

PROPERTY INDICATORS: SUFFICIENT FOR POLICY MAKERS AND INVESTORS?

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1. Introduction

Over the past few decades, people have looked at property market as a good investment opportunity and today more people are gaining confidence to invest in property. From an individual's perspective, property often represents the single largest investment in their portfolio, which contributes to individual's wealth.

Generally, property market plays a significant role in a country's economic growth. As at 2011, our property market had maintained a double digit growth of 14.3% in volume and 23.8% in value.²

2. Objective

Property indicators or indices have become increasingly important in order to understand the dynamics of property market in terms of price change, availability of market supply and potential demand. It provides potential developers, investors and decision makers a certain level of comfort and ideas before embarking on a development or investment in a particular area.

The purpose of property indicators is intended to provide policy makers and investors some ideas on where the real estate is heading in the future and to strategise investment pattern that will fit the future market. The indicator can also act as a prediction of consumer spending that is affected by factors such as mortgage interest rates and the seasonal trends of the real estate business. Analysts, policymakers and financial institutions follow trends in house prices to expand their understanding of real estate and credit market conditions as well as to monitor the impact on economic activity and financial stability and soundness.³

3. Factors driving the real estate market

There are few factors that can influence the supply and demand of real estate:

i) Demographics

Demographics describes the composition of population, such as age, population growth, marital status, home ownership, employment status, household size, household income and others. The information is very crucial to determine the types of property and range of selling price that are in demand.

¹ Real Estate and Housing Developers' Association, Email: secretariat@rehda.com

² NAPIC Property Market Report 2011

³ Case and Wachter (2005), "Residential real estate price indices as financial soundness indicators: methodological issues"

ii) Interest Rate and Financing

Interest rates will influence the ability of individual to purchase properties as it will eventually increase or decrease the cost of the mortgage financing. Low interest rate will boost the property sales as the cost of borrowing would decrease and affordability increased. Bank lending is also important to determine the demand level for certain property. Loan-to-Value (LTV) ratio regulation by central bank will also have significant impact on the property market performance.

The performance of property market and banking are correlated, especially in terms of pricing. There is close relationship between property prices and bank credit as bank financing is the primary source of real estate funding. If property prices fall, banks which are mainly involved in property or property related lending businesses will be affected as well. Movements in real estate can have substantial impact on banking performance.

iii) Development Cost

Building cost which consists, amongst others, material and labour cost, is influential in affecting property prices and subsequently the performance of the real estate. Development cost is also a factor that determines the supply in the market.

iv) Government Policies, Legislation and Subsidies

Government can help to boost the demand for real estate by offering incentives such as exemption from stamp duty and tax. Subsidies in the form of relaxation of tax for house buyers can help enhance the demand of real estate property in the country.

v) Economy and Stock Market

The key indicator that influences the value of real estate is the stability of the economy. If the economy is sluggish, so is real estate performance. When economic condition is good, property price are normally on upward trend and vice versa when the economic condition is otherwise. Expansion in overall economic conditions tends to increase the average income of households and therefore boost the demand for property and eventually drive house prices upward. If there is a sharp fall in real estate prices, the effect will be a negative impact on the soundness of the financial sector and individual households and eventually affecting the economy.

The existing indicators used by the industry to gauge the performance of the property market are as follows:

- Gross Domestic Product (GDP)
- Financing/lending
- Disposable income
- Housing approval/license issuance
- House price index
- Annual transactions
- Property information such as new launches, overhang and others

4. Existing Data Sources

In Malaysia, there are various sources of property data made available by both the public and private sectors. Currently, the National Property Information Centre (NAPIC) is the primary property data portal used as the main reference point for market performance, prices, launches, available supply, transactions, unsold units and stock that cover residential and commercial sectors. Whereas, the Construction Industry Development Board Malaysia (CIDB) offers information on construction data such as the number and value of projects undertaken locally and globally. There is also information on the housing approvals, sales and advertising permits and house price indicators from Bank Negara Malaysia (BNM) and Ministry of Housing & Local Government (MHLG) website. Department of Statistics Malaysia (DOSM) also offers statistical information related to the economy, business, social and demography in Malaysia.

Other than the public produced data, there is also information provided by private property consultants, financial institutions' research houses, research institutions and property websites offering some indication on the property market.

The table below shows the types of data variables that are crucial to generate accurate types of data for real estate:-

Types of Data	Source
ECONOMIC	
GDP	DOSM, Economic Planning Unit (EPU), Malaysian Industrial Development Authority (MIDA), BNM, MIER
Inflation	
Unemployment Rate	
Interest rate	
Foreign Direct Investment	
Inflow of expatriates/foreigners	Malaysia My Second Home (MM2H), Malaysia Property Incorporated (MPI)
DEMOGRAPHIC	
Population Size	DOSM, EPU
Age Distribution	
Income Per Capita	
Household Size	
Migration Rate	
Urbanisation Rate	
Number of Marriages	
Forecast demographics characteristics	
PROPERTY INFORMATION	
Construction Statistics	CIDB, BNM
Housing Starts	
Housing Permit Approvals	
Launches	NAPIC, Local Authorities
New Completion	
Existing Stocks	
Transactions	
Unsold Units	
Overhang	
Vacancy	
Supply	NAPIC, Local Authorities
Demand	
Rental	NAPIC, Property Consultants
Yields	
Transaction Value and data on properties	Valuation Department, Land Office, Lawyers, Financial Institutions/Banks, Lembaga Hasil Dalam Negeri

Types of Data	Source
Existing Development/Projects	Local Authority, Real Estate Agents, Publications, Advertisements
Launches/Upcoming Development	CIDB, Architects, Land Surveyors, Land Valuers, Planners, Local Authority, Real Estate Agents
Available Land	Local Authority, Land Valuers, Planners
FINANCING	
Margin of Financing	BNM, Financial Institutions
Non-Performing Loan	
Loan Financing by Purpose	
Loan to Value (LTV) ratio	

5. Challenges

There is ample information on supply in the property market offered by various agencies but among the major challenges faced by stakeholders is the lack of information and data on demand for property in the market.

Other significant challenges include the lapse time between transaction and reporting or the publication of data. For example, the signing of Sales and Purchase Agreement of a strata residential property is recorded this month but the registration of property is only executed much later. Data quality and availability is very important as it will affect the accuracy of the indication but there is no single source that offers an integrated data portal for this information.

Another challenge faced is the lack of inter-agency information sharing. Developers throughout the delivery chain have actually submitted various information to various departments and agencies such as the local authorities, MHLG, NAPIC, CIDB through contractors and others. However, this information is not shared among the abovementioned agencies and remains as piecemeal data at these agencies. It is therefore difficult for stakeholders to access comprehensive information.

There is a need to integrate and coordinate all the statistical data made available by all agencies and sources in the country via the establishment of a single main portal to serve the different stakeholders in the market. Under current scenario, there is no single portal serving as an official reference point to the decision makers, developers, investors and also the public as some information is not made available to certain groups of people. In order to implement the system, we need to maximise the use of available administrative and property data for compilation and integration into the portal.

High level coordination is also needed to ensure the full cooperation of concerned agencies to get timely information. In the data collection process of the proposed integrated portal, all stakeholders need to pool together their information and data. Such integration amongst the relevant parties mentioned plays a significant role in the real estate market to allow analysts, developers, investors and decision makers to expand their understanding of the real estate condition, monitor the impact on economic activity and make decision using the available data.

For the property portal to work effectively and efficiently, it should comprise the following components:

- Accurate
- Consistent
- Localised
- Integrated
- Timely