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Affordable Housing and Cyclical Fluctuations: The Malaysian Property Market

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1. Introduction: business cycles cannot be avoided

Economic reality shows us that business fluctuations are everywhere and the crisis that emerged in the Western world in 2007 is just the latest and most evident manifestation of such dynamics. As mentioned in Ferlito (2016a, pp. 202-203), which develops the vision brought out in Ferlito (2014a), capitalism without fluctuations does not exist.

I expressed the idea that business cycles are unavoidable by developing the doctrine of the natural cycle (see in particular Ferlito 2016b, Chapter 3). I will now summarize that framework in order to describe the evolution of the property market in the last decade.

Section 2 presents the theory of the natural cycle, which will be used in section 3 for the analysis of the Malaysian property market over the past decade. According to such framework, business cycles are originated from positive profit expectations and each expansionary wave is followed by a secondary wave, which can be called imitative-speculative, usually supported by credit expansion. Such an evolution can be observed in the Malaysian property market from 1997, while today the declining movement is already initiated.

In section 4, I focus on certain disproportionalities in the housing industry, arguing that the investor focus on the high-end segment was not unjustified and that government action is crowding out private constructors from the affordable housing segment.

In section 5, I present some free market-oriented policy suggestions, aiming to create the conditions to limit the insurgence of future crises, to face the coming property crisis, and to revive the affordable housing market. Section 6 concludes.

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** The views and opinions expressed in this paper are those of the author and do not necessarily represent IDEAS*

2. The theoretical framework

A boom is generally initiated when entrepreneurs see unexploited profit opportunities; when experiencing *positive profit expectations*, they become future-oriented and ready to invest in long-term investment projects. Such a situation encourages the onset of major investments in production assets, or capital goods, whereby the economy becomes, in general, more capital-intensive and the production period is extended (Hayek 1931, pp. 35-36). However, even if entrepreneurs become more future-oriented, such a change does not necessarily bring along a modification of the preferences on the consumer side, and we encounter a difference between entrepreneurial decisions and consumer choices (Hayek 1933, pp. 143-148), which lies at the very root of business cycles.

In this situation, as consumers are not necessarily saving more to finance the new investment decisions, entrepreneurs need to refer to their own financial resources or, as it is mostly the case, to a general expansion of the capital supply from the credit system, which thus becomes crucial in supporting an emerging boom. Most investments are made in the expectation that the supply of capital will for some time continue at a level consistent with the new demand for loanable funds. In other words, entrepreneurs regard the present supply of capital and the present rate of interest as an indication that approximately the same situation will continue to exist for some time (Hayek 1933, p. 142).

While entrepreneurs invest in new processes for the production of capital goods, savers are frustrated in their desire to consume, because what they want is not being produced. The forced saving phenomenon (Hayek 1932) thereby comes about: we observe a gradual reduction in the production of consumer goods and therefore an involuntary limitation of consumption (Hayek 1933, pp. 145-146).

The entrepreneurial impetus towards new investments, on the other hand, initially involves an increase in raw material prices and consequently of the capital goods produced with them. And the impetus becomes particularly violent when the wave of the first innovative entrepreneurs is joined by the pressure of imitators, who grasp profit opportunities only in a second stage and attempt to benefit by following the 'fashion'.

At the same time, demand for labour increases, attracting workers towards the new investments, making relative wages increase: this in turn encourages demand for consumer goods, and prices in this sector also increase.

In order to be sustainable, this process requires further credit expansion, which would bring about a cumulative increase in prices that sooner or later would exceed every limit. The conflict seems to be evident when demand for consumer goods exceeds the funds available for investment in terms of absolute value. At this point, the interest rate cannot but rise, frustrating demand for capital goods precisely when their price has also risen. A considerable part of the new plant installed, designed to produce other capital goods, remains unused since the further investments required to complete production processes cannot be made (Hayek 1933, p. 148). As a result, in an advanced stage of the boom, growth in demand for consumer goods brings down demand for capital goods (Hayek 1939, p. 31).

At the peak of the boom, the economy discovers that it is unable to sustain a production oriented beyond its possibilities. Demand for capital goods runs out, taking with it the over-production in the particular sector where the boom started, and it is here where problems arise. Many economic initiatives set up through excessive reliance on profit expectations, on speculation fever or on credit cannot be completed, although the debts still have to be paid. Many companies have to be expelled from the system. Capital is scarce and banks raise interest rates. A period of adjustment and return to equilibrium begins, only it has the aspect of a depression.

To summarize, this is how I identify the first two stages in my model (called natural-cycle): primary expansion, generated by a change in the structure of time preferences and expectations (the system becomes more future-oriented), and secondary expansion characterized by imitative investments (speculation fever). Like the primary wave of investments, the second wave is generated by profit expectations, particularly the expectation that the current situation will not change (Schumpeter 1939, p. 145).

The secondary wave of investments generates new demand for loanable funds. This means an attempt to extend the expansion process, thereby also increasing the degree of uncertainty. More time taken implies more things can happen – providing the possibility of greater productivity but also greater uncertainty.

Moreover, during the secondary wave, the positive sentiment, the positive profit expectation, that becomes 'incandescent' at the end of the primary expansion stage, also plays a role as regards the action of banks. In fact, precisely because of what happens during expansion, it is highly likely that banks make available 'virtual funds' that are not backed up by real savings, driven by expectations that the adaptation of consumer preferences (further savings) cannot but occur, precisely because of the enthusiasm generated by the boom. As explained by the Minsky's financial instability hypothesis (Minsky 1982, 2008), during the boom following a tranquillity period innovative debt practices and speculative excesses are encouraged and an unrecognized system fragility evolved (Prychitko 2010, p. 206).

While the first wave of investments can in most cases deliver successful initiatives, due to its limited quantitative intensity and time frame, the second wave will be frustrated by a change in consumer preferences and a banking policy influenced by profit expectations. What will follow is a crisis (third stage of the natural cycle). The deepening of the crisis and the emerging of an eventual depression (fourth stage) will depend on the general reaction to the crisis from the public and the policy makers.

3. The Malaysian property market boom and bust cycle (2007-2018)

I will try now to apply the model described in the previous paragraph to the evolution of the property industry in Malaysia, with special reference to the last decade, even if, as it will soon be clear, the expansion trend for the Malaysian property market started already after the 1997-98 Asian crisis. The attempt of the present section is to show how the industry path followed, and it is still following, natural cycle dynamics.

Before starting, it has to be noted the close connection between housing market behaviour and general economic crises; for the American economy between the Great Depression and the Great Recession (1929-2008), Gjerstad and Smith (2014, pp. 268-269), have found that most of the twelve smaller recessions between the Great Depression and the Great Recession also were preceded by declines in housing investment. Housing decline is a consistently superior indicator of both the duration and the depth of recession than declines in firms' fixed investments.

To accurately study the behaviour of the property market therefore means to keep an attentive eye on the possibility of more global economic turmoil. The first thing to be done in order to check if our framework is a good one for explaining the recent evolution of the property industry in Malaysia is to compare the dynamic of business confidence (as a measure of profit expectations) with some indicators from the industry itself.

Table 1: Property transactions (volume and value) in Malaysia – 1990-2016.

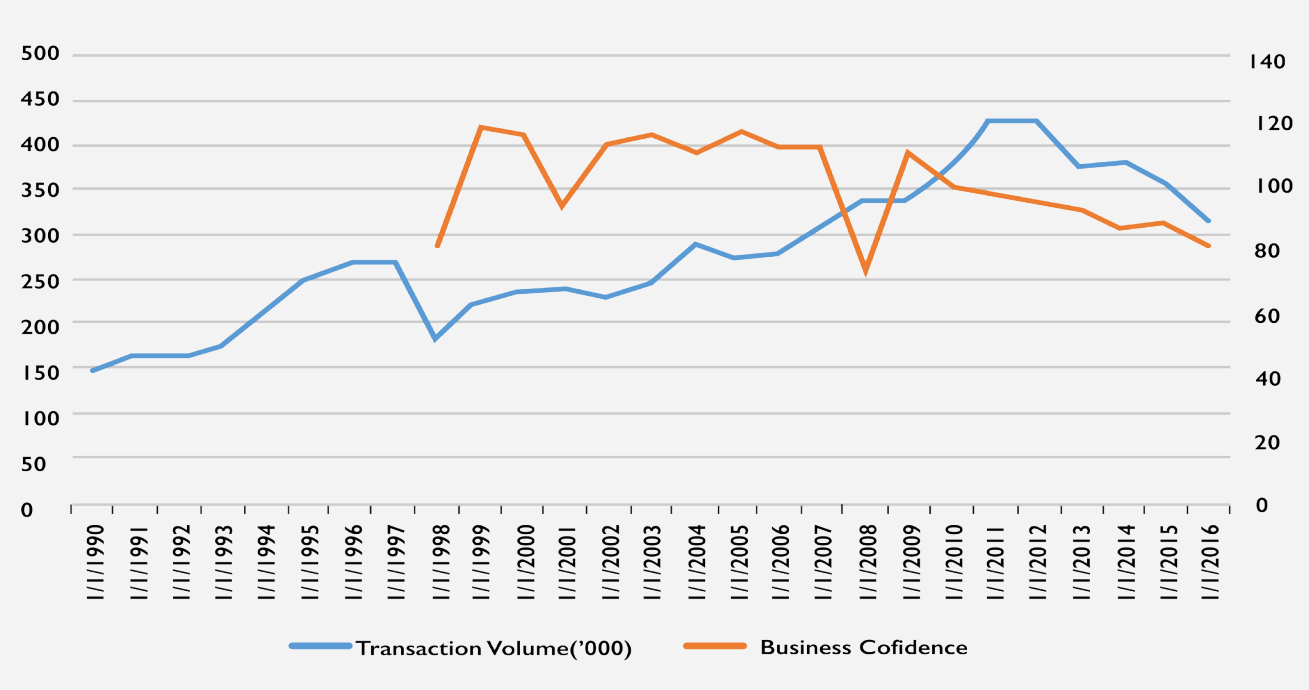
Property Transactions - Total					
Year	Volume('000)	Value(RM Bill)	Year	% Change (Volume)	% Change (Value)
31/12/1990	148.2	RM 15.16	31/12/1990		
31/12/1991	164	RM 17.32	31/12/1991	10.66%	14.25%
31/12/1992	168.27	RM 20.27	31/12/1992	2.60%	17.03%
31/12/1993	178.05	RM 22.44	31/12/1993	5.81%	10.71%
31/12/1994	217.54	RM 29.70	31/12/1994	22.18%	32.35%
31/12/1995	251.89	RM 39.85	31/12/1995	15.79.%	34.18%
31/12/1996	270.53	RM 48.99	31/12/1996	7.40%	22.94%
31/12/1997	274.75	RM 53.21	31/12/1997	1.56%	8.61%
31/12/1998	186.08	RM 27.90	31/12/1998	-32.27%	-47.57%
31/12/1999	225.89	RM 34.42	31/12/1999	21.39%	23.37%
31/12/2000	240.06	RM 41.31	31/12/2000	6.27%	20.02%
31/12/2001	242.63	RM 38.63	31/12/2001	1.07%	-5.49
31/12/2002	231.39	RM 38.64	31/12/2002	-4.63%	0.03%
31/12/2003	243.38	RM 43.43	31/12/2003	5.28%	12.40%
31/12/2004	293.21	RM 59.96	31/12/2004	20.47%	38.06%
31/12/2005	276.51	RM 56.78	31/12/2005	-5.70%	-5.30%
31/12/2006	283.9	RM 61.60	31/12/2006	2.67%	8.49%
31/12/2007	309.46	RM 77.14	31/12/2007	9.00%	25.23%
31/12/2008	340.24	RM 88.34	31/12/2008	9.95%	14.52%
31/12/2009	337.86	RM 81.00	31/12/2009	-0.70%	-8.31%
31/12/2010	376.59	RM107.44	31/12/2010	11.46%	32.64%
31/12/2011	430.4	RM 137.83	31/12/2011	14.29%	28.29%
31/12/2012	427.52	RM 142.84	31/12/2012	-0.67%	3.63%
31/12/2013	381.13	RM 152.37	31/12/2013	-10.85%	6.67%
31/12/2014	384.06	RM 162.97	31/12/2014	0.77%	6.96%
31/12/2015	362.11	RM 149.90	31/12/2015	-5.72%	-8.02%
31/12/2016	320.43	RM 145.41	31/12/2016	-11.51%	-3.00%

Table 2: Business Confidence Index – 1998-2016

Date	Business Confidence Index
31/3/1998	88.5
30/6/1998	79.1
30/9/1998	80
31/12/1998	80.5
31/3/1999	84
30/6/1999	101.6
30/9/1999	111.3
31/12/1999	117.7
31/3/2000	120.7
30/6/2000	121
30/9/2000	126
31/12/2000	115.6
31/3/2001	105.7
30/6/2001	96.2
30/9/2001	98.7
31/12/2001	93.8
31/3/2002	104.4
30/6/2002	109
30/9/2002	108.9
31/12/2002	112.8
31/3/2003	105.2
30/6/2003	106.9
30/9/2003	112.8
31/12/2003	115.5
31/3/2004	117.5
30/6/2004	112.4
30/9/2004	113.9
31/12/2004	109.3
31/3/2005	120.9
30/6/2005	109.8
30/9/2005	102.5
31/12/2005	116.1
31/3/2006	90.1
30/6/2006	104.2
30/9/2006	107.5
31/12/2006	110.9
31/3/2007	124.1
30/6/2007	115.9
30/9/2007	117.5
31/12/2007	110.7
31/3/2008	115.4
30/6/2008	70.6
30/9/2008	88.9
31/12/2008	71.4
31/3/2009	78.9
30/6/2009	105.8
30/9/2009	105.4
31/12/2009	109.6
31/3/2010	124
30/6/2010	119.6
30/9/2010	104.9
31/12/2010	99.5
31/3/2011	113.3
30/6/2011	114
30/9/2011	104.5
31/12/2011	96.6
31/3/2012	116.5
30/6/2012	111.5
30/9/2012	96
31/12/2012	94.1
31/3/2013	92.6
30/6/2013	114.2
30/9/2013	98.6
31/12/2013	92
31/3/2014	103.1
30/6/2014	113
30/9/2014	95.9
31/12/2014	86.4
31/3/2015	101
30/6/2015	95.4
30/9/2015	86.4
31/12/2015	87.1
31/3/2016	92.9
30/6/2016	106.4
30/9/2016	83.9
31/12/2016	81.2

The two dynamics are compared in the below graph.

Graph 1: Property Transaction Volume and Business Confidence Index

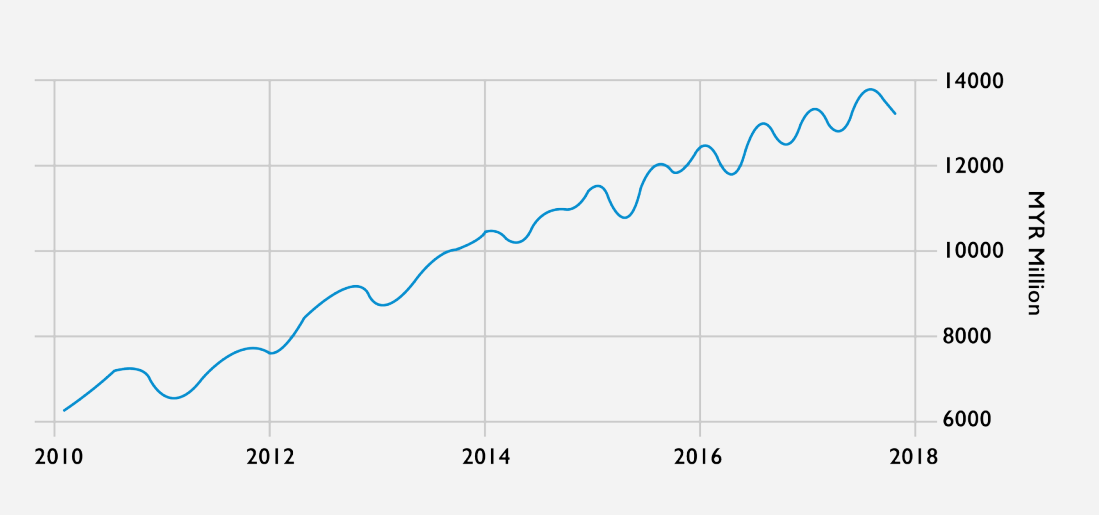


Source: elaborations on JPPH data.

The graph shows us that business confidence and property transactions are indeed related: the rising dynamic in property transactions after the Asian financial crisis (1997-1998) is linked with greater business confidence. There are two moments clearly identifiable as exceptions: we can see a sharp decline in business confidence in 2001 and 2008, not linked with the movements in the property market; but those years have to be considered special ones, as they are both linked with world level economic crises (the dotcom bubble in 2001 and the Great Recession in 2008). However, the property market also recorded a transaction decline during those years, as shown in table 1.

Thus, as expected, rising profit expectations played a role in generating an industry boom. A boom that seems to have reached its peak between 2011 and 2012, after which the number of transactions is steadily declining. In a way, as demonstrated in graph 1, the business confidence dynamics anticipated the inversion in the property cycle and the two lines are currently moving together. This is not only the proof that profit expectations actively moved investment into the housing market; the fact that in recent years their trends are more and more moving together demonstrates that the property dynamics came to play an increasing role in shaping the general business mood, due to its increasing influence on the Malaysian economy. As reported by the Malaysian department of statistics, in fact, between 2010 and 2015 the construction sector output grew with a compound annual growth rate of 14.3 per cent. In line with the rapid growth in gross output, the value of intermediate input also increased by RM55.4 billion to record RM114.8 billion with compound annual growth rate of 14.1 per cent, thus resulting in a value added of RM63.2 billion in 2015. In 2015, the civil engineering sub-sector contributed the most to gross output of the construction sector with a share of 27.0 per cent (RM48.1 billion) as compared to 27.2 per cent (RM24.9 billion) in 2010. This was followed by the construction of non-residential buildings which recorded RM46.1 billion of gross output as compared to RM27.0 billion in 2010. In the graph below we show the growing incidence of the construction sector on the Malaysian economy.

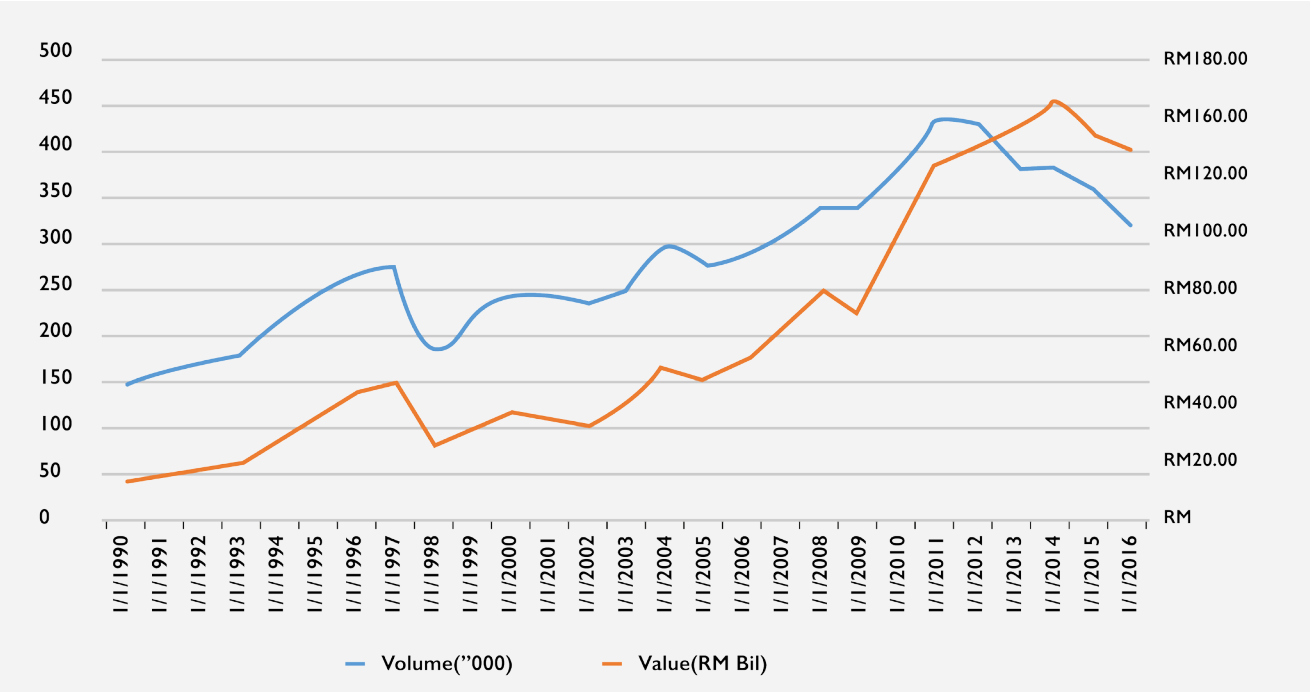
Graph 2: Malaysia GDP from construction.



Source: Tradingeconomics.com | Department of Statistics, Malaysia

Coming back to the housing market, we have observed that from 2012-2013 the number of transactions is declining. Since 2015, moreover, the decline is visible also in the value of the transactions and not only in the volume. Such a decline in the volume and value of the property transactions is sharper for the residential units, when compared to the total transactions (see Table 3). The trend is confirmed in 2017: according to preliminary data, in the first half of the year the number of residential transactions declined by 7% (JPPH, 2017, p. 6), while the global decline of transactions was 6%, with an increase in volume of 5% (JPPH, 2017, p. 4).

Graph 3: Property transactions in Malaysia, Volume and Value – 1990-2016



Source: Elaborations on JPPH data.

Table 3: Total and residential transactions in Malaysia, percentage of change – 2001-2016.

	Residential	Residential	Total	Total
Year	% Change (Volume)	% Change (Value)	% Change (Volume)	% Change (Value)
31/12/2001				
31/12/2002	-7.91%	-4.79%	-4.63%	0.02%
31/12/2003	1.51%	8.87%	5.18%	12.40%
31/12/2004	18.53%	27.31%	20.48%	38.05%
31/12/2005	-6.90%	-3.03%	-5.70%	-5.31%
31/12/2006	0.44%	3.66%	2.67%	8.48%
31/12/2007	9.27%	23.92%	9.00%	25.23%
31/12/2008	8.63%	13.19%	9.95%	14.52%
31/12/2009	-2.33%	1.32%	-0.63%	-8.29%
31/12/2010	7.19%	21.04%	11.39%	32.62%
31/12/2011	18.92%	22.07%	14.28%	28.28%
31/12/2012	1.07%	9.59%	-0.67%	3.64%
31/12/2013	-9.70%	6.34%	-10.85%	6.67%
31/12/2014	0.42%	13.88%	0.77%	6.96%
31/12/2015	-4.56%	-10.47%	-5.72%	-8.02%
31/12/2016	-13.94%	-10.75%	-11.51%	-3.00%

Source: Elaborations on JPPH data.

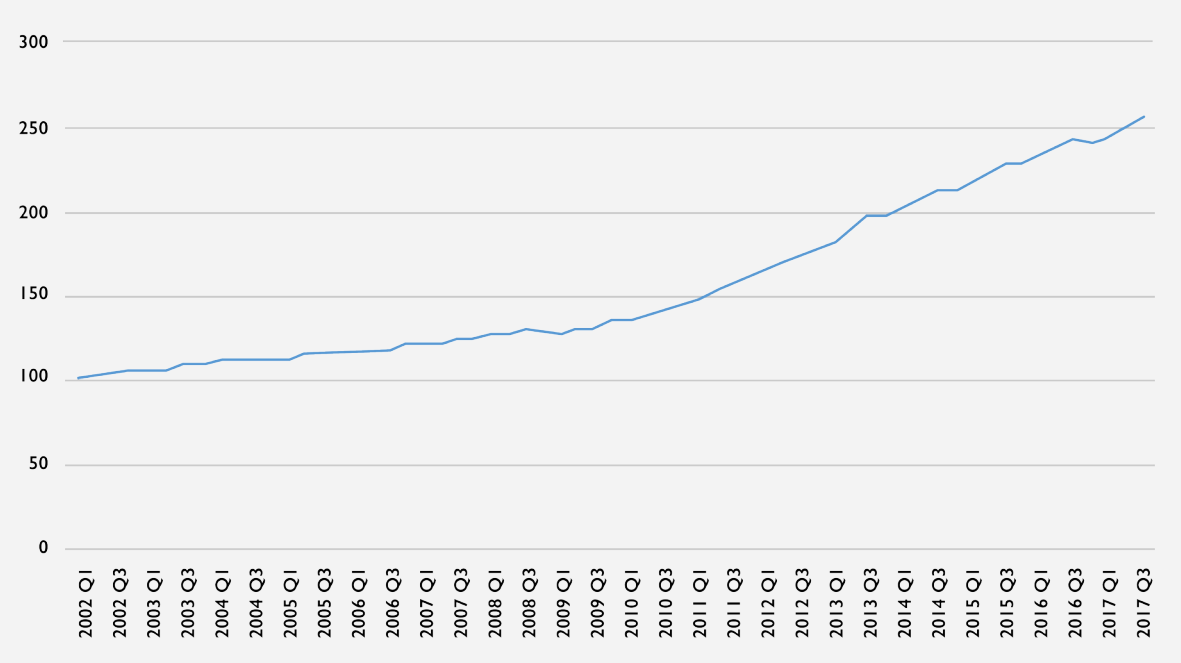
Now that we have confirmed the role of profit expectations in generating the boom in the property sector, together with the rising influence of the housing market on the global Malaysian economy and therefore its increasing role in shaping business mood, we shall analyse the price dynamics and the relationship with monetary policy.

Graph 4: Malaysia house price index – 2008-2016.

Source: Tradingeconomics.com | Department of Statistics, Malaysia

Graph 4 shows us that, as expected, the price dynamics are more 'hot' during the years in which the volume of transactions reaches its peak, between 2012 and 2014, while the recent dynamics seem to move toward stabilization. It has to be noted that graph 4 does not show that prices are decreasing: what is shown is the annual variation of the price index and therefore we can observe that since 2014 prices continued to grow but at a slower pace and after 2016 such a pace is constantly oscillating around 5%. The house price peak in 2013 is confirmed by the econometric elaborations in Yip, Woo et al. (2017) and Yip, Choong et al. (2017). What we have said can be shown in graph 5 below: prices are still growing but at a slower pace.

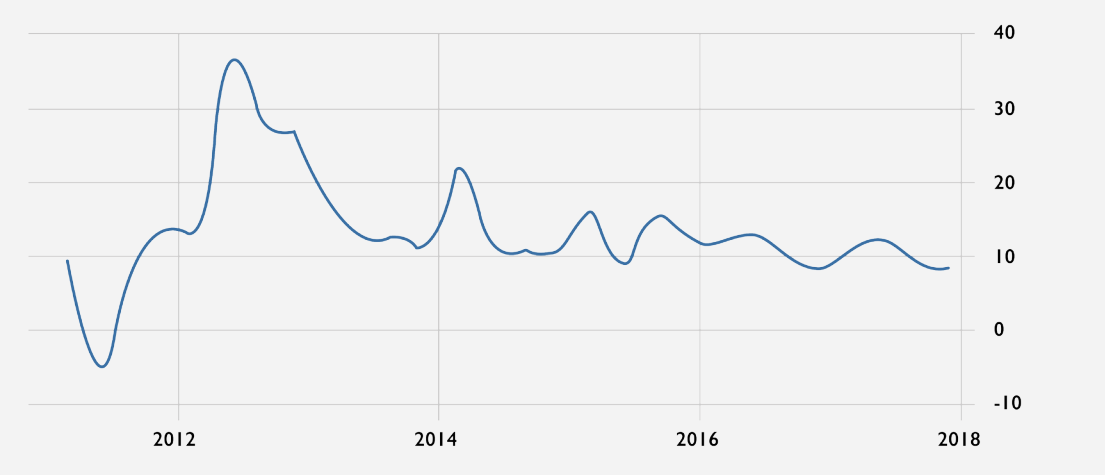
Graph 5: Malaysia house price index – 2002-2017.



Source: Elaborations from Tradingeconomics.com.

It is normal to observe a time lag between the movements in the real sector and in the monetary one. The sharp dynamics that we observe between 2008 and the end of 2013 reflect the strongest growth in property transactions that indeed, as we saw, reached its peak in 2012. The slower pace and the recent decline in property transactions is reflected in less heated price movements. Shouldn't we expect a price decline? Not immediately. In fact, even if the number of unsold units has reached a decade high (130,690 residential units, according to Bank Negara Malaysia, 2017, p. 27, in the first quarter of 2017, which rose to 146,497 units in the second quarter) and the market operators becoming more aware that the tide is turning, the number of ongoing and planned projects is still high. Graph 6 shows us the boom dynamic as reflected in the construction output (variation index): the pace of the growth is particularly significant in the first years of the boom and reached its peak between 2012 and 2013; from 2013 we observe, as for the price dynamics, a stabilization, with rates of growth constantly oscillating around 10%.

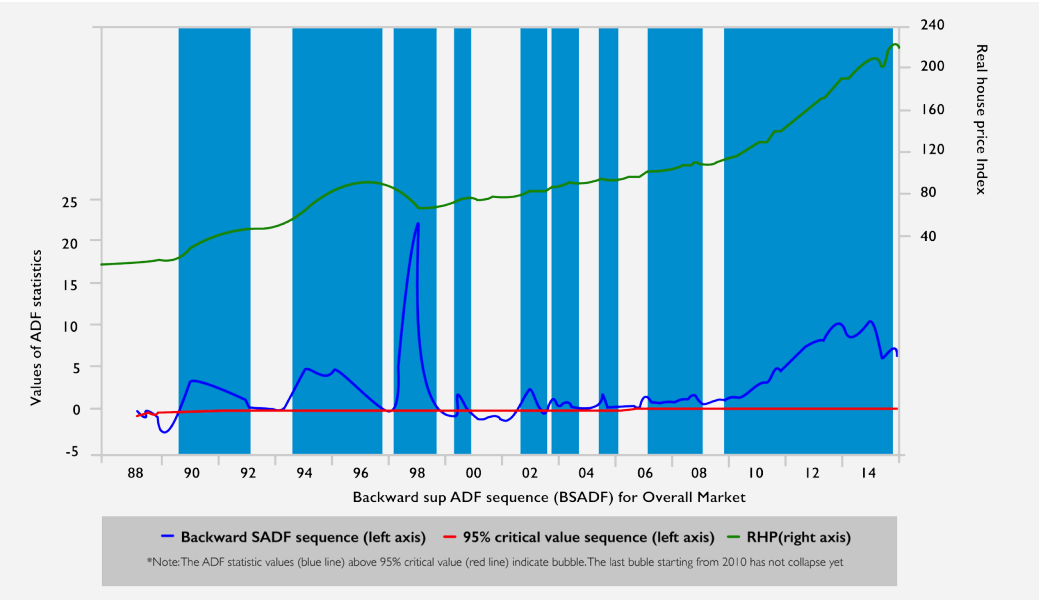
Graph 6: Malaysia construction output – 2008-2018.



Source: Tradingeconomics.com | Department of Statistics, Malaysia

The fact that construction activity is still going on and that a decline in the volume of transactions is still accompanied by a relative increase in value (selling less but selling better) are key factors in supporting still rising price dynamics. In fact, as observed by Yip, Choong et al. (2017, p. 249), statistical elaborations confirm the presence of a bubble, which has not collapsed yet.

Graph7: ADF and RHP indexes.



Source: Yip, Choong et al. (2017, p. 249).

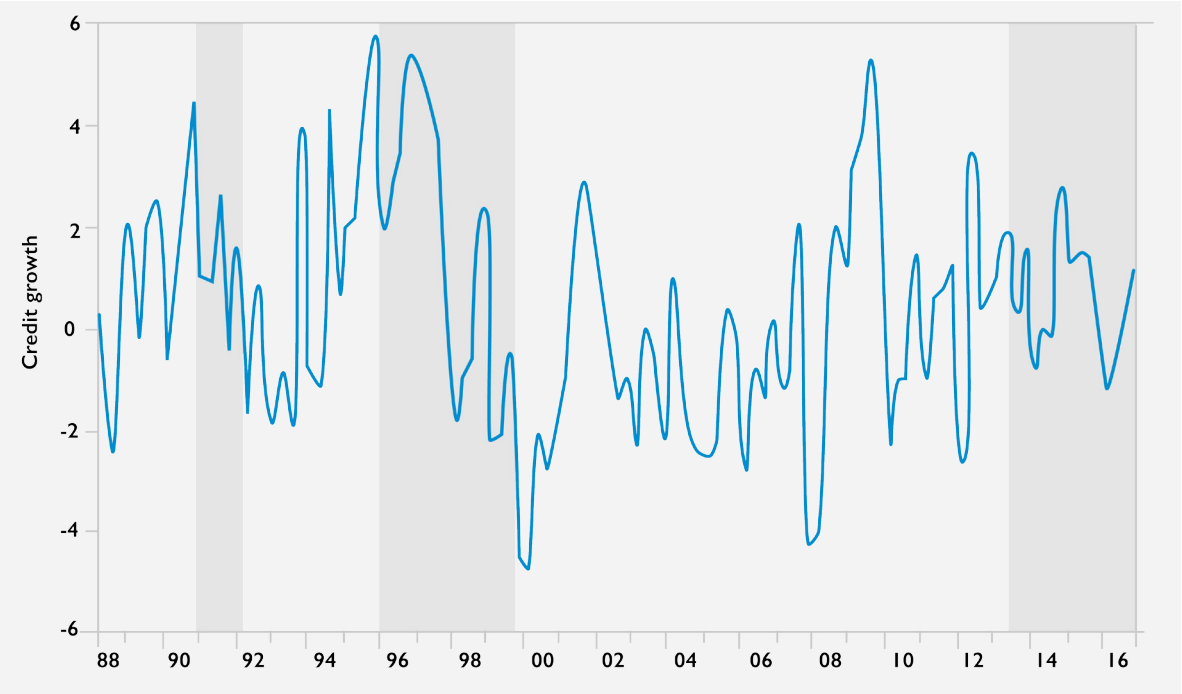
A more substantial price adjustment will happen only when the declining trend that seems to have been initiated deepens further, if the monetary players allow such a process to happen. In fact, as shown in graph 8, a declining lending rate, even if it cannot be considered as an element to generate a boom by itself, has played a role in supporting it and eventually prolonging it. Yip, Choong et al. (2017, p. 249) have found data suggesting a correlation between the lending rate and overconfident investor behaviour between 2007 and 2009. The years in which the sharpest declines in the bank lending rate happen are the ones following the outburst of the Great Recession, 2008-2009. Such downturns have influenced the business community, stimulating business sentiment and facilitating the emerging of positive profit expectations, which, in turn, favoured the appearance of the property market upswing.

Graph 8: Malaysia bank lending rate.

Source: Tradingeconomics.com | Department of Statistics, Malaysia

At the same time, a significant expansion of credit is found in the period between 2013Q2 and 2016Q4; Mohd Daud, Ahmad and Podivinsky (2017, pp. 112-113) identifify a credit boom of type 2 (intended as deviation from its standard) for the above mentioned period, which is indeed following the transaction peak and therefore playing a role in sustaining a further expansion of the industry.

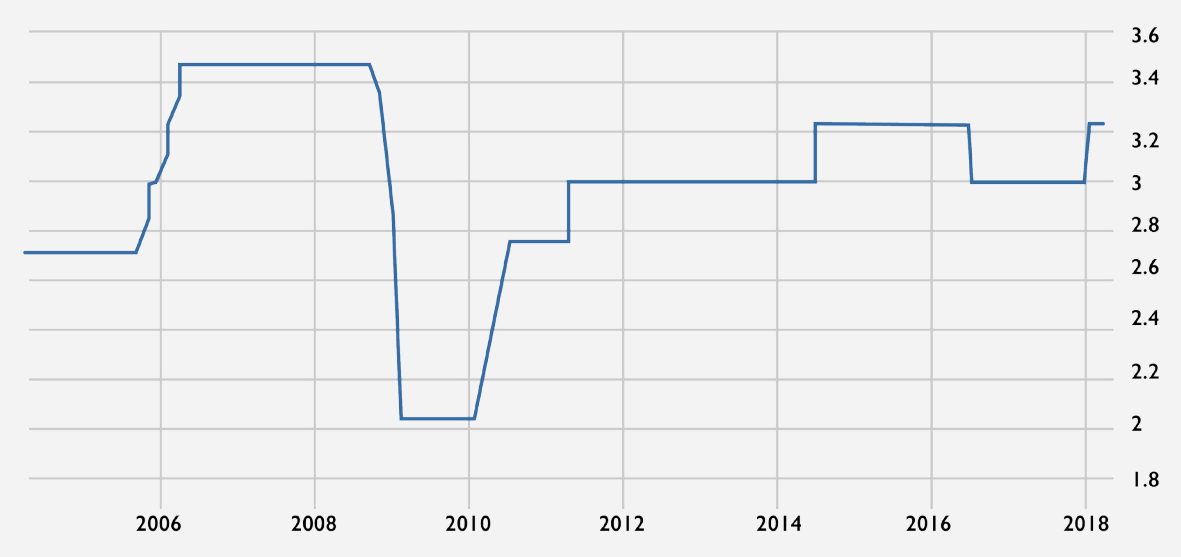
Graph 9: Credit growth and credit boom.



Source: Mohd Daud, Ahmad and Podivinsky (2017, p. 113).

Recently Bank Negara has raised the reference rate and some policy makers have suggested promoting an opposite movement in the lending rate referred to the property market, in order to support an industry which is about to face trouble.

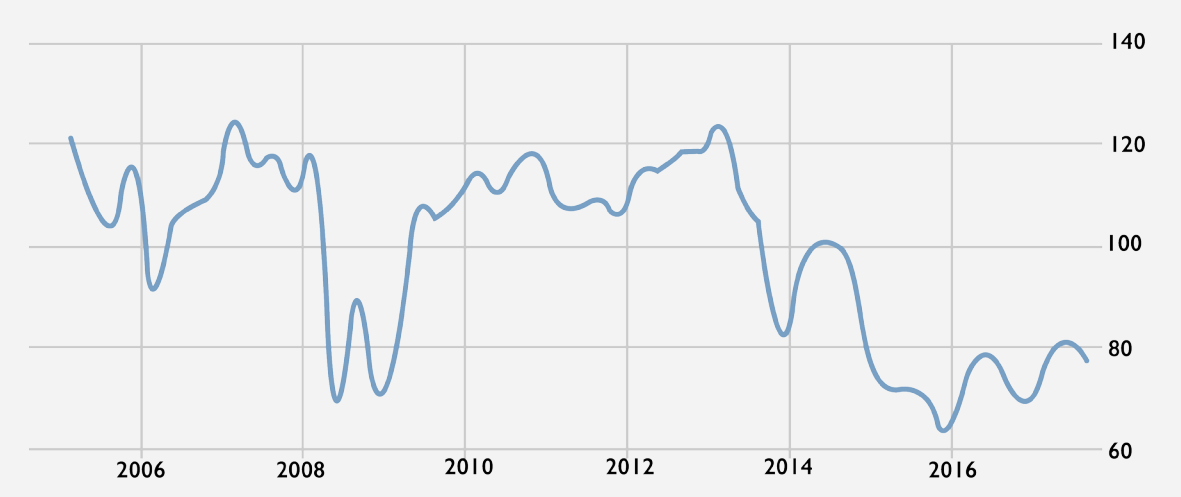
Graph 10: Malaysia interest rate.



Source: Tradingeconomics.com | Department of Statistics, Malaysia

We have to hope for the opposite. In fact, if we recognize that the property boom has reached its physiological peak, and is still expanding beyond the capacity for consumers to respond to such developments, thanks also to credit expansion, to further artificially support the market with a favourable lending policy would mean to impede the readjustment that seems not only unavoidable but also necessary for the production structure to get reshaped in order to meet consumer intentions. Moreover, the risk is not confined to the property sector. In fact, Malaysia is now listed by the Bank of International Settlements (BIS) as one of the top 15 countries with the highest household debt as percentage of GDP (Mohd Daud, Ahmad and Podivinsky 2017, p. 111). Malaysia household debt accounted for 84.3% of the country nominal GDP in December 2017, compared with the ratio of 88.3% in the previous year. The data reached an all-time high of 89.0% in December 2015 and a record low of 60.4% in December 2008. In 2012 property financing was already 41% of the total loans of the banking system (Yip, Woo et al. 2017, p. 133). This means that household debt constantly grew precisely during the housing boom period under observation. In fact, profit expectations that brought in the property boom, by favouring a positive economic cycle, improved consumer confidence, bringing additional spending, often financed by the credit bubble mentioned above. Again, from the graph below we can see how also consumer preferences started to deteriorate after the property boom reached its peak.

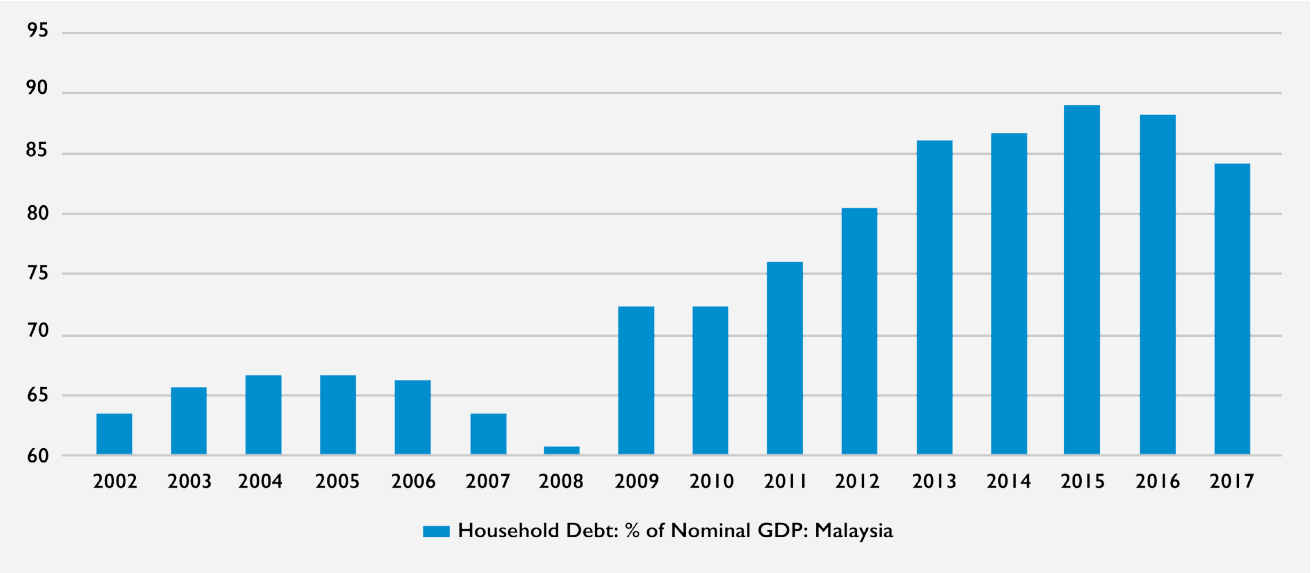
Graph 11: Malaysia consumer confidence.



Source: Tradingeconomics.com | Department of Statistics, Malaysia

The household debt dynamics, as a percentage of GDP, are shown in the graph below. Further support to credit would not only prolong the bubble beyond its physiological peak, but would also put at risk the overall economic stability of Malaysia, due to the high level of household financial exposure, as I already argued few years ago in Grant (2014).

Graph 12: Household debt as percentage of Malaysia nominal GDP.



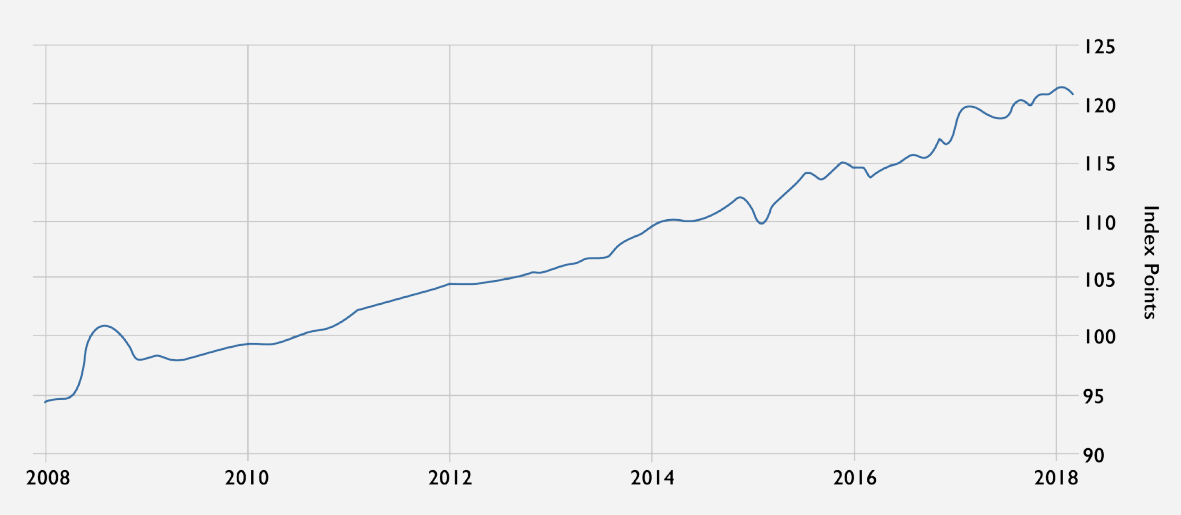
Source: www.CEICDATA.com | CEIC Generate

Let us try to summarize. The Malaysian property market, which started a constant expansion since the 1990s (see Mohd Daud, Ahmad and Podivinsky 2017, for a detailed analysis of the different cyclical moments), has experienced a boom after the Great Recession, a boom ignited by positive profit expectations and supported by a favourable lending policy. Such a boom did not simply bring in an increase in the construction output, but also rising price dynamics, and, as had to be expected, rising consumer confidence, which encouraged more consumption and a higher level of household debt. The industry expansion reached its peak in 2012-2013. Since then, the construction output has grown at a slower pace, transactions started to decline and the price index decelerated.

All these signals, which find their most significant synthesis in the number of unsold units, testify that the 'wind changed direction' and that the market started to experience a readjustment. Market observers are still reluctant to talk of a crisis, but a crisis does not necessarily take the shape of negative percentage changes. A slowdown is already the emergence of a crisis, which is more appropriately labelled as a 'readjustment process'. Such a process cannot happen overnight and it might take several years to be completed; indeed readjustment means a reshaping of the production structure, with resources that need to be deviated from certain implementations toward others; it is easy to understand that such dynamics are not straightforward. Capital resources cannot be simply moved away. Indeed, some capital combinations are simply wasted and their resources are destroyed.

It must not be forgotten that, as hinted in paragraph 2, during the boom demand for labour increases, moving relative wages upward: this in turn encourages demand for consumer goods and prices in this sector also to increase. The conflict between the demand for consumer goods and the production of investment goods seems to be evident when demand for consumer goods exceeds in terms of absolute value the funds available for investment. At this point, the interest rate cannot but rise, frustrating demand for capital goods precisely when their price has also risen; it is the moment in which the Malaysia property market is living now: Bank Negara has shown its will to tighten the monetary policy in the moment in which property prices are at their peak. Consumer and producer prices index are shown below. As explained by my model, consumer prices rise during the boom, while producer prices reach a peak after the boom has reached its apex, which means when the returns on previously started investment manifest themselves. However, such a peak is close to the inversion of the cycle.

Graph 13: Malaysia consumer price index.



Source: Tradingeconomics.com | Department of Statistics, Malaysia

Graph 14: Malaysia producer prices.

Source: Tradingeconomics.com | Department of Statistics, Malaysia

A considerable part of the newly installed plant designed to produce other capital goods will have to remain unused since the further investment required to complete new constructions might not be available. As a result, in an advanced stage of the boom, growth in demand for consumer goods brings down demand for capital goods. This is the direction in which the Malaysia property market is moving.

4. Disproportionalities in the Malaysian property market

In analysing the different segments of the property market in Malaysia, it is not easy to compare supply and demand, as we lack a true series about the price range of the supplied properties year by year, while more complete data are available for the demand side. In fact, we can take the transaction number as a good indicator to analyse the demand composition of the housing market.

Table 4: Property transactions by price range – 2007-2016.

Years/Price Range	2007	%	2008	%	2009	%	2010	%	2011	%
0-50,000	37,705	18.90%	41,414	19.11%	37,540	17.74%	40,542	17.87%	45,442	16.84%
50,001-100,000	49,140	24.63%	51,387	23.71%	50,601	23.91%	49,539	21.84%	55,147	20.44%
100,001-150,000	35,975	18.03%	40,364	18.63%	38,393	18.14%	39,360	17.35%	45,196	16.75%
150,001-200,000	28,727	14.40%	29,524	13.62%	27,804	13.14%	29,062	12.81%	35,064	13.00%
200,001-250,000	14,047	7.04%	16,287	7.52%	16,589	7.84%	17,850	7.87%	22,820	8.46%
250,001-500,000	24,227	12.15%	26,460	12.21%	28,604	13.51%	33,739	14.87%	44,215	16.39%
500,001-1,000,000	6,918	3.47%	7,612	3.51%	8,546	4.04%	11,605	5.12%	15,353	5.69%
1,000,001 & Above	2,742	1.37%	3,655	1.69%	3,576	1.69%	5,177	2.28%	6,552	2.43%
Total	199,481	100.00%	216,703	100.00%	211,653	100.00%	226,874	100.00%	269,789	100.00%
Years/Price Range	**2012**	**%**	**2013**	**%**	**2014**	**%**	**2015**	**%**	**2016**	**%**
0-50,000	44,962	16.49%	63,528	25.80%	51,140	20.68%	468,438	29.00%	53,426	26.31%
50,001-100,000	52,297	19.18%	59,717	24.25%	55,435	22.42%	55,241	23.41%	45,809	22.56%
100,001-150,000	41,441	15.20%	23,886	9.70%	24,240	9.80%	19,101	8.09%	16,720	8.23%
150,001-200,000	35,712	13.10%	22,123	8.98%	22,548	9.12%	17,960	7.61%	15,948	7.85%
200,001-250,000	22,258	8.16%	23,145	9.40%	26,524	10.73%	25,970	11.01%	23,960	11.80%
250,001-500,000	49,515	18.16%	21,969	8.92%	28,769	11.64%	14,755	6.25%	16,335	8.04%
500,001-1,000,000	18,792	6.89%	22,572	9.17%	27,802	11.24%	25,135	10.65%	23,112	11.38%
1,000,001 & Above	7,692	2.82%	9,285	3.77%	10,793	4.37%	9,367	3.97%	7,754	3.82%
Total	272,669	100.00%	246,225	100.00%	247,251	100.00%	235,967	100.00%	203,064	100.00%

Table 4 shows us how consumer preferences have evolved in the past decade. The first thing to be noted is the rising pace of transactions at both poles of the price ranges. Transactions below RM 50,000 have grown from 37,705 in 2007 to 53,426 in 2016, but the most interesting data is that they were 18.9% of the total in 2007 and reached 26.31% of the total in 2016 (29% in 2015), a growing relative incidence that accelerated in particular after 2013, which means after the peak of the property cycle was reached. The same trend can be observed for properties above RM 500,000: while they accounted for less than 5% of the transactions in 2007 (less than 10,000), they represented more than 15% of the total in 2016 (more than 30,000): from the demand side, therefore, high-end properties grew three times in volume and relative incidence, and such dynamics increased in their speed after 2013.

Given such a trend, it is not difficult to understand why the housing cycle was characterized by a growing number of investments in the high-end segment: the demand side showed higher profit opportunities there and it is logical for investors to move where profit opportunities are perceived. And indeed, as it is well known, developers in the past decade focused on high-end projects. However, the idea, common among political commentators, that affordable housing projects were disregarded, is not supported by the statistical evidence. According to data reported in Bank Negara Malaysia (2017, p. 27), between 2010 and 2015 (quarterly average data) 32% of the new launches were for units below RM 250,000, 38% for projects between RM 250,000 and RM 500,000, 22% between RM 500,000 and RM 1,000,000 and 8% above RM 1,000,000. In the period between 2016 and the first quarter of 2017 the same categories represented 21%, 50%, 25% and 5% of the new launches respectively. Yet, this does not mean to deny the emergence of a disproportionality from the supply side.

Before moving into such analysis, let us take a closer look at a potential justification for the supply segmentation by looking at the yearly variations for the transactions by price range.

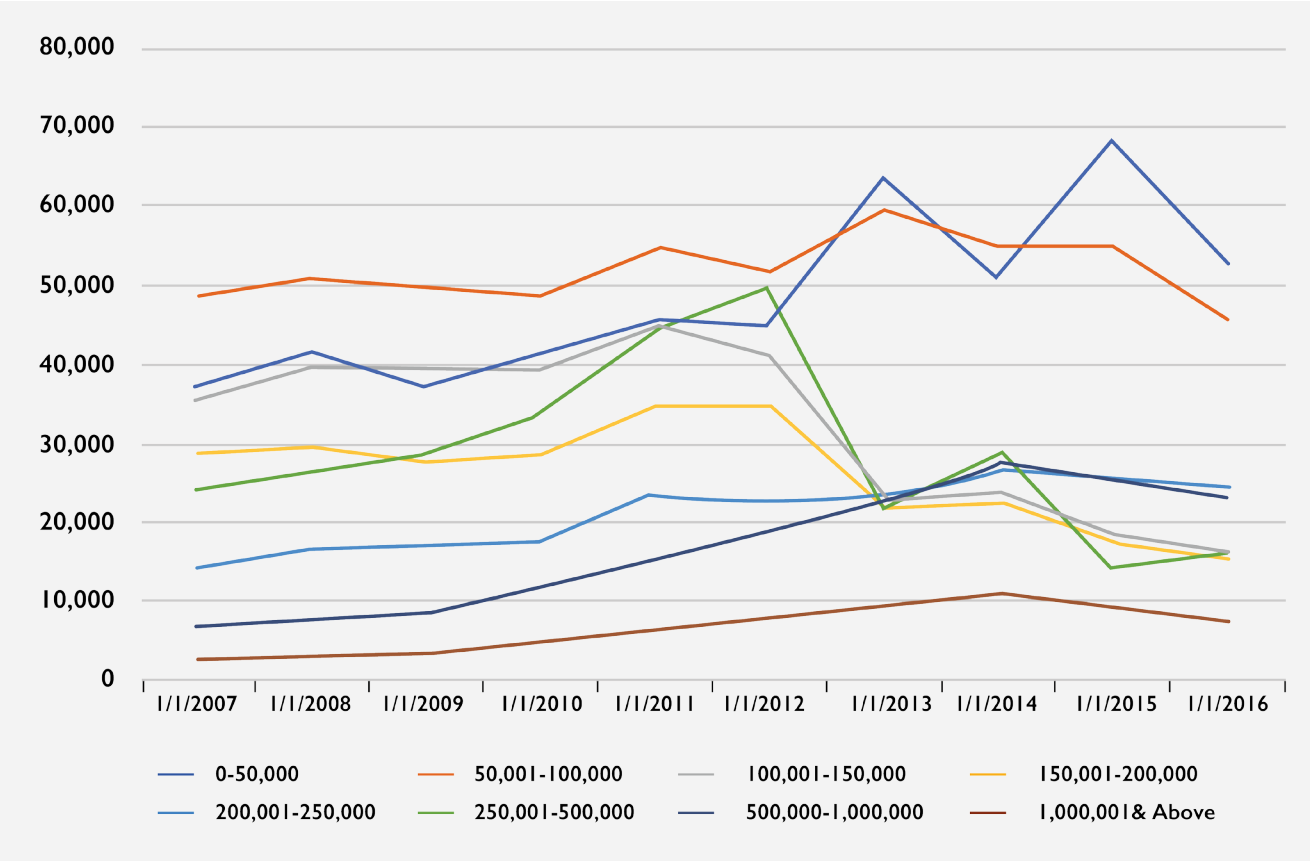
Table 5: Property transactions by price range, percentage of change – 2007-2016.

Years/Price Range	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011
0-50,000	0.00%	9.84%	-9.35%	8.00%	12.09%
50,001-100,000	0.00%	4.57%	-1.53%	-2.10%	11.32%
100,001-150,000	0.00%	12.20%	-4.88%	2.52%	14.83%
150,001-200,000	0.00%	2.77%	-5.83%	4.52%	20.65%
200,001-250,000	0.00%	15.95%	1.85%	7.60%	27.84%
250,001-500,000	0.00%	9.22%	8.10%	17.95%	31.05%
500,001-1,000,000	0.00%	10.03%	12.27%	35.79%	32.30%
1,000,001 & Above	0.00%	33.30%	-2.16%	44.77%	26.56%
Total	0.00%	8.63%	-2.33%	7.19%	18.92%
Years/Price Range	**31/12/2012**	**31/12/2013**	**31/12/2014**	**31/12/2015**	**31/12/2016**
0-50,000	-1.06%	41.29%	-19.50%	33.82%	-21.94%
50,001-100,000	-5.17%	14.19%	-7.17%	-0.35%	-17.07%
100,001-150,000	-8.31%	-42.36%	1.48%	-21.20%	-12.47%
150,001-200,000	1.85%	-38.05%	1.92%	-20.35%	-11.20%
200,001-250,000	-2.46%	3.99%	14.60%	-2.09%	-7.74%
250,001-500,000	11.99%	-55.63%	30.95%	-48.71%	10.71%
500,001-1,000,000	22.40%	20.11%	23.17%	-9.59%	-8.05%
1,000,001 & Above	17.40%	20.71%	16.24%	-13.21%	-17.22%
Total	1.07%	-9.70%	0.42%	-4.56%	-13.94%

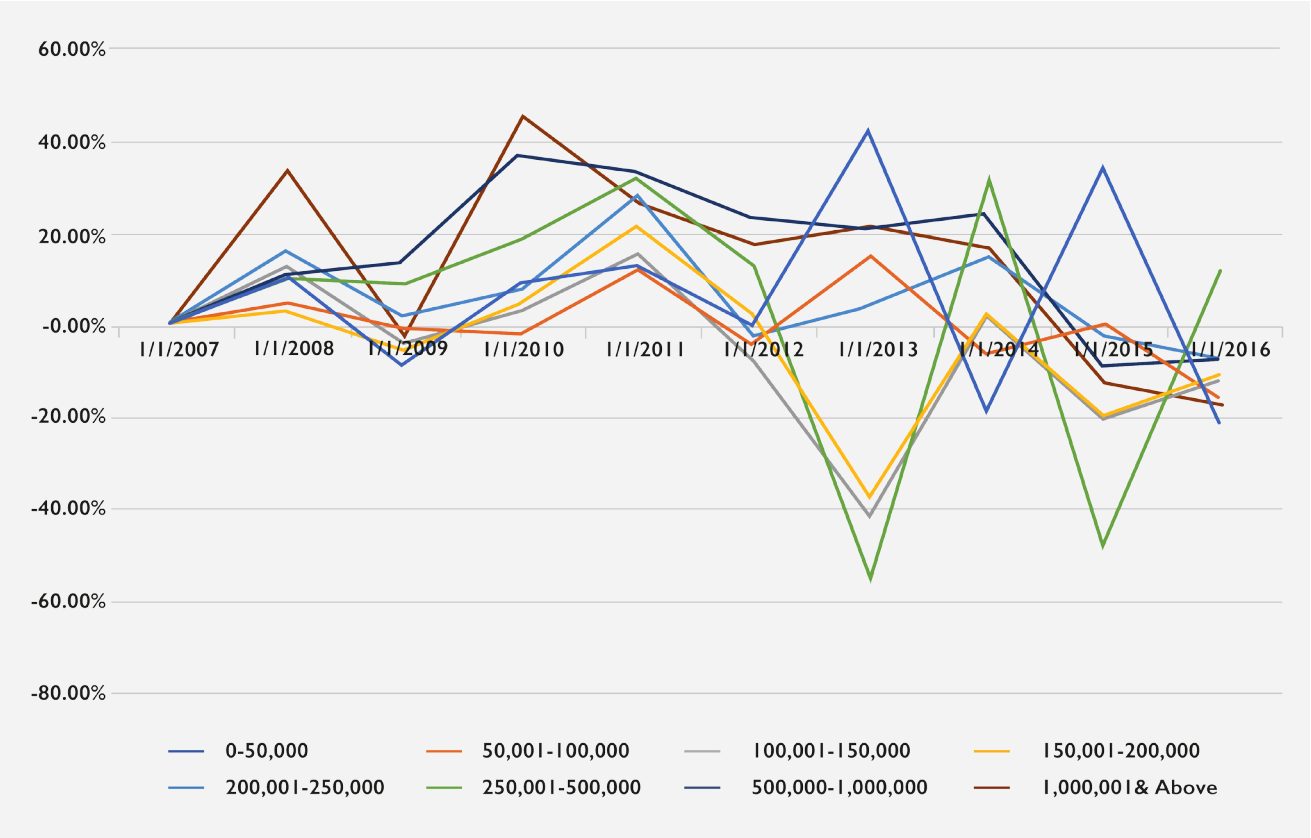
The table above shows us that, looking at the yearly variations for the transactions, it became clear for developers, at least until 2014, that the high-end sector was moving at a higher pace. It is true that the number of transactions was limited in value, but the growing pace was faster when compared with the middle range price segmentations. Even after the market started to downturn in 2014, the negative fluctuations for high-end properties were less severe when compared with the affordable units.

To summarize, between 2007 and 2016, we had an average of 47,857 transactions per year for units priced less than RM 50,000, with yearly fluctuations in volume that averaged 5.91%. We had an average of 53,167 transactions per year for units priced between RM 50,000 and RM 100,000, with yearly fluctuations in volume that averaged -0.37%. We had an average of 34,217 transactions per year for units priced between RM 100,000 and RM 150,000, with yearly fluctuations in volume that averaged -6.47%. We had an average of 27,614 transactions per year for units priced between RM 150,000 and RM 200,000, with yearly fluctuations in volume that averaged -4.86%. We had an average of 20,610 transactions per year for units priced between RM 200,000 and RM 250,000, with yearly fluctuations in volume that averaged 6.62%. We had an average of 30,250 transactions per year for units priced between RM 250,000 and RM 500,000, with yearly fluctuations in volume that averaged 1.74%. We had an average of 16,037 transactions per year for units priced between RM 500,000 and RM 1,000,000, with yearly fluctuations in volume that averaged 15.38%. We had an average of 6,538 transactions per year for units priced above RM 1,000,000, with yearly fluctuations in volume that averaged 14.04%. Again, such numbers testify that investor decisions to prefer the high-end segment were justified by the higher potential to be expected there and confirmed by the increasing number of transactions. This trend is confirmed by the fact that the standard deviation is higher for transactions above RM 500,000 (46% of the average for the segment RM 500,000-1,000,000 and 40% for the ones above 1,000,000), another proof is that the high-end sector was moving faster when compared to the other segments. A couple of graphs will help us to visualize the situation.

Graph 15: Transaction volume by price range – 2007-2016.



Graph 16: Transaction volume by price range, percentage of change – 2007-2016.



As previously mentioned, however, to find economic justification in the investment choices does not mean to deny the emergence of imbalances between supply and demand, which are typical of every business cycle (above I spoke, in example, of the forced saving phenomenon). We mentioned that between 2010 and 2015 (quarterly average data) 32% of the new launches were for units below RM 250,000, 38% for projects between RM 250,000 and RM 500,000, 22% between RM 500,000 and RM 1,000,000 and 8% above RM 1,000,000. In the period between 2016 and the first quarter of 2017 the same categories represented 21%, 50%, 25% and 5% of the new launches respectively. If we use the same time reference and price ranges, we find out that, from the demand side, for the period 2010-2015, 75.77% of the transactions involved properties priced below RM 250,000, 12.87% priced between RM 250,000 and RM 500,000, 8.09% between RM 500,000 and RM 1,000,000 and 3.26% above 1,000,000. The same percentages in 2016 were 76.76%, 8.04%, 11.38% and 3.82%.

Table 6: Transactions and new launches by price range – 2010-2015.

Price Range	Transactions 2010-2015	New Launches 2010-2015	Transactions 2016	New Launches 2016-2017Q1	Unsold Units as per 2017Q1 (total 130,690)
< RM 250,000	75.77%	32%	76.76%	21%	17%
RM 250,001 – RM 500,000	12.87%	38%	8.04%	50%	33.9%
RM 500,001 – RM 1,000,000	8.09%	22%	11.38%	25%	35.3%
> RM 1,000,000	3.26%	8%	3.82%	5%	13.8%

The table above shows us that the real imbalance is not really on the excess of luxury property, even if the supplied amount is above the one requested by the market. The analysis gets even more complicated when we look at the unsold units. Surprisingly, we still find unsold units priced below RM 250,000, even if it seems that the new launches, in percentage of the total, have been very limited for that price range. Of course, when we talk about unsold units, we refer to accumulated stocks and not only to the most recent launches; moreover, a low percentage of the total does not necessarily mean low value in absolute terms. The analysis has to keep this into account. But there is more to be added: if it is true that most of the transactions, between 2010 and 2016, regarded units priced below RM 250,000 (around 1,300,000 transactions), but it is also true that we still have around 22,000 unsold units in that segment (17% of 130,690), then it was not an unwise choice for investors not to move to that price range, as the previous existing stock (and the eventual government or government linked supply – as we shall see soon) was able to satisfy the demand (as per transactions number) and yet we have unsold units. The past stock was therefore enough to face the increasing demand and if the new launches would have been more than 32 and 21% we would now face the existence of a higher percentage of unsold units for this price segment. Su Ling and Almeida (2016, p. 94), estimated a total 178,900 units launched below RM 250,000 between 2008 and 2014; this means that in the past decade we had over 1,000,000 transactions below RM 250,000 concerning a pre-existing stock or government supply; and, again, we still have around 22,000 unsold units in the segment.

For the same period (2008-2014), Su Ling and Almeida (2016, p. 94) estimated 151,400 launches between RM 250,000 and RM 500,000 and around 100,000 above RM 500,000. Presently we have 44,303 units unsold for the first price range, 46,133 between RM 500,000 and RM 1,000,000 and 18,000 priced above RM 1,000,000. Where it really seems that investors have over-exceeded in building is for the units between RM 250,000 and RM 1,000,000, further proving what we have argued about the polarization of the market. While for the units priced below RM 250,000 we had very few launches when compared with the transactions, but the number of unsold units testify that the existing stock or the government supply were able to provide what was requested, for the price range between RM 250,000 and RM 1,000,000 the supply had moved consistently with the demand (again, a high percentage of unsold unit does not necessarily mean a high absolute number). Unluckily, data from Su Ling and Almeida (2016) stop at 2014, but they allow us a small comparison.

Table 7: Transactions and new launches by price range – 2008-2014.

Year/Price Range	< RM 250,000 Transactions	< RM 250,000 New Launches (yearly average)	RM 250,000 – RM 500,000 Transactions	RM 250,000 – RM 500,000 New Launches	> RM 500,000 Transactions	> RM 500,000 New Launches
2008	178,976	178,976	26,460	11,300	11,267	4,900
2009	179,927	179,927	28,604	11,300	12,122	4,900
2010	176,353	176,353	33,739	19,000	16,782	11,000
2011	203,669	203,669	44,215	19,000	21,905	11,000
2012	196,670	196,670	49,515	30,200	26,484	23,600
2013	192,339	192,339	21,969	30,200	31,857	23,600
2014	179,887	179,887	28,769	30,200	38,595	23,600

Source: Su Ling and Almeida (2016).

The table above confirms that the increasing number of new launches into the segments above RM 250,000 was justified by the demand trend; we can even observe that the number of transactions for those segments constantly outnumbered the relative new launches. On the other end, it seems private investors disregarded new launches priced below RM 250,000. Why? I believe it is possible to identify two reasons, an endogenous and an exogenous one.

First of all, the endogenous reason. Every boom starts in a particular sector and its consequences can spread to the general economic system according to the degree of importance of that sector and to the intensity of the boom itself. If increasing profit expectations emerged in the property market with reference to the more priced segments, the boom developed in that particular segment. But, as we have seen, after the first wave of investments begins, then other entrepreneurs follow ('no one wants to be left out'), and after them still others in increasing number, in a path of growth which becomes progressively smoothed for successors by accumulating experience and vanishing obstacles (Schumpeter 1964, pp. 133-134).

It is also not surprising that with the increased amount of investment in a peculiar segment of the market we observe a growing number of unsuccessful initiatives (i.e. unsold units): new products enter the market too quickly to be absorbed smoothly. As soon as entrepreneurial impetus loses steam, and credit policy tightens, the system embarks on a struggle towards a new equilibrium, and such a struggle is what we call 'crisis'.

I believe that there is also an exogenous element that kept investors away from the market for affordable housing, or anyway from building units priced below than RM 250,000: the high degree of institutional involvement with that market segment. Such involvement is not simply crowding out private investments, but also impeding the production structure readapting itself to the new market conditions. It is true that more and more investors have been attracted, during the boom, by profit opportunities into the high-end segment; however, when realizing that the sector was going to be saturated (as testified by the increasing number of unsold units), entrepreneurs, following their 'animal spirits', might have decided to move toward the market segment that was now going to offer more secure profit opportunities, the affordable housing market, a market which became more vibrant also thanks to the housing boom and the general income growth that such boom contributed to. If this process had happened, we might have observed, most likely, a faster abandonment of high-end projects and a rising number of affordable housing opportunities, able to gradually rebalance demand and supply in the market. It has to be noted that even such equilibration process would had taken time and brought along some business failures, but the readjustment might have started in advance.

The point here is that the high involvement of government agencies in the affordable housing market discouraged private initiatives and halted the gradual readjustment process. Such a situation is recognized by the property developers (Lim 2017); the more private developers will move into that market, narrowing the gap between supply and demand, the more government initiative can become a threat: how can private developers compete with government action? Public authority involvement in the affordable housing market is heavy. By the end of 2017, government had completed 23% of the targeted 1.1 million units of affordable housing nationwide between 2013 and 2018.

My point here is similar to what Menon (2017, p. 10) observed with reference to the general case of Government-linked companies (GLCs) in Malaysia: GLCs in Malaysia are seen to have preferential access to government contracts and benefit from favourable government regulations. […] private firms may be reluctant to invest in sectors where GLCs are dominant because they perceive the playing field to be skewed against them. This suggests a negative relationship between the share of GLCs in a sector and the rate of investment by private firms.

Menon and Ng (2017) were able, for the first time, to prove this crowding out effect from a quantitative perspective. Their research found that GLC presence in general has a discernible negative impact on non-GLC investment in Malaysia (Menon 2017, p. 11). The study revealed that when GLCs account for a dominant share (60% or more) of revenues in an industry, investment by private firms in that industry is significantly negatively impacted.

Therefore, to conclude, at this moment, while private investors are gradually moving toward the affordable housing market, conscious that the gap between supply and demand is offering unexploited profit opportunities, such necessary readjustment of the production structures is slowed down by government initiative, and in the long run such initiatives might completely frustrate private profit expectations, aggravating the crisis. In fact, to move toward affordable housing is not only a way to reduce the gap between supply and demand, but for entrepreneurs it is primarily the best way to try to reduce the economic damage that the property crisis can bring along. If these players are crowded out, the crisis will be deeper, with heavier consequences.

5. Policy suggestions

As mentioned above, the property bubble consequences might extend to the general economic system, and it is therefore time to consider some policy suggestions that might be able to face the peculiar moment that is about to come. In particular, I will focus on four points: general management of the burst which is approaching, the affordable housing issue, the importance of improving financial literacy and the possibility to further open the market to foreign investors.

a. The property bubble and its burst

Over the past decades, the outburst of an economic crisis was always faced with a mix of monetary and fiscal policies, focused on monetary ease and fiscal stimuli. However, as the experience in the USA demonstrated with particular reference to the Great Recession (Gjerstad and Smith 2014, p. 279), traditional policies failed to properly address the problems faced after the housing bubble. First of all, in fact, monetary easing has to be recognized as one of the items that fuelled the bubble and therefore cannot be used as a potential remedy. This was true for the American case, characterized by the development of special financial instruments which increased the household risk, but it is also true for the Malaysian situation, as observed in the above analysis. Moreover, the high level of Malaysian household debt suggests a situation of balance sheet crisis, as the one analysed by Gjerstad and Smith (2014), where we find large inventories of homes on the market and the central bank might lose control over housing and mortgage markets having therefore limited ability to stimulate a recovery (p. 279). Government deficit spending might be ineffective for the same reason: Too many households […] are mired in negative equity, and the financial system stalls in the slow process of diverting income into debt reduction (p. 279).

While it will be difficult to manage the outburst of the crisis, it will be important to prepare the institutional ground in order to reduce the consequences from future boom and bust cycles and to manage the period which is separating the housing market from the bust. Gjerstad and Smith (2014, pp. 281-282) firstly suggested a restructuring of property rights to limit the consequences of financial imbalances between borrowers and lenders; one measure is to introduce stricter down-payment rules. The authors remind us of the tradition, backed by experience, according to which mortgage, property insurance, and property taxes should not exceed 30 percent of income. Moreover, whereas the loan originator compensation fee should be determined by the market, its time distribution must be geared to the time profile of borrower payments so that an originator cannot off-load the risk to a third-party lender; loan default must have consequences for the originator of the loan and induce due diligence in the originator's own self-interest» (p. 231).

Moreover, even if I am not keen in suggesting a higher level of government intervention, when taking into account exceptional situations, like a deep crisis, I agree with Gjerstad and Smith (2014, p. 283) when they suggest that in such cases public policy should target homeowners' negative equity. Gjerstad and Smith (2014, pp. 236-237) suggested to do for households what the Fed sought for the banks […], seeking to reboot homeowners' damaged balance sheets in an effort to arrest a prolonged deleveraging process and more quickly restore household demand to levels no longer dominated by negative home equity. Among bad options, this might be the one with the least damaging consequences.

From the fiscal perspective, it might be useful to follow what Irving and Herbert Fisher proposed regarding a shift from income to consumption tax (Gjerstad and Smith 2014, pp. 284-285). Applying this argument to the Malaysian case, as I argued in Ferlito (2014b), with specific reference to the introduction of GST in Malaysia, a tax reform shifting from an income tax toward a consumption tax might bring out positive effects. A consumption tax, which tends to shift consumer orientation to the future and favours saving, could be the best remedy for more sustainable long-term investments. This could further enrich Malaysia's economic system. Consumption tax should replace, or partially replace, the present income tax – not simply add to it. A simple sum of new taxes could dramatically frustrate economic activity. A shift of the fiscal burden from income to consumption, instead, could drive better quality growth. Following Fisher and Fisher's logic, business income would be taxed only once at the individual-household level and only insofar as it is consumed. Hence, all business taxes would be abolished (Gjerstad and Smith 2014, p. 285). This is not the direction taken by the new Malaysian government; however I need to stress that the good government aim of reducing the fiscal burden on the rakyat can be achieved in a different way, not simply by abolishing GST. On the contrary, a mix of GST and reduced income tax can be studied, in order to ensure a source of income for the government from one side and to orient consumer attitudes toward saving, so to support the re-building of monetary funds available for investment projects. Such a measure, moreover, would help to move the household debt outside the red zone in which is presently located.

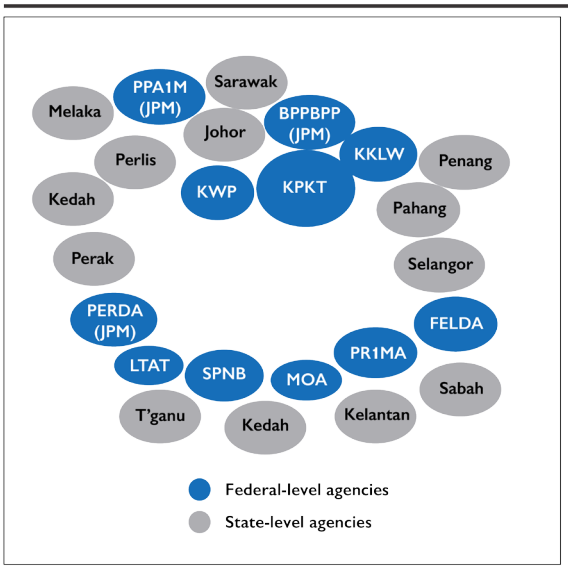
In the same direction goes the suggestion to remove tax- and transactions-cost barriers to the formation of new businesses (Gjerstad and Smith 2014, p. 245). This would help the economic system to seek its path toward a capital reorganization consistent with the new economic scenario, avoiding the blocking of resources into industries which do not offer profit opportunities.

From the government perspective, it would be important to work more on the importance of fiscal discipline. Uncertainty over how deficits will be financed creates regime uncertainty (Koppl 2014, p. 133). Fiscal discipline moves together with a path toward monetary stability and confidence that such stability will not suddenly evaporate (Koppl 2014, p. 135).

b. The affordable housing problem

On behalf of Bank Negara Malaysia, Su Ling, Almeida and Su Wei (2017, p. 21) argue that a single entity should be established to spearhead national affordable housing initiatives among the various Government and state agencies, and private players alike. Affordable housing provision is currently fragmented and uncoordinated nationwide. According to the authors, the fact that over 20 national and state-level agencies are involved in the provision of affordable housing (see table below) has led to a lack of policy coordination and brought out a slow progress in achieving the Government target of providing 1 million affordable homes by 2018.

Graph 17: Agencies providing affordable housing in Malaysia.



Notes

JPM	Jabatan Perdana Menteri
PPA1M	Perumahan Penjawat AWAM
KWP	Kementerian Wilayah Persekutuan
KPKT	Kementerian Kesejahteraan Bandar, Perumahan dan Kerajaan Tempatan
BPPBPP	Bahagian Penyelarasan Penyertaan Bumiputera Pulau Pinang
KKLW	Kementerian Kemajuan Luar Bandar dan Wilayah
PERDA	Lembaga Kemajuan Wilayah Pulau Pinang
LTAT	Lembaga Tabung Angkatan Tentera
SPNB	Syarikat Perumahan Negara Berhad
MOA	Kementerian Pertanian dan Industri Asas Tani Malaysia
PR1MA	Perumahan Rakyat 1Malaysia
FELDA	Lembaga Kemajuan Tanah Persekutuan

Source: Su Ling, Almeida and Su Wei (2017, p. 21).

The authors conclude that consolidation will improve efficiency in planning, implementation and execution. Such a solution, which might sound reasonable, fails to recognize the difficulties implied in central planning, which can be summarized in the calculation (Mises 1920) and knowledge problem (Hayek 1937, 1945). Prices are the objective synthesis of subjective evaluations and as such can be generated only in the market, as the place where interindividual interaction happens. Without the market, prices cannnot be generated and therefore it is impossible to have a sound means to compare revenues and costs and therefore to judge the success of an economic initiative.

Prices, therefore, are generated by information exchange and in turn contribute to convey information. But the information necessary to be generated is tacit, dispersed in individual minds and ever changing. Therefore, sound plans are possible only at individual level and in the market they can be revised according to the process of information exchange and economic calculation. A central authority would never be able to gather all the necessary information to implement a sound plan and moreover it would not be able to account for its ever changing nature.

What to do, thus, in front of a disproportionality between supply and demand in the sector of affordable housing? The best alternative would be for the government agencies to gradually step back from direct intervention in the market, allowing private capitals to move toward segments where unexploited profit opportunities are perceived. In this way, government would obtain the double good effect of attracting capital into an industry considered strategic and at the same time creating opportunities for capital reallocation that will help in absorbing the effect of the bubble bursting.

In addition, as a compromise solution, government could maintain an active role in promoting investment in the affordable housing sector by nudging. I have in mind in particular fiscal incentives for new affordable housing initiatives, which would further attract investors without altering market interaction and the working of the price mechanism. For example, it might be proposed a tax rate of 10% for ten years for profit generated by affordable housing projects, leaving to the government the definition of 'affordable housing' and at the same time attracting investors with the prospects of better profit opportunities thanks to a favourable fiscal regime.

c. Financial literacy

I agree, instead, with the fourth of the suggestions in Su Ling, Almeida and Su Wei (2017, p. 24), when they talk about enhancing financial literacy. The need of a higher degree of economic and financial understanding is testified by the high level of household debt, as observed above. Gjerstad and Smith (2010) have already demonstrated the correlation between household expenditure cycles and economic cycles; it becomes therefore very important to understand that household consumption behaviour can have dramatic consequences on the general economic system.

It is necessary for Malaysian consumers to increase their degree of prudence regarding their consumption behaviour, not only with reference to their housing strategy. In fact, not are only the expenditure cycles related with economic cycles, but a high degree of financial exposure can make a recession more painful for the same consumers who acted with over exposure. Every educational initiative would be welcome, both from government and consumer association sides. One of the key point to stress would be that owing a house is not a 'fundamental human right', but as an opportunity that can happen or not over the course of individual life.

The other key point regards the necessary basic understanding that saving is a virtue and only saving can lead, in the medium and long run, to a virtuous economic cycle. In fact, self-financed investment decisions can stand during a crisis and at the same time they require saving in order to be put into place. Moreover, saving represents the best form of intergenerational pact, whereas a generation is linked to the other via created, rather than consumed, resources. And created resources can be transformed into new opportunities.

d. Opening the market to foreigners

As it is well known, Malaysia, though being a business-friendly country, had developed over the years a restrictive policy with regard to the possibility of foreigners purchasing property in the country. In particular, in order for foreign individuals to own a property, they need to spend a minimum amount, which varies according to the State, as in the graph below.

Graph 18: Minimum threshold for foreign residential property purchase.

Source: *https://www.edgeprop.my/content/1045775/minimum-property-purchase-prices-foreign-buyers.*

Even if the reason behind such regulation is clear, it is also clear that, as a property crisis is approaching, to open the market to new potential buyers might help to ease the pain. However, recognizing the government concern about foreign entities moving toward an aggressive Malaysian 'shopping', my proposal goes in the direction of a critical opening of the market.

In fact, I suggest considering as 'local buyers' those foreigners who are in possession of a regular working visa (or similar, i.e. TalentCorp visa) for at least five years and that have regularly paid taxes in Malaysia during the same period. In this way the market would not be open to general speculators but to those individuals that can be considered as persons that decided to 'settle down' in Malaysia. Such a measure would move in the same direction as the TalentCorp program, which allows foreigners to be considered, for ten years, as local workers if they meet certain conditions. Similar requirements might be suggested in order to be considered 'local buyers'.

In this way government would obtain the double result of keeping away foreign speculators and at the same time opening the market to new potential buyers, helping the industry in a crucial moment of difficulty.

6. Concluding remarks

The present paper analysed the evolution of the property market in Malaysia over the past ten years in the light of the natural cycle analytical framework. It was observed how positive profit expectations ignited the boom, generating an important wave of investments and transactions in the housing industry. This wave was further propagated by credit expansion. It was observed that in 2012-2013 the expansion reached its peak and was followed by a period of stabilization, while recent indicator suggests that a tide inversion might be close.

At the same time, the emergence of imbalances in the property market was analysed. In fact, investors focused on high-end properties, leaving unexploited profit opportunities in the affordable housing segment, which is characterized by a high degree of involvement of government agencies.

Our analysis suggests that the coming crisis should be faced with the will of structural reforms aiming to redefine the credit market and to restore household balance sheets. Such reforms should be accompanied by a shift toward consumption taxes, rather than income taxes, fiscal discipline and monetary certainty, together with the removal of barriers for new business opportunities. The present study also suggests that opening the housing market to foreign investors might help to limit the crisis damages.

Regarding the affordable housing market, the paper argues that a gradual government step back could drive private initiatives toward an unexploited segment, achieving the double goal of increasing the number of available affordable housing solutions and helping private investors to restructure their capital structure at the light of the coming crisis.

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