

UNRAVELING THE INFLATED HOUSE PRICE IN THE NEW HOUSING SUPPLY

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Abstract

There are a lot of concern both by public at large and the government on the inflated house price in the housing market, fearing that it could lead to property bubble and raises the issue of affordability. On a closer look at the property transactions data, it was observed that the main increase in the house price is often related to the primary housing market, i.e. new supply in the housing market whereas the sales price of existing supply, or the secondary market, remains stable or increase marginally. It is grounded in theory that price is a function of demand and supply. However, if supply is in abundance in the secondary market, what causes the price differentiation between these two markets. This research attempts to unravel the inflated house price in the primary market. First, the research investigates on the influence of foreign purchasers in the local housing market, second, the market efficiency i.e. the extent of dissemination of sales information of both housing in the primary and secondary market. Third, it explores the level of complexity/ease in purchasing houses in the primary and secondary market. Fourth, it examines the costs of purchasing houses in the two markets to the purchasers. Fifth, it looks at what the housing in the primary and secondary market has to offer in terms of facilities, amenities, design and technology.

This research involves looking at transaction data recorded at the Valuation and Property Services Department structured interviews with the Estate Agents, Housing Developers as well as survey using questionnaires to purchasers of new housing, developers and estate agents.

At the end of this research, it will give an understanding why purchasers are willing to pay more for houses in the primary market, whilst similar housing in the same locality is available in the secondary housing market. The research will suggest what can be done to reduce the price gap between the primary and secondary market.

Keywords: inflated house price, primary housing market, house purchasers' preference, housing market efficiency, cost of purchasing

1.0 Introduction

House price is a hypersensitive issue in Iskandar Malaysia, an economic corridor created in the southern part of the Peninsular Malaysia. The general feeling is that the price for new housing is inflated to meet the floor price of RM500, 000 set by the authorities for foreign purchasers to qualify. The little or lax of restrictions in foreign ownership has caused the local house buyers to perceive that the foreign participation has contributed to the inflated house price thereby squeezing them out of the housing market. This is often cited as the cause of high costs of the new housing. Such argument appears faulty and often challenged because if such claim is true, sellers in the secondary housing market would also benefit by capitalizing on the foreign purchasers. Hence, the presence of foreign purchasers in the housing market should not only effect the newly build housing market but the existing market as well.

What is being observed in the housing market is the two –tiered house price movement. It is observed that the price movement in the primary market is more drastic while the price movements in the secondary market remain stable or increase marginally. What is more baffling is that the two markets are sometimes in the same location, with same accessibility, with units available for sale but the sales price of houses in these market shows a marked difference. Based on the economic principles of substitution, a prudent purchaser would not pay more for a home if it would cost less to him to buy another one. Substitution should make the market in balance. Thus, it is argued that the impact of foreign buyers should not only affect the primary housing market but also in the secondary market as they participate in both the markets. The prime objective of this research is thus to investigate and explain why inflated house price exist in the new housing market.

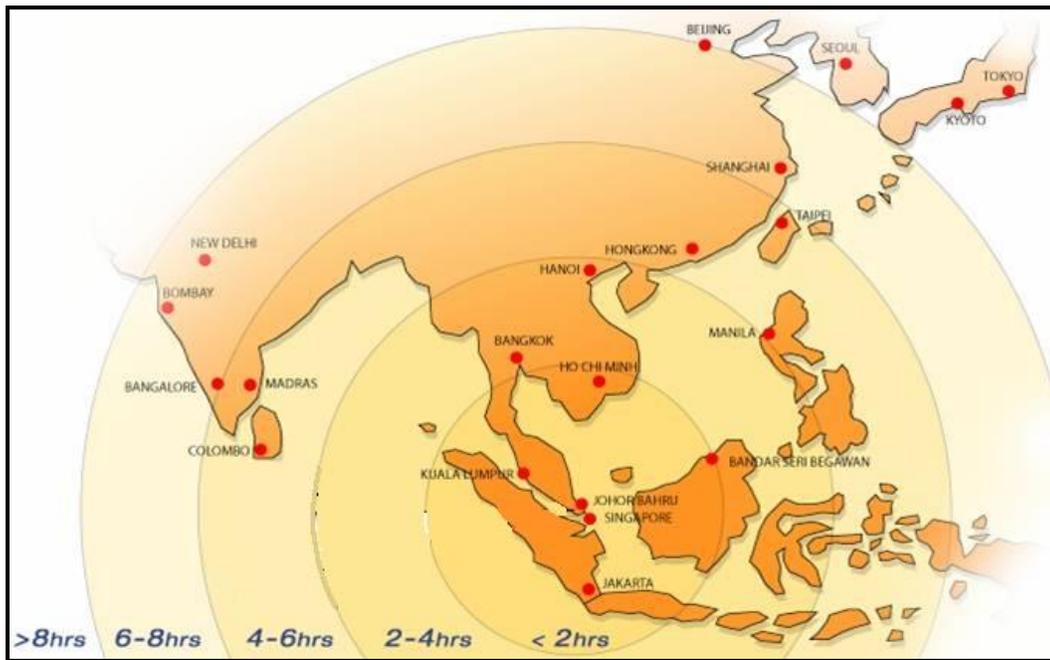
In conducting this research, the price movements are analysed based on transactions of newly launched projects by housing developers and subsequent sales in the secondary market recorded at the Valuation and Property Services department for the year 2002-2012. Analysis of marketing package in the advertisements of newly launched projects by developers to determine the component of house price is also carried out. Questionnaires are sent out to developers and real estate agents to investigate on their marketing strategies and house buyers to understand their major consideration in buying a house in the primary market.

The focus of this research is on transactions of two-storey terrace house, the commonly transacted family homes. The area of study is Iskandar Malaysia and the period of study is 2002 to 2012.

2.0. Scene Setting - The Iskandar Malaysia Housing Market

Iskandar Malaysia is a specially created economic corridor in southern Johor, with aim of boosting the economy of the country. In its effort to become the region fore-most economic hub, it positioned itself as an international metropolis by reducing trade barriers, increasing human mobility as well as reducing restrictions on property ownerships. It is strategically located within the Indonesia –Malaysia – Singapore growth triangle and along the east-west shipping route. It has easy accessibility by air and sea, with 3 major ports, excellent road and rail networks.

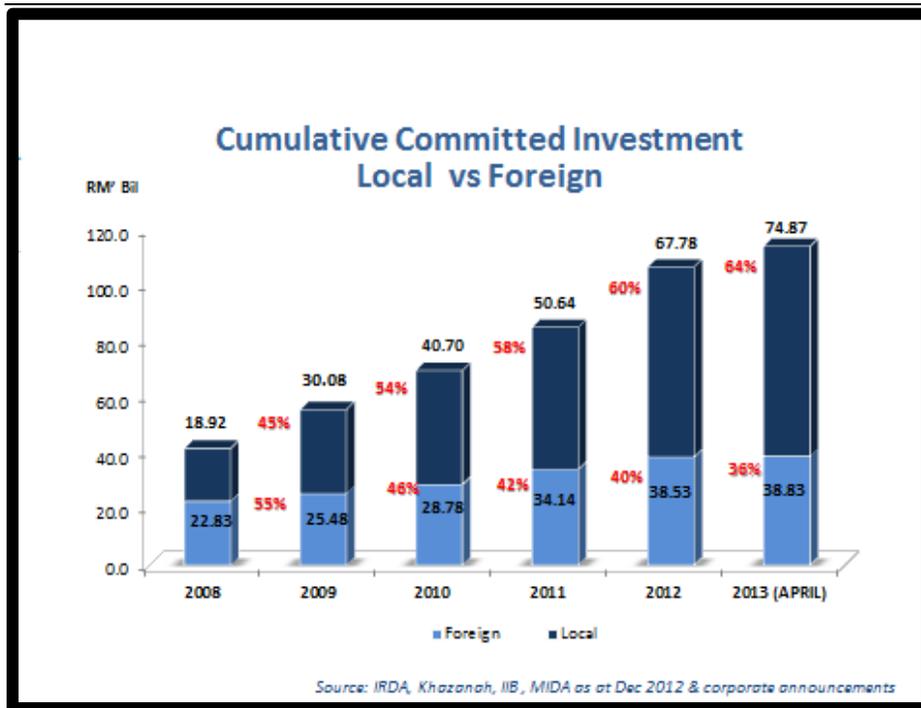
Figure 1.0 Location of Iskandar Malaysia



Iskandar Malaysia has been successful in attracting foreign investments. As shown in Figure 2.0, foreign investments accounts for more than 40 percent of the total investments between 2008 and 2012. The two sectors that recorded the highest foreign investments are manufacturing and real estate. According to Malaysian Industrial Investment Authority (MIDA), Iskandar

Malaysia is ranked the top three popular foreign direct investments destination in Malaysia.

Figure 2 .0. Investments in Iskandar Malaysia



Singapore is Iskandar Malaysia nearest neighbouring country. Iskandar Malaysia is three times the size of Singapore with a population of only a tenth of Singapore’s population. Iskandar Malaysia is only about 12.4 kilometers from its densely populated, land scarce neighbor. Table 1 shows the basic facts on Iskandar Malaysia and Singapore. Its proximity to Singapore, low cost of living, a comparatively cheap cost of housing and commutable make it a popular choice for Singaporean to reside or invest. Other nationalities that participate in the housing market are Taiwanese, Japanese as well as Indonesians. Table 1.0 shows some basic facts on Iskandar Malaysia and Singapore.

Table 1.0 Basic Facts on Iskandar Malaysia and Singapore

	Iskandar Malaysia	Singapore
Population	1.35 million	5.3 million
No. of Households	329,268	1.15 million
Average Household size	4.10	3.5
Income per capita	USD 14,790	USD 51, 162
Land Area	2,217 km ²	710 km ²
Density	631 persons/km ²	7464 persons/km ²
Currency	Malaysian Ringgit (MYR)	Singapore Dollar (SGD)

Source: Iskandar Regional Development Authority, Singapore Department of Statistics,

The State Government has formulated a foreign ownership policy, stipulating a quota for the foreign buyers in each market segments as outlined in Table 2. The quota is applicable to first sales from developers to buyers. To beat the policy, developers transfer their new housing to subsidiary companies, making the subsequent sales falls into the secondhand category. Thus, this policy is seen not watertight.

Table 2.0 Quota on Foreign Ownership

Category (Land Use)	Condition	Foreign quota	Minimum Price
Residential Building	1.Double storey terrace & above	20%	RM 500,000
		20%	
	2.Double storey cluster & above	30%	
	3.Semidetached double storey & above	30%	
	4.Double storey bungalow & above	50%	
	5.Vacant lot for bungalow		
	6.Apartment/Service apartment/holiday home		
Commercial Building	1.3stories & above shop lot	10%	RM 500,000
		10%	
	2.3 stories & above shop/office	20%	
	3.Office / shop lot in shopping complex		
Industrial Building	Foreigners are allowed to have an ownership for the land in industrial category without consent from State Authority.	No limit	RM 500,000

As can be seen from Table 3.0 below the housing market in Iskandar Malaysia is full of optimism. This is in anticipation of the demand from Singapore. In addition, the new oil and gas hub in Pengerang on the eastern side of Iskandar Malaysia is also expected to induce housing demand in Iskandar Malaysia. Although the housing stock as at December 2012 is in Iskandar Malaysia is approximately 409,602 units with 329,628 households, annual incoming supply which comprises starts and units under construction are on average 12.5 percent of the existing housing supply. This is considered high. Out of this, housing starts alone constitute 3.2 percent of existing supply. New planned supply which comprises number of new housing approved annually is on the average 3.4 percent of existing

stock. New planned supply does necessarily take off immediately and this is reflected in the planned supply statistics, which is cumulative, in the following year.

Table 3.0. Housing Supply in Iskandar Malaysia

	Year	Terrace	Semi- D	Det.	Town House	Cluster	Low cost House	Low cost Flat	Flat	Service Apt	Condo/ Apt	SOHO	Total
Existing Supply		207,824	15,118	21,727	1,117	1,752	56,184	41,884	17,539	2,985	24,665	0	390,795
Incoming Supply		9,744	1,679	285	440	285	192	5,127	14,974	0	6,406	0	39,132
Starts	2009	6337	342	78	0	395	0	272	111	0	816	0	8351
Planned Supply		53634	6091	2172	901	1645	657	10846	14838	8800	6808	0	106392
New Planned Supply		6459	554	137	417	961	14	710	288	1106	1010	0	11656
Existing Supply		212,152	15,600	21,733	1,117	1,764	56,376	42,293	19,105	2,985	25,205	0	398,330
Incoming Supply		13,246	1,859	371	440	944	0	4,071	13,810	472	6,816	0	42,029
Starts	2010	7833	734	139	0	1381	14	528	1348	3047	924	0	15948
Planned Supply		49382	6163	2208	901	1494	643	10334	14436	8768	7088	0	101417
New Planned Supply		3542	734	128	0	520	0	0	0	440	1230	0	6594
Existing Supply		215396	15766	21735	1213	2007	56376	42377	19783	2985	25205	0	402843
Incoming Supply		22242	2581	529	440	2321	14	4585	15158	3519	8664	0	60053
Starts	2011	7910	748	147	0	1381	0	528	1348	3047	924	0	16033
Planned Supply		49421	6433	2564	901	1243	800	10270	14534	7429	6998	248	100841
New Planned Supply		8,057	928	503	0	1,130	188	464	1,446	1,708	834	248	15,506
Existing Supply		220529	15909	21760	1213	2527	56390	42377	19783	2985	26129	0	409602
Incoming Supply		23430	3643	753	440	2944	154	4585	15158	9313	8864	0	69284
Starts	2012	6873	1165	201	0	1243	196	0	0	5794	2094	0	17566
Planned Supply		50133	6218	2676	901	1694	646	10270	14994	11028	6510	248	105318
New Planned Supply		6996	981	363	0	1494	0	0	460	9393	636	0	20323

Source: National Property Information Centre

3.0 Literature Review

Issues pertaining to house price have been a major concern of the policy makers as well as public at large as price affects not only affordability and access to housing but also its sustainability affects wealth and the economy.

Inflated house price and housing bubble have long been recognized as an important risk to economic stability, in a way that it may cause financial stresses or it may lead to economic crises. Many studies on inflated house price and housing bubbles found that they are not simply the resultant of interaction between demand supply factors but the interplay of players, their motives and struggles in the housing market. Thus, analysis of housing market *vis a vis* house price dynamics has become rather complex. The power of players or actors in shaping the housing market is recognized in the institutional approach to housing market. Many researchers have made contributions to urban geography environment from institutional perspective, revealing the different goals and ideologies of agents and institutions, their relative power in the urban development process, the nature of interactions among agents and institutions and constraint they impose on each other which characterize the property market and also shape the built environment (Ball, 1986, 1998; Bassett and Short, 1980; Healey, 1991, 1997; Healey and Barrett, 1990; etc). Brandsen (2001) argues that each market context must be studied separately with reference to historical interaction among actors and between actors and institutions. Any change or even prospect of change in these institutional factors is likely to change the dynamics of property prices.

The demography or profile of the entrants into the housing market may have an influence on the housing market. In a study by Ben-David (2011) it was found that in a market where buyers are financially constrained, inflated transactions are observed, in order to have access to higher housing loan. Buyers are often financially constrained to meet the initial amount. The higher the value of the collateral, subject to the mortgagee's payback ability, the higher would be the amount of loan advanced by the financial institution. The willingness for higher leverage is also due to market optimism that the price will increase. Thus, the profile of buyers shapes the rules of the game. In another study, Ben - David (2010), price may be artificially inflated by the seller to accommodate the financially constrained, i.e. buyers. without huge saving to cover for the additional costs of purchasing a house. Nishimura (2013) observed that the increased demand for housing from a growing young population is likely to induce the institutional change of a loosening of financial laws and regulations that pushes up prices. This is because house purchase is the single most expansive consumption item in a household expenditure and needs a major financial commitment. It also requires substantial savings for down payments and other costs associated to housing. Heath (2008) found that saving is not the habit of the younger generation or new entrants to the housing market, even though they may have payback capacity.

Studies on foreign ownership on properties values found that there significant effect on the property values. It is also found that foreign purchasers, although small in number, affects the housing market because of the nature of the market that is very localized. However, in such studies there were no specific observation or mentioned on their preference for new housing or second hand housing.

The sellers' prime objective is to sell the house and if possible at the maximum profit in a given time. Studies have shown that the sellers and their intermediaries collaborate to enable the buyer to qualify for a higher loan. This includes increasing the selling price by expanding the scope of transactions through including transaction costs, cash backs, appliances. Ben- David (ibid) find that the selling price is consented between two parties. Although the item cannot be collateralised, it appears that the transaction price of the house is higher to the lenders, allowing the buyers to draw a higher loan. It is a win-win situation where seller gets to sell their houses, buyer gets the fund to buy house and the agents and intermediaries get their fees.

Government has an influence in lending directives and standards. Most governments have a pro home- ownership policy and facilitate access to housing. It may include directives to financial institutions to channel more funds to the housing sector, lowering of interest rates and lending standards. The government is likely to come under political pressure to loosen financial laws to accommodate certain segment of the population (Nishimura, 2013). Higher loans are allowed for first time buyers. Easy access to borrowing have known to contribute to price increase.

The nature of housing market itself is imperfect and inefficient as such there exist price distortion(Linneman, 1986, Liu, Grissom and Hartzell, 1990). Due to the nature of the housing market, buyers may not have the knowledge on the choices available in the market. For many, house purchase is one in a life time event, as such housing market is full of by amateurs making transactions with limited information and little or no experience in gauging the value of the properties they are buying and selling. Koklic and Vida(2009) found that consumers/ purchasers have very little pre purchase knowledge about the houses and buying process. The prices are specifically affected by the level of buyer and seller experience (Gibler andMeglolugbe, 1992). Thus, it can be concluded that the determination of price also is very much dependent on be market information.

4.0 Methodology

This study uses institutional approach to housing market analysis. Questionnaire were distributed and interviews were conduct on the main players in the housing. In addition information on marketing strategy is obtained from their websites. Data on transactions were obtained from Valuation and Property Services Department while data on foreign purchasers were obtained from the Johor State Land and Mines Department.

The study uses several datasets on transactions of 2 storey terrace house over the period of 2002 to 2012 obtained from the Valuation and Property Services Department. The first dataset comprises median prices of newly launched 2 storey houses. These are sales price by housing developers. The second data set comprises median sales price of second hand 2 storey houses concluded in the secondary market. Movement of prices in these two markets is then compared.

Data on foreign buyer is obtained from the Johor State Land and Mines Department, the agency processing the approval for foreign purchase. In relation to foreign purchase, two datasets are obtained. First dataset is on foreign purchase of new housing and second dataset is on foreign purchase on secondhand houses. Comparison is made between the two dataset to establish in which market the foreign purchasers are active.

Three sets of questionnaires were distributed to the main players in the housing market, viz. the house-buyers, developers and estate agent to obtain an insight on the market-play and understand why house prices are being inflated. To triangulate and better understand the situation interviews with estate agents, developers and house-buyers were also carried out.

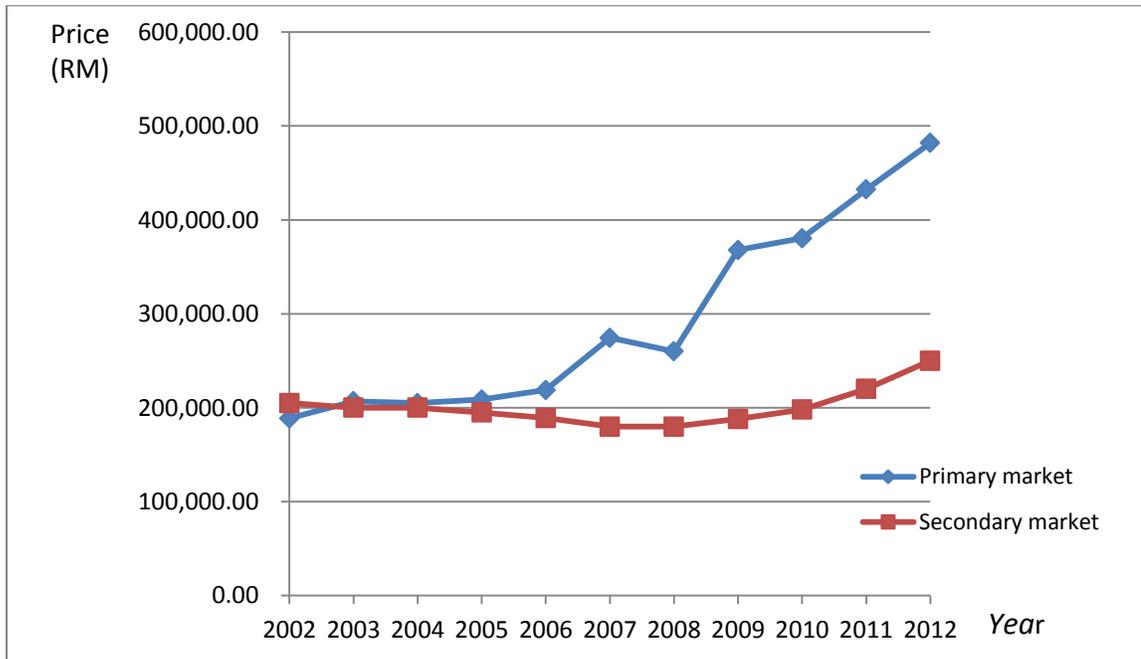
4.0. Findings

4.1 Median House Price Movements

Figure 3.0. shows the movement of median prices in the two markets over the period of 10 years. Between 2002 to 2005, the price movements in the two markets appear to be the same. In 2006, after the establishment of Iskandar Malaysia, slight variation in the price movements can be seen. Marked difference in the movement of median prices in the two markets can be seen from 2009 onwards. However, both the markets show an upward trend in the price movement. This suggests that the establishment of

Iskandar Malaysia as an economic corridor begin to impact on the housing market. The internationalization of Iskandar Malaysia offers investment opportunities in the housing market.

Figure 3.0. Price Movements in the Primary and Secondary Market



As shown in Figure 3, the price movement in the primary market is volatile. Table 1 shows the price difference in the two markets as well as the year on year change. It can be seen that the annual average change is 10.6 % in the primary market. However, the price movements in the secondary market appear to be slow and gradual. The average annual change in the secondary market over the same period is 2002 to 2012 is 2.2 %. From 2009, the difference in the median price of 2 storey terrace house in the primary and secondary market is more than 90%.

Table 4.0. Year on Year Change in Price in the Primary and Secondary Market

No	Year	Median Price of 2T in Primary Market (RM)	Median Price of 2T in Secondary Market (RM)	Price difference between the Primary and Secondary Market (%)	Year on Year Change in Price in Primary Market (%)	Year on Year Change in Price in Secondary Market (%)
1	2002	188,800.00	205,000.00	-8%		
2	2003	206,800.00	200,000.00	3%	9.5%	-2.4%
3	2004	205,000.00	200,000.00	3%	-0.9%	0.0%
4	2005	208,800.00	195,000.00	7%	1.9%	-2.5%
5	2006	218,800.00	189,000.00	16%	4.8%	-3.1%
6	2007	274,490.00	180,000.00	52%	25.5%	-4.8%
7	2008	260,000.00	180,000.00	44%	-5.3%	0.0%
8	2009	368,000.00	188,000.00	96%	41.5%	4.4%
9	2010	380,420.00	198,000.00	92%	3.4%	5.3%
10	2011	432,500.00	220,000.00	97%	13.7%	11.1%
11	2012	482,000.00	250,000.00	93%	11.4%	13.6%
Average Annual Change (2002-2012)					10.6%	2.2%

Source: Johor State Land and Mines Department

4.2 Foreign Participation In The local Market

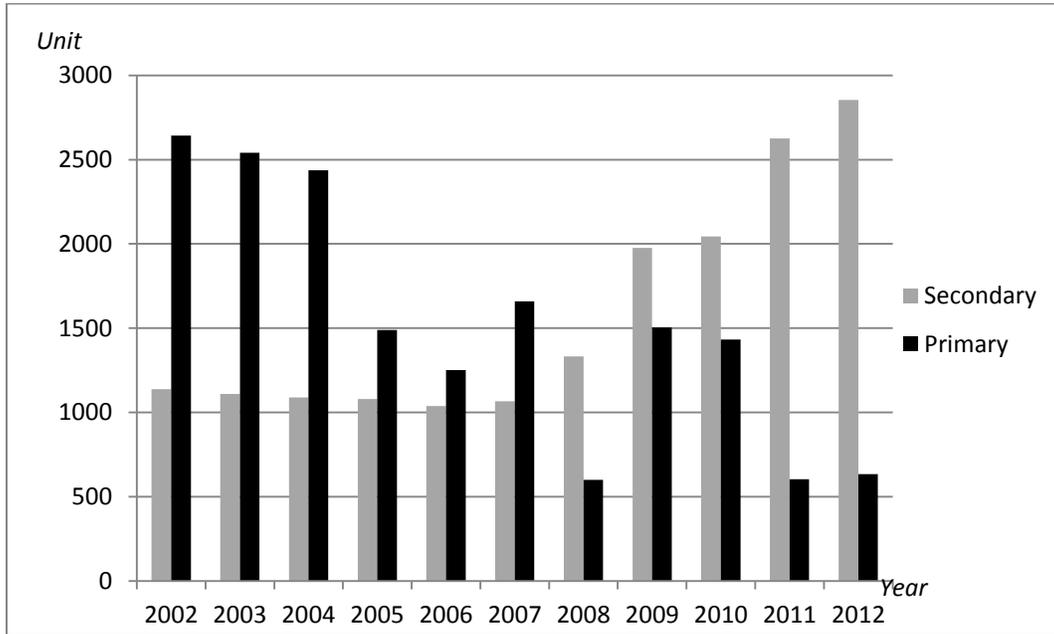
Internalisation of Iskandar Malaysia means giving incentives for foreign direct investments and opening up for foreign acquisition of real estate and as mentioned above, Iskandar Malaysia has been quite successful in attracting foreign direct investment. In terms of housing market, the absolute number of foreign purchasers is not huge but on the increase. However, it can be seen from Table 5.0 that has been a steady increase of foreign participation in the local market. The presence of the foreign purchasers in the local housing market, with the exception of 2010 and 2012 is not more than 5.5%. The sudden influx of foreign purchasers in the local market in 2012 may be explained by the widespread news on the government proposal to review its policy on foreign acquisition of properties and their move to beat the enforcement of the policy. It is often argued that as the nature of housing market is localized, the impact of foreign participation in the local market, although small in number, can be felt.

Table 5. Participation of Foreign Purchasers in Iskandar Malaysia Housing Market											
Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Residential Property Transaction	14,038	15,936	21,490	15,735	14,554	14,354	12,967	15,625	15,465	18,556	15,003
Number of Foreign Purchasers	NA	301	329	350	371	448	660	813	1952	1018	3076
Percentage of Foreign Purchasers in the Local Market	0.0%	1.9%	1.5%	2.2%	2.5%	3.1%	5.1%	5.2%	12.6%	5.5%	20.5%

Source: Johor State Land and Mines Department

A closer look at the participation of foreign purchasers in the local market, as Figure 4 suggests, they are more active in the primary market. Thus, local buyers face competition with the foreign buyers in the primary market. It is found from the questionnaire survey on developers, information on their projects is well publicized. Their marketing effort is very extensive, through various means. It includes advertisement in the web page, newspaper, billboards, pamphlets and appointed agents. They also participated in exhibition overseas. Hence, foreign purchasers are better informed on the new housing projects by the developers as compared to second hand sales. As the floor price set in the Johor State Foreign Ownership policy is RM500,000, developers tend to price their houses more than the floor price.

Figure 4.0. Participation of Foreign Buyers in Housing Market



Source: Johor State Land and Mines Department

Is the Sales Price the Asset Price?

A survey of developers' web pages and pamphlets on their marketing strategy reveals that developers give various form of sale incentives. As shown in Table 6.0, these include free legal fees, cash rebates, developers' interest bearing scheme, furniture and fittings, etc. Almost all developers provide free legal fees for sales and purchase agreement. About 64 percent give rebates, the highest being 15 percent of the sales price. More than 50 percent provides developers' interest bearing scheme. All developers' provide sales incentives in one form or another.

These incentives are incorporated in the sales price and in the sales and purchase agreement including the cash rebates. Hence, the sales price in the primary market is not the true value of asset. The price of the sales incentives has pushed up the sales price.

Table 6.0 Developers' Sales Incentives

No.	Developer	Incentives Offered				
		Free SPA Legal Fees	Free Loan Agreement Legal Fees	Rebates /cash	Developers Interest Bearing Scheme	Others
1	Developer 1	Yes	No	5% Early Bird discount	Yes	Full Kitchen, Built-In Wardrobe, Air-conditioning, Mable Flooring
2	Developer 2	Yes	Yes	15% & 10% rebate	Yes	Kitchen cabinets, Water Heater, Kitchen Hob & Hood, Air-conditioning
3	Developer 3	Yes	No	8% rebate	Yes	-
4	Developer 4	No	No	No	No	100% International Lots
5	Developer 5	Yes	No	No	No	Free 14 days stay at KSL Resort
6	Developer 6	Yes	No	7% rebate	Yes	Built-In Wardrobe, Home appliances, Kitchen cabinets
7	Developer 7	Yes	No	10% rebate	No	-
8	Developer 8	Yes	Yes	5% rebate	Yes	Kitchen cabinets,
9	Developer 9	Yes	Yes	2% for cash buyer	Yes	-
10	Developer 10	Yes	No	10% rebate on progressive payment	No	Kitchen cabinet, Wardrobe Air-conditioning, Free 7 days stay at KSL Resort
11	Developer 11	Yes	No	No	No	Furnishing package worth RM18k, Low deposit (RM5k only), High speed broadband for 2 years
12	Developer 12	Yes	No	No	No	-
13	Developer 13	Yes	No	No	No	-
14	Developer 14	Yes	Yes	10% rebate	Yes	-
	Total	93%	29%	64%	50%	57%

4.3 Local Participation - Willing Buyer, Willing Seller, Willing Financiers in the Primary Market

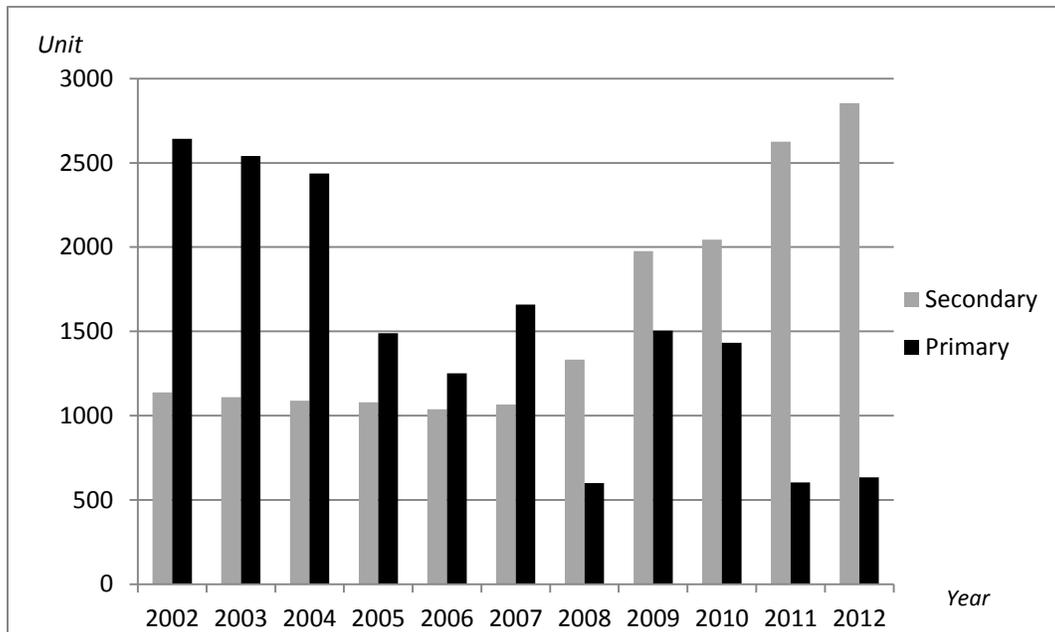
A typical house purchase requires purchasers to come out at the up-front the down –payment and transaction costs. The amount of money required is substantial. Typical transaction costs for housing in Malaysia are legal fees for sales and purchase agreement, legal fees for mortgage agreement, memorandum of transfer fees and stamp duty and agency fees. In a survey conducted on local buyers, developers and real-estate agents, it is found that buyers usually have low savings and are constrained to meet up with the initial costs and the hidden transaction costs. To facilitate and ease the house purchase, developers offer a package deal that incorporates the transaction costs either fully or partially in the sales price. To further lighten the financial burden of purchases, developers' interest bearing scheme are provided whereby interest incurred during the construction period which

was usually borne by buyers through progress payments will instead be borne by the developers. In addition, rebates and gifts such as furniture and fittings, etc. are provided. Loans are being arranged by the developer to assist the purchasers.

In a survey conducted on house – buyers, given a choice, house buyers would like to purchase from developers. More than 77 percent of the respondents knew that the houses that they purchased in the primary market are slightly higher. However, 63 percent do not mind paying slightly more for the house and installment as long as they do not have to provide substantial cash or own equity for down-payments and related costs. About 55 percent of the respondent who bought from developers received cash rebates. Other sales incentives given to them were furniture and fittings, legal fees for sales and purchase agreement, stamp duty and others. More than 50 percent of the respondents perceived that buying properties from agent would incur them a high agency fees.

Until 2007, the local buyers were active in the primary market until it becomes too expensive for the local buyers and began turn to secondary housing. Figure 6.0. shows the inclination of the local buyers in the 2 storey terrace house market segment. In 2012, when the Bank Negara introduces responsible lending policy to the financial institutions, the number of local buyers declined further.

Figure 5.0 Local Buyers Inclination in the 2 Storey Terrace House Market Segment



Developers provide end-financing/ mortgage arrangement services for their house-buyers. It is the practice that developers will make an arrangement with banks that provide bridging –finance for their project to provide end-financing for the house-buyers. Banks are thus provided with a ready pool of clientele and will set aside the required sum for the end -financing. Banks have Risk Management Department who audits on the loans arrangement to safeguard the bank’s interest and ensure prudent lending. Banks will run a random check with the panel of valuers on the market price of the houses to be financed. However, at the same time on the operations side, banks also have their key performance indicators (KPIs) to meet. Moreover, banks have always relied on the borrowers’ pay back ability.

Banks/financiers usually accepts selling prices stated in the sales and purchase agreement between developers and buyers because before the drawdown of the bridging finance by developers, banks usually require the developers to proof that they managed to sell about 50 percent of their projects. With 50 percent of their projects sold, it is evident that market accepts the selling price. Hence, selling price is regarded as market price. Gifts and sales incentives which have been incorporated in the price do not appear in the agreement. It therefore skips the attention of the banks that the sales price is not the true asset price. Thus, the inflated price becomes the selling price.

4.4 Real Estate Agent and the Secondary Market

From the survey on it was found that the act of inflating the house price in the secondary market is not rampant. This could be explained by, first, the tax implication on the seller, where disposal of properties whose holding is five years and below are subjected to real property gains tax. If house price is inflated, the seller will have to bear the tax. Second, inflating of second hand house price sellers will need the consent of the seller. Often, seller of second housing are reluctant to compromise inflating the house price to include the hidden costs. Hence, buying from the secondary market, although the price is lower, does not help the low savings and financially constrained buyers with the down-payment and the hidden costs. It is also found that more that 50 percent of the buyers surveyed perceive that real estate agent fees are not cheap.

4.5. Market Information

New housing projects are advertised and marketed by the developers on large scale basis. Marketing efforts include advertising on billboards at strategic location, in the magazines, in the newspaper, distribution of pamphlets as well as web page. The advertising includes the sales incentives provided which are often attractive to the buyers. Buyers know the package deal that they would be getting. In addition, developers who have 20 percent or more foreign clients have gone further to promote and conduct exhibition abroad. Some have appointed agents to sell their properties overseas. Developers invest huge capital to market their projects and this commensurate with the huge investments that they have made in the projects and the risks attached to it. In sum, purchasers become more aware and informed on their products.

Real estate agents also do make extensive efforts to market and advertise their listings. Web-page has proven useful for prospective buyers to make a search for houses. However, it is more on a small scale as they do not sell mass products as the developers do and it is less attractive to buyers as it does not provide any sales incentives. In this sense, real estate agent may not be able to attract the low-saving and financially constrained house-buyers.

5.0 Conclusion

It is evident that house price is inflated; however it is rampant only in the primary market. The sales price have been found not to be the asset price as hidden transaction costs, sales incentives, and services provided are incorporated in the sales prices. The inflated house price is not about market misinformation. Both sellers in the primary and secondary market, i.e. developers and real estate agents, market extensively although on a different scale. Buyers would be able to search for properties through the web-pages of developers and agents.

The inflated house price is an arrangement that suited the developers who wanted to dispose-off their new housing units, buyers who are financially constrained and lenders who are eager to provide loan. Buyers do not mind paying slightly higher price and monthly installment as long as they do not have to come out with substantial sum for down-payment and other hidden transaction costs. In addition, developers are also able to provide rebates which come in useful for these financially constrained house-buyers. To the

developers these costs are recoupable from the sale price. It is found that the inflating of house price by estate agents, although it exist, are to a certain extent restricted as consent from the seller are not always forthcoming. For the lenders, although the value of collateral should be the over-riding factor, they have always relied on the borrowers' pay back ability. Banks' KPIs on loans are also an important consideration in channeling out the funds. In sum, it is a mutual arrangement that meets needs of the parties involved.

The presence of foreign purchasers in the local market is on the increase. They are active in the primary market. House prices are inflated to meet the floor price set by the State Government for foreign purchasers. Local purchasers have to compete with foreign purchasers in the primary. Hence, the outcry from the local purchasers that they are being squeezed out from the primary market. The presence of foreign purchasers have given the optimism to the developers that there would be continued demand from the foreign buyers. Iskandar Malaysia is seen as an attractive opportunity for investment.

The incentives in buying new housing are attractive for buyers and are hard to refuse. Continuance of such motivation or inducement by the developers and coupled with such preferences by the house-buyers in the long run can effect the landscape of the secondary housing market, where they will be less investments in upgrading and improvements. Run down and slums will creep in. The wealth of the owners in the secondary market will be affected.

Inflating the house price has to be stopped. Lessons learned from the sub-prime crisis in the US and Europe, in an economic melt-down it affect the stability of the financial institutions and the economy as the value of collateral is way below the loan value. Developers should be mandated to price each of the sales incentives given, and lenders should only lend based on the real value of the collateral.

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