Impact of Foreign Direct Investment (FDI) on Housing Affordability Index: Vector Autoregressive Model

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***Abstract* - This paper aims to investigate the short and long term association between Foreign Direct Investment (FDI) and overall consumer affordability in Malaysia Real Estate Sector using Vector Autoregressive model. Sample period used is 2009:Q1 to 2017:Q4. FDI is scapegoated as the leading cause of decreasing affordability in real estate. In most cases, FDI on real estate contributes to the rising income of the country. Increasing income promotes demand to a higher threshold level. Thus, theoretically will cause housing price to increase. Through this study, evidence of no cointegration and absence of Granger causality converge towards deficiency of relationship among FDI and Housing Affordability Index (HAI). Findings pointed out FDI is not the cause of decreasing HAI.**

***Keywords* -** *Foreign Direct Investment, real esate, Vector Autoregressive, Granger Causality*

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I. Introduction

Venturing into high profit and high impact proficient global, Malaysia is qualified as one of the urbanized countries aligning with the stable increase of the country population (World Bank 2015). With a total of 4 percentages total population growth annually, Malaysia is one of the fastest growing and urbanizing countries from South East Asia, with an increment of 10.2 to 15 million. One of the main concerns of the policymaker and the consumers in Malaysia is the appreciation of one of the basic needs, shelter. And the manifestation of the shelter, is through the housing sector. Increasing housing market price causing affordability of consumer in Malaysia to decrease. Last few years, there are incremental changes to house prices between 20% and 80%, whether in big cities or small towns and depending on the specific area (Yee, 2012). Mostly, the house near the city is a bit pricey because of the high demand and the facilities provided. According to Expat Focus (2012), the market trend for property prices moves downward and this was reported as the lowest move since 2010 and the market was expected to be slower in 2013. Since the pre-Asia crisis, Malaysia has the lowest house prices compared to other Asian countries and Kuala Lumpur was affected as there is a fall in prices after the crisis happens. The inflexible lending criteria had caused the housing market to slow down. Property in Malaysia, however, is still considered very cheap compared to other Asian countries. The rising prices of the house had caused some Malaysian not able to afford to purchase the house. This paper aims to investigate the effect of