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Housing bubble phenomena and their determinants in Kuala Lumpur

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Abstract

Housing could be perceived as both a principal of residence and an investment asset. In the past 15 years, this asset class witnessed a dramatic increase in prices, especially in the Kuala Lumpur. The rampant increase in house prices has widening the gap between a house's expected value and its fundamental price. A wide deviation of house price from its fundamental price could cause a housing bubble, which would have a negative impact on the financial market. This paper examines the potential emergence of a housing bubble by using rent to price ratio and employing economic fundamental factors to estimate housing fundamental value, and take difference between actual house price and fundamental value as bubble. Based on the time series regression of the economic fundamental factors, shows that properties in Kuala Lumpur were priced at 4.2% and 11.3% above their fundamental value in years 2012 and 2013 respectively. This finding also were supported by the simple test indicator of rent to price ratio where the ratio were declining drastically after 2011. With the divergence of market price and fundamental price shows an increasing gap each year proved that housing bubble are likely to appear

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