



6.0 CONCLUSION

The findings and analysis from the above study for the period of 1989 to 1998 have illustrated that share market performance and interest rates have a direct effects and/or impact on the Malaysia property market more particularly the demand and supply of property in Klang Valley. This is an important finding, as the same is useful to evaluate and justify on the type of development that is most suitable given certain economic conditions. The major findings of this study are listed below:-

Firstly, the supply of new house is positively related to GDP and share market performance. In the above study, the coefficient of GDP and share market performance is elastic. Higher GDP growth and risen share market will stimulate greater supply and demand of new houses in Klang Valley, thus increase the demand of new house according to economic and share market growth. Conversely, the demand for new houses will decrease according to the economic downturn and falling stock market.

Secondly, the interest rate is negatively related to the supply and demand of houses in Klang Valley. In the above study, the interest rate is negatively related to supply and demand of houses. The sign of rising interest rate is negative indicating the developer (house buyer) is less willing to construct (purchase) new houses when cost of borrowing is relatively expensive. Thus lower interest rate will increase the supply and demand of houses if other factor are held constant.

Thirdly, the price of high cost house is positively related to the supply of new houses. The coefficient of high cost houses is more elastic, many developer are more willing to build high cost houses in the Klang Valley region to obtain greater profit. Compared to low cost houses. The supply and demand of Condominium have increased tremendously in Klang Valley during 1990-1996 property boom period.

Fourthly, the price of low - medium cost house is negatively related to the supply and demand of new houses in Klang Valley. The coefficient shows a negative sign indicating that developers are less willing to build low – medium cost houses in the Klang Valley. This resulted from the high mortgage cost.

Fifth, according to economic principles, when the economy turn around, interest rates come down, the stock market goes up, followed by the property market. However, there is always a lag time of between 9 and 12 months before you see the property market picking up.

Sixth, rising share prices are an important and excellent barometer of consumer confidence. The wealth created by share rises also help to oil the wheels of consumer spending. The study shows that over the last 18 months (since 1997), the KLCI has been on a roller coaster. From a low of RM200 billion in August 1998, market capitalization has more than doubled to RM496 billion on October 7, 1999 (The star, 29 October 1999)³⁷.

³⁷ "Kuala Lumpur Stock Exchange: Composite Index & Market Capitalization", The Star, Oct. 29, 1999, p5.

Market capitalization, is now around RM500 billion – meaning RM138 billion “new money” has been created in the economy. In theory, these people should be spending some part of that money soon, spending the wealth generated in the stock market to the rest of the economy. The flow-through effect will be seen in spending on cars, houses, and restaurant dining. Any strong movement in the stock market will cause either a strong wealth generation or destruction effects because so much of Malaysian's wealth is in the stock market. An improvement in the stock market also helps support the recovery of property sectors. This included an increase in real property transactions and prices. The improving property sales figures since February 1999 have been driven by the rebound in the stock market and lower interest rates. Not all have benefited from the KLSE (The Edge, 31-5-1999)³⁸. The initial impact (of the rise share prices) has been more at the psychological level. The few months of stock market improvement is too short to have an impact, unless it turns into a “multi-year bull”. Another thing to keep in mind is the fact that not many people may have actually benefited from the stock market rebound so far. As a proportion of the overall population, the number of people involved in stock market is still low. Retail players who used to account to about 70% of the stock market turnover, are minority players in the stock market these days. And because they tend to be followers, many retail investors have come into market only in the last minutes, too late to benefit much from the rising share price.

³⁸ The Edge. May. 31, 1999.

Seventh, the key to growth is interest rate. Interest rate obviously affect stock and property prices because of their effects on profits on profit but perhaps even more important, they have an effect due to competition in the marketplace between share, bonds, fixed deposit and property prices. If interest rate rise sharply, investor can get higher returns in the stock market, bonds and fixed deposit saving, which induced them to sell shares and to transfer funds from the stock market, which obviously depresses stock prices. Of course, the reverse occurs if interest rate is falling sharply. A one per cent reduction in the BLR translates into savings of about RM100 in monthly payments on a loan of RM150,000. Thus the reduction in BLR by 4.85 per cent from its peak level means monthly interest savings of about RM500. Interest rate movements can change the habit of depositors especially those with high and middle disposable income.

Table 6.1 below gives an indication of the net rates of return from various types of investment. The average return for investment on ASN is 13.7%, ASB is 12.75%, ASW is 9.85%, FD is 7.43% and KLSE is 6.98%.

TABLE 6.1: INVESTMENT YIELDS FOR VARIOUS TYPE OF INVESTMENT

Year	ASN (%)	ASB (%)	ASW (%)	FD (%)	KLSE (%)	Property* (%)	Stock Market
1981	20			11	3.85	18.6	
1982	18			10	-23.47	7.2	Bear
1983	18			9	37.8	1.7	Bull
1984	17			10.75	-24.41	0.19	Bear
1985	17.2			7.5	-23.09	3.3	Bear
1986	17.2			7	8.17	-6.3	Bear
1987	14			4.25	3.43	-11.5	Bull/bear
1988	13			4.25	36.83	-4.5	
1989	13.25			5.5	57.33	4.4	Bull
1990	14.5	14		7.25	-10.02	11.7	Bear
1991	9.5	12.5		8	9.94	11.3	
1992	6.25	12.5		7.8	15.77	2.8	Bull
1993	12.25	13.5		6.29	98.04	3.4	
1994	14	14		6.15	-23.85	13.1	Bear
1995	13	13		6.89	2.47	20.7	Bull
1996	13.75	13.25		7.26	24.4	14.2	
1997	10.5	11.5	10.1	9.33	-51.98	0	Bear
1998	N.A	10.5	9.8	5.6	-15.64	-15	Bear
Ave.	13.7	12.75	9.95	7.43	6.98	4.18	

Source : The Edge: 31 December 1998.

: Business Times (July 19, 1999)

Note : Change in Klang Valley Average House prices.