

Empirical Analysis of Factors Influencing Residential Property Prices in Malaysia

Nazaria Md. Aris, Dickson Cheah Dick Xuan, Nurul Syuhada bt Zaidi,
and Suzila bt Mohamed Yusof
Faculty of Economics and Business, Universiti Malaysia Sarawak (UNIMAS)

ABSTRACT

This study concerns the factors influencing the prices for residential properties in Malaysia as well as their relationship towards residential property prices. The data collected and analysed in this research is from quarter one year 2000 to quarter four year 2015. Various determinants have been identified namely country population, Gross Domestic Product, household income, inflation and lending rates in this research. The time-series analysis methodologies adopted in this research are the Augmented Dickey-Fuller (ADF) and Philip-Perron (PP) test for unit root, Johansen and Juselius Cointegration Test, Granger Causality Test for Vector Error Correction Model (VECM) and also Variance Decomposition (VDC). In this study, these two variables, population growth (POPGROWTH) and inflation measured by the consumer price index (CPI) were found has a significant and positive effect towards the price of residential properties in Malaysia.

Keywords: Residential Property Prices, Population, GDP, Household Income, Inflation, Lending Rates

INTRODUCTION

In the recent years, the issue of home ownership rates as well as the issue of affordability for residential houses are closely related to the movement of the house price. The phenomena of rising number of populations in Malaysia raises the issue of availability of housing since the more the people, the more the need for housing to live. The growing population is most likely to be obstructed if the housing supply does not adjust itself to the demand for housing by households. As mentioned by Vermeulen and Van Ommeran (2006), houses are constructed in places that are people may not want to live in while on the other hand, people are willing to live in places where houses are constructed. The rising property prices especially for residential housing can be explained by the statement above from the researchers when the certain states in Malaysia have higher average property prices while certain states have a lower property prices as compared.

This research is organized into various parts. The analysis of the factors influencing residential property prices in Malaysia serves as the main purpose of this research. In this study, the residential housing prices is focusing only on the prices of the main classification of the residential housing namely the terraced house, semi-detached house, detached house and also the high-rise unit. In the next section is a review of the relevant literature, where the relationship of the residential housing prices with its determinants which are the interest rates, inflation rates, number of populations and the gross domestic product (GDP) of the country are discussed. This is followed by the methodology where hypotheses are introduced and this paper concludes with a discussion of the results.

LITERATURE REVIEW

In the research conducted by Hui (2013) aimed to analyse the relationship that exists between the house prices and the macroeconomic variables for the case of Malaysia. The author used various variables that include private consumptions, gross investments, stock price, money stock, interest rates and bilateral exchange rates in order to explain the movement of house prices from quarter one in year 1991 till the quarter two in year 2006 in Malaysia. All the variables are in real terms after adjusted for inflation and are regressed through time series analysis in determining the characteristics