



5.0 CASE STUDY : A CRITICAL ASSESSMENT OF THE IMPACT OF INTEREST RATES AND STOCK MARKET PERFORMANCE ON PUBLIC LISTED COMPANIES IN KLSE AND A FOREIGN PROPERTY DEVELOPER IN KLANG VALLEY

A comparative study on the property firms listed in KLSE and a foreign property developer in Malaysia for the period of 1997 to 1998 was carried out to study the impact of the stock market performance and interest rate on property market and/or property prices in Klang Valley. The purpose of this case study is to examine critically the impact of interest rate and share market performance on property market.

5.1 COMPANY BACKGROUND

The Far East Group of Companies ("the Company") in Malaysia is part of the flagship of Far East Consortium International Ltd ("Fast East")-a public listed company in Hong Kong stock exchange since 1972. Fast East has many subsidiaries dealing with property investment, developments, investment holdings, share trading, hotel operation, and manufacturing. Far East Group in Malaysia has over RM 2 billion worth of quality developments consisting of residential, commercial, retail, hotels, industrial and resort projects (Refer appendix 1).

Some of the local projects develop by FEC are as follows:

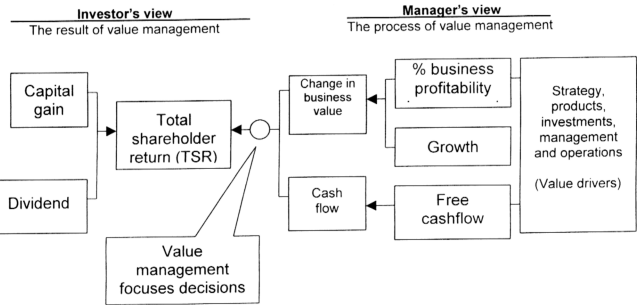
TABLE 5.1: FAR EAST CONSORTIUM'S PROJECT

| <i>Sri Hartamas Region</i> | <i>Ampang and Imbi Region</i> | <i>Port Klang Region</i> | <i>Kampung Balakong</i> |
|----------------------------|-------------------------------|-----------------------------------|-------------------------------|
| Menara Hartamas | Ampang Puri | Port Klang Industrial Park | Desa Murni Residential |
| Puncak Prima | Rockman's Regency | | |
| Plaza Damas | Sri Fortune | | |
| Impian Duta | | | |

Source: Far East Consortium.

5.2 MISSION: CHALLENGE OF CREATING SHAREHOLDER VALUE

The mission for FEC is to create value to shareholder. Chart below depicted the process of value management and result of value management.



Source : Far East Consortium

5.3 ISSUES

During 1997 and 1998 Asian economic crisis, Malaysian was hit by an unprecedented economic crisis, triggered by the crash of stock market from a high of 1300 points to a low of 320 points, credit crunch, high mortgage cost and bank pull back lines. The property developer in particular FEC faces three major challenges:-

The first challenge was the poor financial performance. The company was under tremendous pressure from investors and shareholders to improve its financial performance as a result of 1997 and 1998 Asian economic crisis.

5.3.1 COMPARATIVE ANALYSIS OF FINANCIAL PERFORMANCE

Sime UEP: In view of falling interest rates, better prospects for economic recovery and the recent reclassification of houses priced below RM250,000 as a priority sector for lending, the demand for residential properties is expected to improved in 2nd half of 1999. However, its operating margin will be lower due to the more careful pricing of its new launched properties. Interest income is expected to be lower due to the lower prevailing interest rates. With zero gearing, strong cash on hand, strategically located land bank and good track record, Sime UEP's does not faced great difficulty to weather through the 1997 and 1998 Asian economic crisis.

IOI Properties: In Financial year 1998, the PBT and turnover of IOI property dropped by 13.6% and 1.1% respectively against the previous year. Its performance was above the industry norm due to progressive recognition of income from sales generated in the previous year, recurring rental income and the shift of product mix of its newly launched schemes towards the lower priced property units. In the current year, the group will continue to concentrate on developing lower margin medium cost landed properties due to the strong demand for this category of properties.

Land and General: L & G continued to do very poorly in financial year 1998 with a loss per share of 50.8 cents before exceptional (-30.0 cents after). Sales dropped by 30% reflecting the continuing poor property market condition. The pre-exceptional trading loss of RM165.6 million was made up mainly of interest cost (RM68.3 Million)and depreciation (RM58.7 million). The interest burden will decline due to lower borrowing and lower rates, the property market is slowly picking up even if margin is very thin. Over the medium and long term, L & G will be at best a mediocre performer as the property market is likely to grow slowly and be highly competitive.

FEC: In the sectors where FEC and its associates are active: hotel, medium and high cost condominium, shopping complex and office building; are the area where we think the downturn will hit hardest. Fortunately, it has several advantages. First, its land bank is very large and of low cost such that it would be able to make decent amount of profit even as prices fall. Secondly, its projects are more medium scaled and diverse. Third, it is lowly geared and has considerable amount of assets abroad some of which will be disposed to reduce local borrowing. See table 5.2 and 5.3.

Table 5.2 and 5.3 below tabulate the Balance sheet and Profit and Loss for the year 1997 and 1998. In 1997, Sime UEP ranks the highest in terms of shareholder equity, followed by IOI Property, L & G and FEC. L & G ranks the highest in terms of Long term assets, current asset and current liability, followed by Sime UEP, IOI Property and FEC. L & G ranks the highest in terms of long term liability, followed by IOI Property, FEC and Sime UEP. In 1998, L & G ranks the highest in terms of long terms assets, current assets, Long term liability and current liability, followed by Sime UEP, IOI Property and FEC. Sime UEP still ranks the highest in terms of Shareholder equity, followed by IOI Property, L & G and FEC.

TABLE 5.2: BALANCE SHEET SUMMARY

| Description | SIME UEP | | IOI Property | | L & G | | FEC | |
|--------------------|----------|--------|--------------|--------|--------|--------|--------|--------|
| (RM 000,000m) | 1997 | 1998 | 1997 | 1998 | 1997 | 1998 | 1998 | 1998 |
| Shareholder Equity | 750.91 | 789.50 | 572.48 | 622.86 | 704.30 | 472.74 | 116.25 | 229.87 |
| Long term Assets | 784.07 | 808.59 | 230.53 | 325.50 | 1155.3 | 980.79 | 136.51 | 232.38 |
| Current Assets | 558.98 | 572.55 | 909.16 | 861.01 | 1144.6 | 980.25 | 393.98 | 325.97 |
| Long tem Liability | 23.26 | 23.26 | 228.09 | 178.26 | 592.62 | 593.07 | 148.31 | 112.72 |
| Current Liability | 568.88 | 568.38 | 309.24 | 347.52 | 878.53 | 798.83 | 258.41 | 206.90 |

Source : Far East Consortium.

Table 5.3 below shows that Sime UEP ranks the highest in terms of Earning, followed by IOI Property, FEC and L & G for the year of 1997. In 1998, IOI Property ranks the highest in terms of Earning, followed by Sime UEP, FEC and L & G.

TABLE 5.3: PROFIT AND LOSS SUMMARY

| Description | SIME UEP | | IOI Property | | L & G | | FEC | |
|--------------------------|----------|--------|--------------|--------|---------|---------|--------|--------|
| (RM 000,000m) | 1997 | 1998 | 1997 | 1998 | 1997 | 1998 | 1997 | 1998 |
| Sales | 506.07 | 316.09 | 249.79 | 247.06 | 926.09 | 646.45 | 144.96 | 300.62 |
| Earning before Int & Tax | 209.13 | 170.14 | 126.49 | 110.40 | -210.19 | -218.27 | 71.71 | 157.81 |
| Profit before Tax | 209.13 | 170.14 | 119.11 | 102.90 | -238.94 | -278.63 | 56.66 | 129.92 |
| Earning | 144.41 | 125.95 | 77.10 | 640.26 | -226.53 | -252.45 | 39.79 | 75.46 |

Source: Far East Consortium.

The second challenge was unsold stock. The spread of the 1997 regional crisis to Malaysia was reflected, initially, in sharp falls in share prices , falls in value of ringgit credit crunch and high interest rates. The ringgit had depreciated 35 per cent from its earlier level, while the KLCI was down 55 per cent. The regional financial crisis has had a much more severe impact on property market than expected. Sharp decline in business and consumer confidence, both resulting a contributing falls in assets prices including property prices, led to pronounced contraction spending by early 1998. The slump in spending and asset value also led to severe difficulties in the financial and property industry. During the economic slow down, the unsold stock are valued at billion of ringgit. (See table 5.4)

Table 5.4 below shows that the total unsold stocks reported during HOC 98 is 54,119,000 units (RM 11,778.06 mllion) and 63,717,000 units (RM 9,363 million) during HOC 1999³⁵.

TABLE 5.4: UNSOLD STOCK.

| Property type | HOC 99 Units ('000) | HOC 98 Units ('000) | HOC 99 Value (Million) | HOC 98 Value (Million) |
|---------------|------------------------|------------------------|---------------------------|---------------------------|
| Terrace House | 26.043 | 20.243 | 3,312.14 | 2,946 |
| Semi-Detached | 1.918 | 2.939 | 331.65 | 706.25 |
| Bungalow | 0.855 | 1.63 | 329.75 | 574.63 |
| Townhouse | 0.869 | 0.731 | 188.15 | 119.38 |
| Apartment | 22.895 | 16.963 | 2,528.32 | 3,067.96 |
| Shops | 4.97 | 7.099 | 932.80 | 2,106.68 |
| Commercial | 1.469 | 2.797 | 287.85 | 1,566.54 |
| Industry | 2.154 | 1.717 | 955.60 | 690.62 |
| Bungalow lots | 2.544 | 0 | 496.76 | 0 |
| Total | 63.717 | 54.119 | 9,363.00 | 11,778.06 |

Source : Housing Developer Association

³⁵ HOC 98 and 99 refer to Home Ownership Campaign 1998 and 1999.

The third challenge was credit slow down. Difficulty in getting bridging and end financing because of credit slow down and financial institutions to observed the conditions laid down by the Bank Negara Malaysia ("BNM"). The housing sector, as we all know, relies heavily on borrowed money from the financial institution. A credit slow down, therefore, has serious repercussions. The two main forms of financial required are bridging and end financing. Bridging finance refers to the loan facility granted by the banks to the developer to finance the development of the project and end financing is the loan facility granted to the house buyers to enable them to complete the house purchase. Unless the developer and buyers are self-sufficient financially, no project and purchase can proceed without these two facilities. (See table 5.5).

Table 5.5 below shows that the total lending to property sector, *real estate*, construction. Housing is gradually increase from RM 174,497.9 (1993) million to RM 421,204.6 million (1997). In 1998, the total lending reported only RM139.2 million as compared to RM 421,204.6 million in 1997.

TABLE 5.5: BANK LENDING TO PROPERTY SECTOR (RM MILLION)

| Summary | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|-----------------|-----------|-----------|-----------|-----------|-----------|-------|
| Property Sector | 53,508.3 | 58,364.5 | 73,557.5 | 104,660.1 | 139,873.7 | 30.0 |
| Real Estate | 15,266.7 | 20,571.8 | 20,571.8 | 36,365.1 | 46,164.0 | 15.2 |
| Construction | 13,917.0 | 20,232.9 | 20,787.2 | 27,787.2 | 42,478.4 | 38.9 |
| Housing | 24,324.6 | 32,752.8 | 40,507.1 | 40,507.1 | 51,231.3 | 55.1 |
| Total Lending | 174,497.9 | 116,728.5 | 260,892.1 | 332,932.7 | 421,204.6 | 139.2 |

Source : Bank Negara Malaysia Report (1993 – 1998).

- CREDIT SLOW DOWN

In April 1997, BNM issued a directive to banking institutions to observed a 20 per cent (of total loan outstanding) limit on credit facilities to property sector (excluding houses and apartments costing RM 150,000). In December 1997, BNM further issued a guideline in extending loans to property sector. (i) No credit facilities for project which have not started construction. (ii) For projects where construction has started, banks should assess their viability under the current conditions. (iii) Banking institutions may continue to extend credit facilities for the construction and extension of factories and industries buildings. These two actions have a strong negative effect on the growth of the property sector and property transaction / prices dwindled³⁶ .

5.4 PRICE MOVEMENT OF PROPERTY PRICE (1996-1998)

The economic recovery in 1987/1988 brought about a resurgence to the property sector. The property market moved slowly from the doldrums and became very active between 1990 and 1996. Volume and value of transaction indicate the tremendous activity within the property market, As shown earlier, total value of transactions surged by 220% from 1990 to 1997 even though the volume of transaction increased only by 66.7%. The property market slumped in 1998. Total values of transactions plummeted by 47.5% from RM53.12 billion to RM27.9 billion and volume drops by 32.4% dropping from 275,000 transactions to 186,000 only. Table 5.6, 5.7, 5.8 and 5.9 shows the price movement of Far East Consortium project and other major projects for the period of 1996-1998.

³⁶ The Edge. Dec. 31, 1998.

| Housing scheme/ area | 1996 price range | | 1997 price range | | 1998 price range | |
|------------------------|-------------------|--|-------------------|--|-------------------|--|
| | (RM/ unit) | | (RM/ unit) | | (RM/ unit) | |
| Bandar Sri Damansara | 150,000 - 190,000 | | 170,000 - 200,000 | | 160,000 - 190,000 | |
| Taman Tun Dr Ismail | 200,000 - 280,000 | | 280,000 - 350,000 | | 250,000 - 320,000 | |
| Bangsar | 270,000 - 330,000 | | 300,000 - 390,000 | | 300,000 - 390,000 | |
| Petaling Jaya | 160,000 - 190,000 | | 180,000 - 220,000 | | 170,000 - 210,000 | |
| Kelana Jaya | 150,000 - 170,000 | | 170,000 - 250,000 | | 160,000 - 200,000 | |
| Subang Jaya | 170,000 - 200,000 | | 200,000 - 220,000 | | 150,000 - 180,000 | |
| Taman Setapak Indah | 140,000 - 160,000 | | 150,000 - 170,000 | | 150,000 - 160,000 | |
| Taman Setapak | 140,000 - 160,000 | | 150,000 - 170,000 | | 150,000 - 160,000 | |
| Taman Ibukota | 140,000 - 160,000 | | 150,000 - 170,000 | | 150,000 - 160,000 | |
| Taman Danau Kota | 150,000 - 170,000 | | 160,000 - 180,000 | | 160,000 - 170,000 | |
| Puchong Indah/ Perdana | 100,000 - 110,000 | | 120,000 - 130,000 | | 120,000 - 130,000 | |
| Puchong Intan | 100,000 - 110,000 | | 120,000 - 130,000 | | 120,000 - 130,000 | |

Table 5.7: Price movement of 2 storey terrace house for the period of 1996 - 1998.

| Housing scheme/ area | Standard 2-storey terrace houses | | | |
|----------------------|----------------------------------|--------------------------------|--------------------------------|---------------|
| | Transacted prices | | Asking prices | |
| | 1996 price range (RM/ unit) | 1997 price range (RM/ unit) | 1998 price range (RM/ unit) | % changed |
| Karunmas Ehsan | 130,000 - 150,000 | 156,000 - 187,000 | 156,000 - 180,000 | (0) - (-4) |
| Bandar Sri Damansara | 250,000 - 270,000 | 300,000 - 320,000 | 280,000 - 300,000 | (-7) - (-6) |
| Taman Tun Dr Ismail | 280,000 - 380,000 | 400,000 - 450,000 | 400,000 - 430,000 | 0 - (-4) |
| Bangsar | 350,000 - 500,000 | 350,000 - 500,000 | 350,000 - 500,000 | 0-0 |
| Bandar Utama | 300,000 - 350,000 | 400,000 - 420,000 | 380,000 - 400,000 | (-5) - (-5) |
| Sri Hartamas | 350,000 - 380,000 | 350,000 - 450,000 | 350,000 - 430,000 | 0 - (-4) |
| Petaling Jaya | 250,000 - 280,000 | 280,000 - 300,000 | 260,000 - 280,000 | (-7) - (-7) |
| Kelana Jaya | 250,000 - 280,000 | 280,000 - 340,000 | 280,000 - 320,000 | 0 - (-6) |
| Damansara | 250,000 - 300,000 | 350,000 - 400,000 | 350,000 - 380,000 | 0 - (-5) |
| Subang Jaya | 240,000 - 260,000 | 260,000 - 300,000 | 260,000 - 280,000 | 0 - (-7) |
| USJ | 250,000 - 280,000 | 300,000 - 350,000 | 280,000 - 320,000 | (-7) - (-9) |
| Taman Setiawangsa | 280,000 - 330,000 | 330,000 - 380,000 | 330,000 - 350,000 | 0 - (-8) |
| Wangsa Melawati | 180,000 - 220,000 | 220,000 - 250,000 | 220,000 - 250,000 | 0-0 |
| Wangsa Maju | 180,000 - 200,000 | 200,000 - 270,000 | 200,000 - 250,000 | 0 - (-7) |
| Puchong Jaya | 180,000 - 200,000 | 230,000 - 250,000 | 200,000 - 210,000 | (-13) - (-16) |
| Puchong Indah | 130,000 - 150,000 | 150,000 - 160,000 | 150,000 - 160,000 | 0-0 |
| Puchong Intan | 130,000 - 150,000 | 150,000 - 160,000 | 150,000 - 160,000 | 0-0 |

Table 5.8: Price movement of condominium/ apartments for the period of 1996 - 1998

| Housing scheme/ area | Condominiums/ apartments | | |
|---------------------------|--------------------------------|---|---|
| | Transacted prices | | Asking prices |
| | 1996 price range (RM/ unit) | 1997 price range (RM/ unit) % changed | First quarter 1998 price range (RM/ unit) % changed |
| Mount Karunmas | | 100,000 - 180,000 | 90,000 - 128,000 |
| Menara Hartamas | 500,000 - 840,000 | 550,000 - 920,000 | 522,000 - 828,000 |
| Puncak Prima | 350,000 - 460,000 | 385,000 - 517,000 | 365,000 - 475,000 |
| Menara Bangsar | 400,000 - 450,000 | 475,000 - 510,000 | 450,000 - 480,000 |
| Kiara View | 300,000 - 320,000 | 320,000 - 385,000 | 300,000 - 350,000 |
| Bangsar Puteri | 300,000 - 350,000 | 320,000 - 385,000 | 300,000 - 350,000 |
| Vista Kiara | 280,000 - 310,000 | 320,000 - 360,000 | 300,000 - 340,000 |
| Tiara Damansara | 250,000 - 300,000 | 260,000 - 355,000 | 250,000 - 320,000 |
| Prima 16 | 300,000 - 350,000 | 350,000 - 365,000 | 330,000 - 340,000 |
| Desa Kiara, Petaling Jaya | 250,000 - 270,000 | 280,000 - 320,000 | 250,000 - 300,000 |
| OUG Heights | 145,000 - 190,000 | 160,000 - 220,000 | 150,000 - 200,000 |
| Meadow Park | 135,000 - 140,000 | 150,000 - 175,000 | 140,000 - 150,000 |
| Fortuna Court | 150,000 - 160,000 | 160,000 - 175,000 | 140,000 - 150,000 |
| Menara Seputih | 155,000 - 170,000 | 165,000 - 210,000 | 150,000 - 180,000 |
| Pantai Hillpark | 180,000 - 280,000 | 210,000 - 290,000 | 200,000 - 260,000 |
| Vista Angkasa | 140,000 - 160,000 | 155,000 - 170,000 | 150,000 - 160,000 |

Table 5.9: Price movement of chophouses/ office for the period of 1996 - 1998

| Housing scheme/ area | Standard 4-storey shophouses | | |
|----------------------|--------------------------------|---|---|
| | Transacted prices | | Asking prices |
| | 1996 price range (RM/ unit) | 1997 price range (RM/ unit) % changed | First quarter 1998 price range (RM/ unit) % changed |
| Park Lane | 1,200,000 - 2,800,000 | 1,320,000 - 3,220,000 | 1,250,000 - 2,890,000 |
| Bangsar Baru | 4,000,000 - 4,500,000 | 4,500,000 - 5,000,000 | 4,000,000 - 4,500,000 |
| Taman Tun Dr Ismail | 2,000,000 - 2,200,000 | 2,500,000 - 3,000,000 | 2,500,000 - 3,000,000 |
| Bandar Sri Damansara | 900,000 - 1,000,000 | 1,200,000 - 1,300,000 | 1,100,000 - 1,200,000 |
| Kepong Baru | 800,000 - 950,000 | 900,000 - 1,200,000 | 900,000 - 1,100,000 |
| Bandar Menjalara | 800,000 - 1,000,000 | 1,000,000 - 1,200,000 | 1,100,000 - 1,200,000 |
| Subang Jaya | 1,000,000 - 1,300,000 | 1,300,000 - 1,500,000 | 1,200,000 - 1,400,000 |
| USJ | 900,000 - 1,100,000 | 1,200,000 - 1,400,000 | 1,200,000 - 1,300,000 |
| Wangsa Melawati | 850,000 - 950,000 | 1,000,000 - 1,100,000 | 900,000 - 1,000,000 |
| Taman Melawati | 1,100,000 - 1,300,000 | 1,400,000 - 1,500,000 | 1,300,000 - 1,400,000 |

5.5 SENSITIVITY ANALYSIS OF THE EFFECT OF INTEREST RATE AND STOCK MARKET PERFORMANCE ON FINACING PROPERTY IN KLANG VALLEY

The impact of the interest rate, length of repayment and down payment is shown in table 5.10 and 5.11. Table 5.10 depicts the monthly repayment for housing loan with a 15 and 20 years repayment period. Table 5.11 shows that with a given interest rate and with a higher loan repayment period, the monthly repayment will be lower but the total amount of money paid by the end of the loan tenure will be higher. For instance, if a purchaser takes RM30,000 loan with 10% interest per annum for a 15 year repayment period, the purchaser have to pay RM321 per month. The total amount paid at the end of loan tenure would be RM59,200. This amount is much lower compared to the total amount paid at the end of a 20 year period, that is RM70,560 with a monthly installment of RM294,000. Therefore, clearly the interest rate had great impact on the property price. Table 5.11 show the monthly repayment for housing loan and total amount paid by the end of loan tenure respectively.

Table 5.10: Monthly repayment for housing loan with a 15 / 20 year repayment period (to nearest RM)

| Amount of Loan | Int @ 4% Per annum | | Int @ 10% Per annum | | Int @ 12% Per annum | | Int @ 13% Per annum | | Int @ 14% Per annum | |
|----------------|-----------------------|---------|------------------------|---------|------------------------|---------|------------------------|---------|------------------------|---------|
| | 15 year | 20 year | 15 year | 20 year | 15 year | 20 year | 15 year | 20 year | 15 year | 20 year |
| 30,000 | 225 | 185 | 329 | 294 | 368 | 336 | 387 | 357 | 408 | 378 |
| 59,000 | 375 | 308 | 508 | 490 | 613 | 560 | 645 | 595 | 680 | 630 |
| 70,000 | 525 | 431 | 767 | 686 | 858 | 784 | 903 | 833 | 952 | 882 |
| 90,000 | 675 | 554 | 986 | 882 | 1103 | 1008 | 1161 | 1071 | 1224 | 1137 |
| 110,000 | 825 | 677 | 1205 | 1078 | 1348 | 1236 | 1429 | 1309 | 1496 | 1386 |
| 130,000 | 975 | 800 | 1424 | 1274 | 1593 | 1456 | 1677 | 1547 | 1768 | 1638 |
| 150,000 | 1125 | 923 | 1643 | 1470 | 1838 | 1680 | 1935 | 1785 | 2040 | 1890 |
| 170,000 | 1275 | 1046 | 1862 | 1666 | 2083 | 1964 | 2193 | 2023 | 2312 | 2142 |
| 190,000 | 1425 | 1169 | 2081 | 1862 | 2283 | 2128 | 2458 | 2261 | 2584 | 2394 |
| 210,000 | 1575 | 1292 | 2300 | 2058 | 2573 | 2532 | 2709 | 24992 | 2556 | 2646 |

Source: Goh Ban Lee (1992) "Buying A house", Meracan and Sons (Malaysia) Sdn Bhd, Petaling Jaya.

Table 5.11: Total amount of money paid by the end of 15 and 20 years period (to the nearest RM)

| Amount of Loan | Int @ 4% Per annum ('000) | | Int @ 10% Per annum ('000) | | Int @ 12% Per annum ('000) | | Int @ 13% Per annum ('000) | | Int @ 14% Per annum ('000) | |
|----------------|------------------------------|---------|-------------------------------|---------|-------------------------------|---------|-------------------------------|---------|-------------------------------|---------|
| | 15 year | 20 year | 15 year | 20 year | 15 year | 20 year | 15 year | 20 year | 15 year | 20 year |
| 30,000 | 41 | 44 | 60 | 71 | 66 | 81 | 70 | 86 | 73 | 91 |
| 59,000 | 68 | 74 | 99 | 118 | 110 | 124 | 116 | 143 | 122 | 151 |
| 70,000 | 92 | 103 | 128 | 105 | 154 | 188 | 163 | 200 | 171 | 212 |
| 90,000 | 122 | 133 | 179 | 212 | 199 | 242 | 209 | 257 | 220 | 372 |
| 110,000 | 149 | 162 | 217 | 259 | 243 | 296 | 255 | 314 | 269 | 333 |
| 130,000 | 176 | 192 | 256 | 306 | 287 | 349 | 302 | 371 | 318 | 393 |
| 150,000 | 203 | 222 | 296 | 353 | 331 | 403 | 348 | 428 | 367 | 454 |
| 170,000 | 230 | 251 | 335 | 400 | 375 | 457 | 395 | 486 | 416 | 514 |
| 190,000 | 287 | 281 | 375 | 447 | 419 | 511 | 411 | 543 | 465 | 575 |
| 210,000 | 284 | 310 | 414 | 494 | 461 | 565 | 488 | 600 | 515 | 635 |

Source: Goh Ban Lee (1992) "Buying A house", Meracan and Sons (Malaysia) Sdn Bhd, Petaling Jaya.

Based on the above tables 5.10 and 5.11, we can conclude that lower income group who earn less than RM700 per month will face great difficulty to purchase a house in Klang Valley. If the purchasers choose to purchase a house with a house cost RM30,000, the housing loan for a repayment period of 20 years with a 10% interest rate per annum, the purchaser end up paying a monthly instalment of RM 294 per month. This amount is almost half his income and therefore it is difficult to cover his family expenses with the balance of salary. Therefore, in the Klang Valley, the demand for house below RM300,000 is very high. But developers are unwilling to build at such a price due to lower profit margin. Hence, credit term and house prices obviously are the minimum determinant of house demand in the Klang Valley. Therefore, the availability of credit certainly influences the purchasers whether to purchase a house or not. In addition to the income, credit terms also play a significant role in determining the house demand in the Klang Valley. While for the investor and speculator, credit terms will determine their profit or return on investment apart from the appreciation value of the property. The higher the proportion income spend for housing, the higher the price elasticity of demand for housing and vice versa. Table 5.12 shows the proportion of income spend on housing. The table shows that the proportion of income spend on housing is 54.8% for those earning RM1000 per month. For those with monthly income of RM1500, demand is elastic based on the proportion of income spend on house which is between 38% to 41%.

TABLE 5.12: PROPORTION INCOME SPEND FOR HOUSING

| <i>Income Per month (RM)</i> | <i>Amount Of loan (RM)</i> | <i>Monthly Repayment (RM)</i> | <i>Proportion of Income spend On housing (%)</i> |
|--------------------------------------|------------------------------------|---------------------------------------|--|
| 1000 | 50000 | 548 | 54.8 |
| 1500 | 50000 | 548 | 36.5 |
| 2000 | 70000 | 707 | 38.4 |
| 2500 | 90000 | 986 | 39.4 |
| 3000 | 110000 | 1205 | 40.2 |
| 3500 | 130000 | 1424 | 40.7 |
| 4000 | 150000 | 1643 | 41.1 |
| 4500 | 170000 | 1862 | 41.4 |
| 5000 | 190000 | 2105 | 41.6 |

Source: Goh Ban Lee. Buying A house in Malaysia. Merican & Sons, K.L., 1985, page 95.

5.6 STRATEGIES

The current scenario, obviously, would require different policies to help contain any slide in the property market. Hence, the government and developer has come out with more proactive policies such as offer price discount, EPF withdrawal, treasury housing loans, higher margin of financing and low lending interest rate. See appendices II.

- INCENTIVES BY HOUSING DEVELOPERS

Developers are required to offer price discounts as stipulated in the table below. Discounts on residential properties shall be based on the sale prices as approved in the Advertisement & Sale Permit ("AP"),

| Properties costing | Min. Discounts to be offered |
|---|--|
| RM 100,000 and less | Min. 5% discounts. For bumiputeras, an additional 5% discount on top of the first 5% discount. |
| More than RM100,000 but less than or equal to RM200,000 | Min 10% discounts. For bumiputeras, an additional 5% discount on top of the 10% discount. |
| More than RM200,000 | Min. 10% discount. For bumiputeras, an additional 10% on top of the 10% discount. |

Source: Housing Developer Association.

- INCENTIVES BY THE BANKING INSTITUTIONS

The Incentives offers by the banking institutions can be summarized as follows:-

| Margin of financing | Incentives |
|------------------------|---|
| RM250,000 and below | Up to 95% |
| RM250,000 –RM500,000 | Up to 80% |
| RM500,000 and above | Up to 70% |
| Lending interest rates | |
| RM100,000 and below | 9% p.a. or BLR + 1.75% p.a. whichever is lower |
| RM 100,000-RM250,000 | For Bumiputeras, BLR + 0% p.a. in the first year and BLR + 1.5 % (max.) thereafter. |
| Tenure | Up to 30 years. |

Source: Housing Developer Association.

• INCENTIVES BY THE GOVERNMENT

The incentives given by the can be summarized as follows:-

| | |
|--------------------------------|--|
| Margin of financing from Banks | Up to 50% for non-residents abroad Equivalent to margin of financing granted to residents for non-residents employed in Malaysia |
| Stamp Duty | Stamp duty is waived on SPA, transfer of property and documents for securing loans |
| EPF withdrawal | Instant issuance of structured certificate on "eligibility" of account holders. |
| Treasury housing loans | Instant confirmation on eligibility of government officers to obtain treasury housing loans. Speedier approval and release of loans. |

Source: Housing Developer Association.