

OVERVIEW ON THE HOUSE PRICE IN KLANG VALLEY

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Abstract:

In recent years, the house price in Klang Valley has been rising rapidly. Many people, especially the youngsters, are not afforded to buy a house. House price is a value to be paid to buying a property. People are concern about the housing price as it is a main cost item in a family. House is basic need which provides a shelter and protection for an individual. And owning a house also considers as a personal success. This paper identifies the causes of fluctuation in the housing price and also summarize the factors affect the house price though literature reviews. Based on the review, there are several major factors that affected house price which are include population, inflation rate, demand and supply, construction cost, gross domestic product, public transportation and government policy. The paper also investigates the program that introduced by the government which is aims to help people to owning a house and improves the chances of owning a house.

Keyword: House price, construction cost, population.

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1.0 Introduction

House, is a structure served as dwelling for an individual or a family. In Maslow's hierarchy of need, house is a basic requirement that provides stability and protection after food and drink (Martin & Joomis, 2007). Also, owning a house considered as a definition of personal success. However, many people, especially the youngster, are still cannot afford to own a house. In fact, buying a house in Malaysia becoming an elusive dream due to the stagnant wages and high housing prices.

According to Liew et al (2013), house price is a value to be paid for purchasing a residential property. Lee (2009), defined house price as value to be paid for the deal of buying a residential property which more to buyer's expectation.

According to Quigley and Raphael (2004), there are two factors that people concerns about the affordability of housing. Firstly, housing is the major cost item in the family or individual. A small change in housing price and rents will affect the non-housing expenditure. Second, many capital areas have experienced recent and well-publicized increases in housing prices and rents. Due to these two factors, housing is a very fundamental to the survival and health of individuals, with this in mind, the housing is very expensive.

Klang Valley is an area which covers more than 2800 km² with a population 7.2 million (about a quarter of Malaysia's total population). Also, one of the fastest growing metropolitan cities in the region, 10 million people is expected to call this city home by the end of the decade ("The Klang Valley Has," 2013). The increasing of the population will result in the housing demand. Demanding on house is still remaining high although the housing price is continuous increase. This has been clearly reflected in between supply and demand fluctuations.

The objectives of this study are:

- To identify the causes of fluctuation in the housing price
- To investigate factors that affects the housing price in Klang Valley
- To investigate the current scheme or program that introduce by government

2.0 Literature Review

In a study lead by Sime Darby Property Bhd cooperation with the Faculty of Built Environment of Universiti Malaya showed that we must have an average of household income of RM14, 580 a month to afford a home in the Klang Valley (Surach, 2014).

According to Jobstreet.com's 2014, fresh graduates can expect to get an average salary of RM2, 100 per month. On average, junior executive can earn a salary range from RM2, 100 to RM3, 900, with the average being RM2, 800 across all industries. In Klang Valley, a condo costs an average RM500, 000. So, for a house loan of RM450, 000 (average condo price of RM500, 000 less 10% down payment) for 30 years, the monthly repayment is already RM 2175 which is 72% of the fresh graduate's income ("Effect Of Shorter Home," 2013).

Even though the government is highlighting on improving the providing of housing, yet housing is still a contentious issues in Malaysia. As pointed out in the Eighth Malaysia plan, Malaysia will continue to develop a sustainable housing for low and moderate income. However, Malaysia is facing a difficult task in the completion of the 800000 - 600000 houses in this time target because of the current conventional building system is unable to cope the huge demand. (Ong, 2013).

According to the pilot survey between Cindy Liew with Mr.Chang Kim Loong, Secretary-General of National House Buyer Associations, the present house price in Klang Valley is too high and not reasonable to respecting to the rising rate. The government is implementing a series of activities, in order to control the fluctuation of housing price, however, the effectiveness of these activities remains debatable. The housing price still can affected by several factor like inflation rate, interest rate, cost of construction, population and government policy.

2.1 Population

Rapid population growth in the Klang Valley has largely been the result of internal migration. Between 1970 and 2010, the population of the region grew by 4.5 times, at a rate of about 3.8 per cent per annum. Migration is induced by opportunities of higher learning, and employment in the manufacturing, services and construction sectors. The migrants tend be among the young and the better educated segments of the population (Tey, 2012).

Klang Valley is currently home to about 7.2 million people or about a quarter of Malaysia's total population. It is forecasted to be 7.8 million people in 2020. As the increasing of the population, the demand for housing is increase. People need more houses to live in but the production of affordable house is less. Many Malaysian forced into the rental market and informal settlement, due to the lack of affordable options to own property. Based on the survey result, 86% of respondents agreed that urban migration is causing insufficient house instead of big demand, and 70% agreed that foreign immigrant and labour highly influencing rise in the house demand as they are high volume crowding in Klang Valley area (Liew, 2013) .

2.2 Demand and Supply

According to Malaysia Property Blog (2014), the determinants of the demand for housing are demographic, income, ease of credit borrowing, property price, preferences price of substitutes and complements.

As stated in the Seventh Malaysia Plan, Malaysia intended to construct about 800,000 units of housing for the population. In fact, 585,000 units, constituting 73.1 per cent, were planned to be low- and medium-cost houses. Even so, only 20 per cent completed houses reported in spite of numerous incentives and promotions to encourage housing developers to invest in such housing categories (Ismail, 2001).

2.2.1 Demographic

By 2020, Malaysia is expected to have a total 10million people live in Klang Valley due to population growth and urbanization, because people look for employment in the city. In addition, growing number of single people living alone has led to increasing demand for houses.

2.2.2 Income or Affordability

The rising income means people will demand and can afford to have their own property. (Tejvan, 2010)

2.2.3 Property Price

Previous study suggest that house price movements are correlated to a set of market specific conditions, macroeconomic variables and housing finance characteristics. (Glindro et al, 2011). If property price falls and houses become more affordable, the demand will be high.

2.3 Construction Cost

Construction costs include labour, transportation and material, the prices of which can vary as economies expand or contract. The costs of the labour and materials needed to build a new home play an obvious role in determining prices; a research shows that construction costs account for 50–60% of the final price of a new home.⁴⁹ as labour and material costs increase; they put upward pressure on new home prices. (Royal Bank of Canada [RBC] and the Pembina Institute, 2013)

2.3.1 Labour

The rapid growth of the construction industry led to the high demand for construction workers. Hence, it became one of the sectors that face severe labor shortages in both developed and developing countries (Yusof & Jamil, 2011). Malaysia young generation show that they are not interested in construction work (Hamzah et al, 2012). Hence, contractors need foreign worker for general construction working with even less pay than local workers (Kassim, 2005).

2.3.2 Material Cost

CIDB Malaysia defined material price as the transaction price between the contractors and the suppliers under the normal credit terms specified and discount for an average contractor. Cement and Concrete Association of Malaysia executive director, Grace Okuda agrees that market forces of supply and demand will determine the price construction materials (Law, 2009).

According to Sale and Purchase Agreements (S&Ps), house prices are fixed and are not subsequently adjustable even if prices of materials rise. Therefore, plenty notice is given to the industry prior to any increase in the prices of these critical materials so that the prices of completed houses will reflect the increase in costs (Yam, 2013).

2.3.3 Land Price

Availability of land in Klang Valley is a crucial issue. A lack of land in the Klang Valley causing housing prices to climb and in turn making rising housing prices look like a property bubble. (Achutha, 2011). Land price is extremely influencing the rise of house as it has obvious rise in construction cost (Liew, 2013). According to Mr. Y T Kho, Deputy President of Malaysian Institute of Estate Agents (MIEA), the land prices for main locations are now asking for between RM2, 000 psf and RM2, 500 psf, it become more and more scarce.

2.4 Government Policy

2.4.1 National Housing Policy

The main goal of the national housing policy is to provide adequate, comfortable and affordable to improve the wellbeing of the people, especially low-income groups. In 1982, the government implemented 30% of the private sector low-cost housing quota. Developers as a social responsibility to supplement the government's efforts to provide affordable housing (Chen, 2011). Under National Housing Policy, The Ministry of Housing and Local Government (MHLG) plans to set the prices for affordable houses, particularly in projects which are subsidized by the Government, as well as to control the sale and ownership of these houses to avoid conjecture (The Ministry of Urban Wellbeing, Housing and Local Government [MHLG], 2013)

2.4.2 Transaction Fee

Property transaction costs In Malaysia include stamp duty, lawyer or solicitor's fees, and adjudication fee. The roundtrip transaction cost is a between 3.40% -6.75%. Real Estate Agent's Fees are regulated by the Board of Valuers, Appraisers and Estate Agents Malaysia (LLPEH) ("Buying Costs Are Very", 2015).

2.4.3 Mortgage and Taxation

Comfortable but long payback life of the loan has become a trend, in which banks relaxed credit standards and willing to lend the loan up to 95% of the value of the property. This convenience has caused higher demand for housing, the richer people able to own multiple house, moderate income group are willing to own a house with extra extending payback period, which has been help the rise in house prices (Lee, 2009) .

2.5 Inflation Rate

Zhu (2004) showed that inflation has a strong link with house price. Inflation help the house price rising because the housing loan interest are held down by the fact that much new money enters into the economic system in the form of MyHome, PR1MA, and Mutiara Mortgage and Credit Sdn Bhd (Lineil, 2014).

2.6 Gross Domestic Product

As Gross Domestic Product growth, house price will rise and this bring profit progressing to construction industries and other side industries. Therefore, this will increase the house price. (Liew, 2013). There are not all predictors are significantly related to house price, but only GDP rate is significant determinants of house price index. GDP rate is found to have significant and strongest relationship with the dependent variable (house price index) while other variables (consumer price index and income increment rate) are found not to have significant relationship towards house price index (Ong, 2013) .

2.7 Public Transportation

There is correlation evidence indicating that the recent MRT project does contribute to the increase of housing market prices in selected zones. The extension of LRT Putra line and LRT Star line has caused houses in the proximity to rise tremendously (Rajeeshwaran, 2014). Economic theory suggests that the value of decreased travel time should also be reflected in home prices (Hess and Almeida, 2007).

2.8 Government Mechanism

2.8.1 1 Malaysia People Housing Programme (PRIMA)

Malaysia House Buyers Association (HBA) Honorary Secretary General Chang Kim Loong criticized PRIMA cooperate with the private developers to push up the house price, it will later add on profit margin onto the house price which is very close to the market price. This action is contrary to the objective of introducing the PRIMA project (“House Buyers Association Accused,” 2014).

According to the Economic Report 2014/2015, PR1MA plans to start build 31,469 units by year-end. That means the affordable housing programme has already failed as it is supposed to deliver 80,000 homes each year (Wong, 2014)

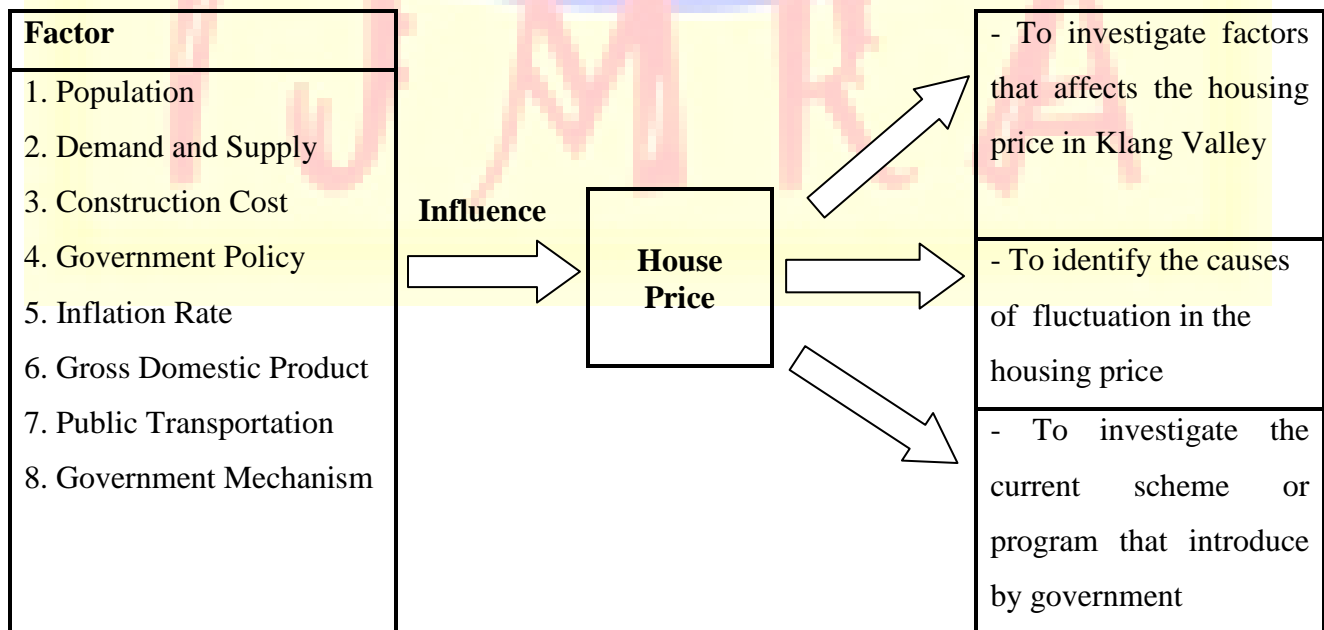
2.8.2 My First Home Scheme (MFH)

Close to 76% (475 out of 623) respondents think that the “My First Home Scheme” is not effective as the location is a distance away from the city centre and after payment of the housing instalments, conservatively estimated at RM1, 200 per month, there isn’t much left, if any at all, for other daily expenses (“Schemes Upon Schemes,” 2011) . Overall, 71% of respondents believe that ‘My First Home’ scheme would be beneficial to first time house buyers as it would facilitate the purchase of houses by the younger generation (“ACCIM Survey Report”, 2011).

2.8.3 Youth Housing Scheme

The government decided to extend the 50% stamp duty exemption on instruments of transfer and loan agreements. Meanwhile, it also increasing the purchase limit to RM500, 000. The measures would help the lower- and middle-income groups to acquire property. However, to ensure this is not abused; it should only be given to first-time house buyers only (Chang, 2014).

Conceptual Framework:



Objective Findings-

Summary of factor that affected house price:

Factors	Sources
1. Population	Tey (2012) Liew (2013)
2. Demand and Supply a) Demographic b) Income or Affordability c) Property Price	Malaysia Property Blog (2014) Ismail (2001) Tejvan (2010) Glindro et al (2011)
3. Construction Cost a) Labour b) Material Cost c) Land Price	Royal Bank of Canada [RBC] and the Pembina Institute (2013) Yusof & Jamil (2011) Hamzah et al (2012) Kassim (2015) Law (2009) Yam (2013) Achutha (2011) Liew (2013)
4. Government Policy a) National Housing Policy b) Transaction Fee c) Mortgage and Taxation	Chen (2011) MHLG (2013) Lee (2009)
5. Inflation Rate	Zhu (2004) Lineil (2014)
6. Gross Domestic Product	Liew (2013) Ong (2013)
7. Public Transportation	Rajeeshwaran (2014) Hess and Almeida (2007)

8. Government Mechanism	Wong (2014)
a) 1 Malaysia People Housing Programme (PRIMA)	ACCIM Survey Report (2011)
b) My First Home Scheme (MFH)	Chang (2014)
c) Youth Housing Scheme	

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