Housing prices in Peninsular Malaysia: supported by income, foreign inflow or speculation?

ABSTRACT

Purpose: This paper is motivated by a concern about the ability of the average Malaysian income to catch up with the rapidly increasing house prices in Peninsular Malaysia. Financial innovation in financial system now regards houses as a financial asset and speculation vehicle. Therefore, a house purchase is made to acquire not merely a necessity but also a financial asset which can generate future returns. Given the problems in the housing market, this paper aims to examine the determinants of house prices in Malaysia, including those such as income, population, foreign inflow and speculation. Design/methodology/approach: This study adopts panel data analyses, namely, the fixed effect model (FEM) and the pooled mean group (PMG), and uses data at state level in quarterly frequency, spanning from 2005Q1 to 2013Q4. Findings Based on the results of FEM, these determinants influence house prices significantly. Moreover, the PMG results suggest that there is convergence in the model, which are indicated by the significant and negative sign of the error correction term. In conclusion, the rapidly increasing house price is not caused by speculation activities in the housing market. More precisely, Malaysian income is capable of catching up with the increasing house prices. Practical implications As income remains to be one of the major drivers in influencing Malaysian house price, Malaysian Government shall continue the policies of supply low cost houses to the low-income groups and My First Home Scheme (SRP) by offering less stringent rules in applying house loan for the first-time house buyers. Originality/value: This study used the actual data of foreign housing purchase obtained from Malaysia Valuation and Property Services Department to represent foreign inflow; therefore, the results will reflect the impact of foreign inflow in a better manner.