trends of the movement of the interest rates and the demand and supply of housing in Klang Valley graphically. The pattern of the graph can be studied and conclusion can be drawn. Table 4.1 and figure 4.1(i) to 4.1 (iv) show the relationship between the property prices and interest rates indicators from 1989 – 1998. Observation from the above figure shows that GDP, CPI and Interest rates have a direct relationship where the three indicators experienced a decrease from 1984 – 1985. However, after 1990, the increase in demand for housing has been slow and was being overtaken by the above indicators.

As can be seen from the tables and analyses, the residential sectors has been relatively insulated against economic recession. A comparison of decrease in volume of transaction, indicates that in term of volume it suffered a 30% drop next to agriculture at -22.1%. The rest of the sectors dropped by higher percentages. The reasons for theses phenomenon are obvious. Malaysia still a maturing economy with greater need for more housing. The bulk of the transactions in the residential sector has been in the lower price range. The sample below for the transaction of residential property in six major cities indicate the situation clearly. See Table 4.5 and 4.6.

TABLE 4.5: COMPARISON OF AVERAGE VALUE PER TRANSACTION FOR THE MAJOR STATE

Table below shows that the average value per transaction for Kuala Lumpur recorded -23.9%, Selangor -34.7%, Johor negative 20.7%, Perak -0.7%, Pulau Pinang -21.1% and Negeri Sembilan -0.6%.

Type	Residential Value Transactions		All sector Value Per Transactions		Change (%)
	1997	1998	1997	1998	
Kuala Lumpur	261,000	222,000	470,000	357,000	-23.9
Selangor	167,000	149,000	313,000	204,000	-34.7
Johor	138,000	122,000	206,000	164,000	-20.7
Perak	62,000	60,000	78,000	78,000	-0.7
Pulau Pinang	150,000	138,000	262,000	207,000	-21.1
Negeri Sembilan	95,000	107,000	165,000	164,000	-0.6
Malaysia	124,000	114,000	194,000	150,000	

Source : Property Market Report

TABLE 4.6: TOTAL VALUE AND VOLUME TRANSACTION 1990-1998

The total value and volume of transaction recorded positive growth from 1990 to 1997. The total value and volume of transaction recorded -47.5% and -32.4% respectively for 1998.

<i>Year</i>	<i>Value (RM billion)</i>	<i>Change in Value (%)</i>	<i>No. of Transactions (‘000)</i>	<i>Change in No. of Transaction (%)</i>
1990	16.6	-	165	+21.8
1991	18.7	+12.7	184	+11.3
1992	21.4	+14.4	191	+3.8
1993	23.6	+10.3	200	+4.7
1994	29.7	+25.8	218	+8.9
1995	39.85	+34.2	252	+15.6
1996	49	+22.9	270	+7.1
1997	53.12	+8.4	275	+1.9
1998	27.9	-47.5	186	-32.4

Source : Property Market Report

All sectors of property market experienced falls in volume and value. The residential sector contributed to 66% of the volume transactions. In terms of value the residential sector contributed 50%. Comparative figures for 1997 were 63.9% for volume and 41% for value which were consistent with prior years indicating that residential sector was not badly suffered as the other sectors. This is even though the residential sector suffered a 30% drop in volume and 36% by value, the share of the total transactions increased. (See table 4.7)

TABLE 4.7: CHANGE IN VOLUME, VALUE AND VALUE PER TRANSACTION

Type	Changes in Volume of Transactions		Changes in Value of Transactions		Changes in Per Transactions	
	1997	1998	1997	1998	1997	1998
Residential	3.3	-30.0		-36	12.5	-8.5
Commercial	5.6	-44.1		-43.9	17.7	0.4
Industrial	1.1	-48.1		-55.5	-11.3	-14.2
Agriculture	-2.0	-22.1		-47.7	-1.1	-31.8
Developments	-8.9	-47.4		-72.8	11.3	-47.3
Others	-8.3	-96.5		-56.5	47.7	1136.1
All sectors	1.6	-30.3		-47.8	7.0	-22.6

Source : Property Market Report

Property prices also came down from the record high achieved in early 1997. Evidence indicates a drop of 20 – 25% (see table 4.8, table 4.9 and table 4.10). Rental levels in most urban towns also came down by virtual of the inability to pay rent. This has to a certain extent helped to push yields higher than before.

Table 4.8 below shows that the rental levels in major urban area reported gradual increasing from RM 26.91 per m2 (1989) to RM 64.58 per m2 (1993) and came down to RM 59.18 per m2 (1994 and 1995) and RM 59.14 per m2 (1996 and 1997). The occupancy rate for purpose built office in Golden Triangle, Jalan Ampang, CBD, within City Center and Suburban reported more than 90% for the period of 1992 to 1997. In 1998, the occupancy rate has drop below 90%.

TABLE 4.8: RENTAL MOVEMENT AND OCCUPANCY RATE FOR PURPOSE BUILT OFFICE

Project	1989 per m2	1990 per M2	1991 per m2	1992 per m2	1993 per m2	1994 per m2	1995 per m2	1996 per m2	1997 per m2	1998 per m2
Rental movement	26.91	43.06	50.59	64.58	64.58	59.18	59.18	59.14	59.14	
Occupancy (%)				95.8	90.0	92.6	93.0	98.0	95.6	85.3
Golden triangle				95.7	88.2	82.3	82.0	96.0	95.6	77.3
Jln. Ampang				97.4	91.6	93.8	94.0	99.0	99.1	85.4
CBD				98.4	94.0	95.6	98.0	99.0	99.7	83.7
Within city center				99.0	98.1	98.1	96.0	100	98.6	74.7
Suburban				32	37.4	40	40	40	40	38.33
P.J										

Source: Property Market Report.

Table below shows that the price of single storey house has gradually increase from RM130,000 (1989) to RM 390,000 (1997) for Lucky Garden, RM 72,000 (1989) to RM170,000 (1997) for Taman Kepong, RM 827,000 (1989) to RM 168,000 (1997) for OUG and RM55,000 (1989) to RM 130,000 (1997) for Taman Kajang. In 1998, the selling price for single storey terraced house have reported lower than 1997.

TABLE 4.9: PRICE TRENDS – SINGLE STOREY TERRACE HOUSES (1989 – 1998)

<i>Project</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Lucky Garden,KL	130	173	188	191	191	196	243	250	390	322
Taman Kepong, KL	72	80	82.3	78.2	84	87.5	100	150	170	140
OUG, KL	82.7	90	96.3	93.9	98	103.5	125	159	168	152
Kajang	55	57	57	65.4	65.4	71.5	85	100	130	120

Source : Property Market Report

Table 4.10 below shows that the double storey house price has gradually increase from RM 170,000 to RM530,000 for Taman Tun Dr. Ismail, RM102,000 to RM 235,000 for Taman Kepong and RM121,000 to RM 275,000 for Taman OUG. In 1998, the property price for Taman Tun Dr. Ismail, Taman Kepomg and Taman OUG reported lower than 1997.

TABLE 4.10: PRICE TRENDS – DOUBLE STOREY TERRACE HOUSES (1989 – 1998)

<i>Project</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Taman Tun Dr. Ismail, KL	170	192	230	228	250	270	390	460	530	435
Taman Kepong, KL	102	105	109	120	134.5	146	146	220	233	235
Taman OUG, KL	121	134	138	138	150	146	185	255	275	270

Source : Property Market Report