

Housing Bubble Malaysia

Introduction

The upward trend of housing industry in Malaysia lately, the probability of bubbling remain high. Government wanted to suppress inflation, its then leverage on low interest rate (revised on May 2011), however the on going of low interest created house price to escalating high, this could be beneficial to house owner for short term, but to public, the affordability issue arise especially in urban area.

Government Responses

Government may be considering, as long as the house price continue to rise, the economics will improved, the capital flow in market should be adequate, this could be politicised due to fish votes. Low interest can stimulate market; enable more dynamic and robust growth, but its also creating inflation. Government starts controlling over-whelming speculative activities, however the outcome remains uncertain.

The over-heated housing prices is not only an regional issue, the inequality of income vs. house price caused many incapable to own their dream house and situation is getting worst.

Calculation

Kuala Lumpur (KL) house index grew 3.1% in Q3 2009 compare to 11% in Q3 2011. Selangor recorded -2.1%, surged to 10.1%¹. Kuala Lumpur may have limitation in land availability, however is not the case in Selangor. Both area experienced the highest growth in Malaysia. According to 2009 World Bank's Gross Income per capita, Malaysian earned MYR 41,130² (average) compare to average house price in KL /Selangor MYR 328,868, if apply the standard of housing loan ceiling by bank, that will be 30% of income = MYR 1028 per month or per annual MYR 12,336 for loan repayment.

¹ Indeks Harga Rumah Malaysia pada Q1 2011 meningkat sebanyak 6.5% berbanding Q1 2010. http://www.jpoh.gov.my/V1/pdf/IHRM_Q1_2011.pdf viewed 18May2011

² Gross national income per capita 2009, <http://siteresources.worldbank.org/DATASTATISTICS/Resources/GNIPC.pdf> viewed 18May2011

Follow this calculation³, let assume the house price is MYR 328,868, with 30 years mortgage loan, every year need at least MYR 25,200 for loan repayment, this simply mean, every month you need to double up the loan repayment to MYR 2,100 in order to own a house cost 328k. This is beyond the ceiling of MYR1, 028 by almost double! In other words, Loan entitlement for single income application is almost impossible, under such condition, its need double income to satisfy the criteria of loan.

Note: the data used refer to government published data; the base index of house is double-teres link house, and however market price is actually much higher than government published data.

Discussion

Malaysian income is far below the housing price, any purchased of high price houses, will create extra burden to house owner, bank exposed to more credit-default risk. The speculative activity is similar to US Housing bubble in 2008-09.

Malaysia need to learn from the incident of US housing bubble, the default case may increase, resulted drastic fall of house price, bank will record enormous book losses, credit crunch due to lack of cash, may paralysed the whole banking system. When speculators gain, new house owner will suffer. Government, people and bank should well aware, Malaysia need a sustainable growth model, not a flash in the pan.

The original article is written in Chinese, published on 24 May 2013 on blog.

³ Loan Calculator <http://malaysiahousingloan.net/tag/home-loan-calculator> viewed 18th May 2011