

# **EXCESSIVE SPECULATION AND ITS REGULATION ON HOUSE PRICES: A MALAYSIA EXPERIENCE**

**NOR FAHIMAH MOHD RAZIF\*<sup>1</sup>, NOOR SAKINAH SAMSUL KAMAL, SHAMSIAH MOHAMAD, AND ASHRAF HASHIM**

Department of Fiqh and Usul Academy of Islamic Studies, University Malaya, Kuala Lumpur Malaysia  
International Shariah Academy for Islamic Finance (ISRA), Kuala Lumpur Malaysia  
International Centre for Education in Islamic Finance (INCEIF), Kuala Lumpur Malaysia

## *Abstract*

Speculation is ordinarily understood as a mean to purchase a good for a later resale, rather than for use. In other words, speculation is an act of selling a good, temporarily, with the intention of gaining profit from later re-purchase due to the price changes. Speculators play a very important role in the marketplace in term of adding liquidity and stabilizing the price fluctuation. However, speculators who partake in excessive speculation can resulted to destabilizing effect on the financial system. Excessive speculation that leads to zero-sum outcomes are prohibited in Islamic perspectives on finance and also condemned in conventional finance. Other than trades in derivatives, commodities, bonds, equities or currencies, speculator is also looking forward to make profit in potential real estate namely in residential housing market rather than commercial, industrial or agricultural. It is undeniable that speculation has its particular macroeconomic importance as it's contributes in smoothening a stagnant property market. However, speculation also creates an artificial market price trends that leads to the benchmarking of housing price. In fact, although housing is a key driver of business cycle but excessive speculation in property market were also the causes of financial crisis in 2008. Therefore, this article explores on how Government of Malaysia initiates to curb the excessive speculation by introducing a better policy of banking credit system/mortgage/housing loan, housing tax and provision of affordable housing for low and middle income class in particular.

*Keywords:* Excessive Speculation, Property, Islamic Finance, Housing Price

## **INTRODUCTION**

Housing is considered as one of basic needs of human being under the classification of “safety needs” as mentioned in the theory of Maslow’s Hierarchy of Needs (Saeednia, 2009). However, since 2012, the increase in house prices in Malaysia has outstripped the rise in income levels. Consequently, prevailing median house prices are beyond the reach of most Malaysians (Bank Negara Malaysia, 2015). This is primarily attributable to a gross mismatch between housing supply and demand amid diverging expectations between households and developers. The issue has been compounded by the fact that the distribution of new housing supply has been concentrated in the higher-priced categories. The undersupply of housing is particularly acute in the affordable housing segment. The provision of affordable homes has become a challenge for policymakers worldwide, with Malaysia being no exception. It is a similar problem in the United States (US), United Kingdom (UK), Australia and New Zealand (Demographia International, 2015). The fact that the existence of speculators have further worsened the unaffordability situation (Abrams, 1964; Wong, 1998; Nathanson and Zwick, 2017). The Central Bank of Malaysia (Bank Negara) has classified house prices in several cities in Malaysia as “severely and moderately unaffordable” in regards to the increase of house price which does not coincide with the average of household income.

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<sup>1</sup> \* Corresponding author: Nor Fahimah Mohd Razif  
norfahimah@um.edu.my

Among the basic necessities of decent living, shelter ranks only next to food and clothing. In Islam, even though the fulfillment of basic needs, including housing is the individual's own responsibility, government should intervene when deficiency is acute (Hasan, 1997). The government therefore, should take proper initiative to provide affordable housing through internal management and also by supporting other institutions like banks. Islamic financial institutions also have a big role to play towards mitigating the issue.

The paper is organised as follows. The first part of this paper consists of the method of the study. The second part of the paper involves some of the opinions about speculation, the types of speculation in residential property market. The third part discuss an analysis of the speculation in residential property market from the point of view of the objectives of Shariah. Finally, conclusions are drawn in final section.

## **METHODOLOGY**

This study takes a qualitative approach by using documentation and interview methods for data collection purposes. The method of documentation is done by referring to the previous study of the concept of speculation according to the Western and Islamic Scholars. Other than that, semi-structural deep interview methodology is used to obtain information directly from informants to get information on speculative activities and government efforts to curb speculation. This method is used as it is flexible, the language used in the interview questions can be aligned with respondent's language capabilities and this situation allows respondents to elaborate more information (Fontana and Frey, 1998). Researchers also have the freedom to question and explore more deeply the answers expressed by the respondents (Rasid and Raman 2012; Piergiorgio, 2003). For this purpose, the author interviewed informants from various field of expertise such as academicians involved in real estate in Malaysia, officials in the government sector such as officers in the Valuation and Property Services Department, Johor Housing & Real Estate Board, officers from the legal firm that manages real estate transactions as well as developer and also economist who provide economic view on property market.

The data obtained were analyzed based on the type of data either primary data or secondary data. Secondary data were analyzed using the content analysis method. While, the primary data, which is the data from the interview, were analyzed through a six process steps which are called the thematic analysis. Thematic analysis is a method that is often used to analyze data in primary qualitative research (Thomas and Harden; Neuman, 2006; Cook and Reichardt, 1979). The first step is, all recordings are transcribed into a written form so they can be studied in detail. Second, each data will be presented in the form of themes that are relevant to this study. Third, data encoding is used to analyze data that has been transcribed from an interview and will then be encoded according to the predetermined theme. Fourth, compile the data in a table where in this process the coded data will be analyzed using the analysis table. Fifth, identify issues through theme creation, and design patterns. An issue can be identified through themes found in an interview transcript. Finally, the researcher will make a report from the case study to answer the questions of the study.

## **CONCEPT OF SPECULATION**

### **Definition of Speculation**

Kaldor (1939), Emery (1969), Friedman (1987), Pearce (1992), and Szado (2011), define speculation as the practice of purchasing of any property, commodity or security with the motive of merely to resale at later time in short holding to obtain a quick profit or capital gain by anticipating the price change (short term gain) by high risk-taking from the financial trading, possibly without the adequate research. It also focuses on attaining profit solely from price fluctuation as an income and capital gain, but not the fundamental value of securities and dividend. It involves uncertainties and risk of possession upon luck or chance in order to gain future profit (Emery, 1969). Risk is a key element in speculation as the expectation of risk itself is namely as speculation. Expectation of fluctuation value is important to realize gain (Wong, 1998). Most of the definitions of speculation have to do with the assumption of risk in the process of taking advantage in price difference upon buying and selling of an asset

(Rafikov and Saiti, 2017). It takes a greater risk to ensure a greater return. Therefore, the authors, after studying several sources, have come up with own definition of speculation, which is an act of buying and selling back an asset in market with the objective to gain profit in a short period of time which involve high risk. Thus, there are eight component of the underlying of speculation definition which is prediction, with or without analysis, buying and selling back of asset, objective to gain profit, short period and high risk.

## SPECULATION IN MALAYSIAN RESIDENTIAL PROPERTY MARKET

### Overview of Residential Property Market

The real estate market, like any other commodity market is heterogeneous; it is a multi-commodity, multi-competitor market. The real estate market is segmented by certain criteria, such as the types of product and geographic area (Hamid, 2012). Although the Malaysian real estate market is rather a liberalized market, it is still governed by various national legislations that control the property industries. There are three (3) key players in the property market, namely investors, speculators, and homeowners. Investors purchase property in hopes of generating financial returns and they look into rental yields as well as capital appreciation. Speculators are those who enter the market for a short span, expecting to make huge capital profits. Lastly, homeowner refers to those who purchase properties for their own dwelling.

According to the statistics published by National Property Information Centre (NAPIC) in prelude to the release of its Preliminary Property Market Brief 2017, the property market recorded 153,729 transactions worth RM67.82 billion, a decrease of 6% in volume and increase 5% in value against 1H 2016. The residential sub sector continued to lead Malaysia’s property market, with 61.8% contribution in volume and 48.4% in value against the total transaction. The following charts illustrate the total transaction trend for the year 2013–2017 (Chart 1) as well as the key sub sectors’ market contribution in both volume and value in 1H 2017 (Chart 2 and 3).

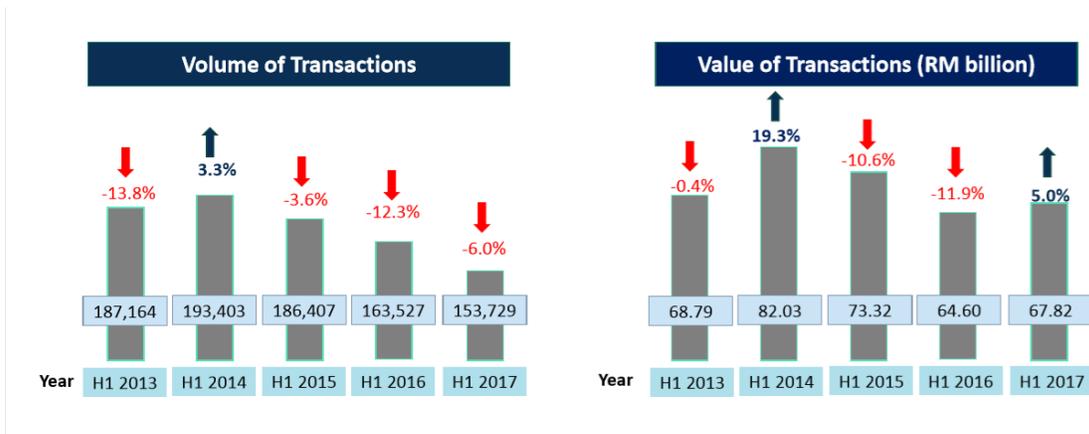


Chart 1: Malaysian Property Market Activity: Transaction Volume and Value

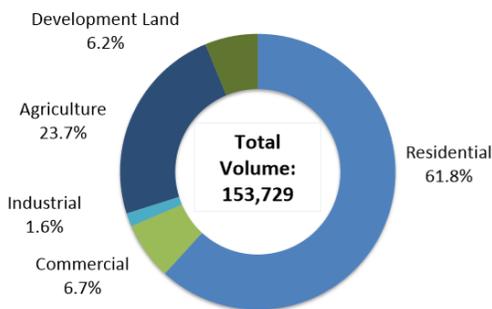


Chart 2: Property Market Activity by Sub-sector

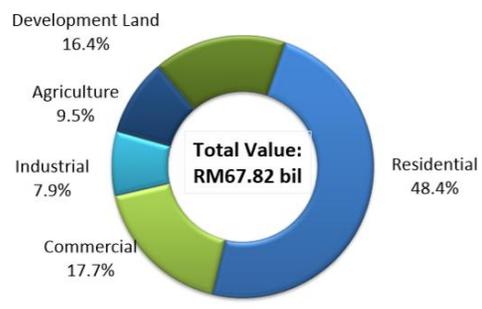


Chart 3: Property Market Value by Sub-sector

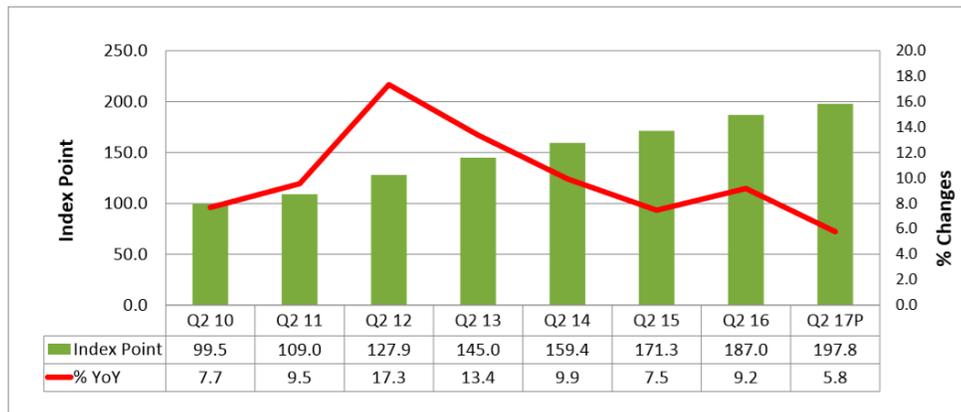


Chart 4: Malaysian Residential Market: High Rise Price Index

Over the recent years, there has been an ever-increasing price increment in the Malaysian property market. Recently we see Malaysian residential homes are experiencing a rise in prices as property values increase each year. Chart 4 shows The Malaysian House Price Index continued to increase at a moderating trend. Hence, as reported by Central Bank Of Malaysia (BNM), residential property prices in Kuala Lumpur and Penang have been considered "severely unaffordable" meanwhile, Johor and Selangor are "moderately unaffordable". This increase not only was due to demand and supply factors but also has been manipulated by speculators so that the market price increase jumped sharply without following fundamental economic factors. Fake and artificial demand created by speculators leads to uneven supply and demand in the property market. As a result, according to Chin (2013), the property price in Malaysia is on its all-time high, resulting in difficulties even for young home buyers and growing families to afford to own property, even more so for the low-income group.

There are many factors contributing much for continuing real estate prices escalation such as rising inflation, rising demand, rising material cost and land value. Among the factors of price increase that we want to emphasize here are factors of speculative activity. Many investors enter the property sector as an investment, not just buying a home to live. Looking at the subprime crisis that took place in the United States, in 2005, 28% of the purchase of residential homes was investment-intensive and 12% for vacation homes. But in 2006 it was reduced; 22% - investment and 14% - holiday. This shows that almost 40% of the purchase of housing is not for occupy. Investors began to leave the market in early 2006, causing investment sales to fall faster than the primary market. Traditionally, residential houses are not considered as investments such as stocks. However, such an attitude changes when a price boom is over on a residential property. Data show that 85% of condominium purchases in Miami are for investment purposes and most are sold for profit without having to stay (Zainal and Shukri, 2009).<sup>2</sup>

### Type of Speculation in Residential Property Market

Since the residential property has moved in little over a hundred years from a basic shelter to commodity traded, many people make it a platform for capital appreciation through investment and speculation. There are many factors why the property sector has become the attraction by investors and speculators; (1) Property prices are high compared to other investment units, (2) Property is an immovable property, this condition guarantees the property remains in the form of investment despite the inflation and economic recession, (3) The growing population in

<sup>2</sup> Zainal Abidin Hashim dan Mohd Shukri Noor, *Krisis Kewangan Global dan Pasaran Harta Tanah Kediaman : Perspektif Ekonomi Global*, Prosiding PERKIM IV, Jilid2, 2009, 24.

Malaysia which causes increasing demand, (4) National Housing Policy affects property investment, and (5) Increase in rental value and property capital value (Ismail Omar et. al., 2012).

As many economists have pointed out, the following type of behavior among market participants may be found to be directed in different ways for obtaining profits based on conducted investments: 1) Investor being a property owner, obtaining profits from the property as a result of using its capability to create regular income, 2) Investor being a property owner obtaining profits from the property as a result of property value appreciation, 3) Investor being a property owner using the property's qualities of high property desirability as mortgage protection when financing other types of activities, 4) Investor being the subject of investment realization on a property as part of the developer's activity principle, for whom property investments are a form of conducted economic activity, 5) Investor acquiring the property for speculative purposes, referring to the profits as a result of short term value increase in the investment subject. 6) Investor being a property owner uses the property's qualities where investment in the property fulfils the needs of the investor/user (Klimczak, 2010).

Based on the above notes, the conclusion may be formulated that the purchased properties may be treated as investments, if the purpose behind their purchase is to obtain economic profits in the long term. From that point of view, investment in property could be distinguished from speculation activities. Real estate is an area where the line between investment and speculation blurs. Buying property with the intention of renting it out would qualify as investing, but buying multiple condominiums with minimal down payments for the purpose of reselling them quickly at a profit would undoubtedly be regarded as speculation. We find that speculative practices occurred in the form of deliberate intention and behavioral actions. Speculation can be in form of flipping, property hoarding, and houses purchase in bulk by investor club (so that speculator could get discount for his purchase and re-sale them back at higher price) (Hasniyati, Arrifian, Rosly, 2017). While conspiracy between developer and speculator, false news about supply of house that nearly finished are intentionally spread to instill panic made by developer, valuer, real estate negotiator (REN), or broker can contribute much towards speculative practices. The rise in home prices to the unreasonable level led by professional syndicates involving speculators and their own housing developer. They gain profit through sales of pre-booked units to new buyers at higher prices. It was driven by the low entry costs with schemes such as developer interest bearing schemes, free stamp duty and legal fees, "Investors' Clubs" or "Millionaires Clubs" which are basically syndicated speculators incorporated by some ingenious individuals. They work in cahoot with developers, valuers and banks. Then, the "investors" will flip their purchases when the time is suitable (where the purchased house is transacted at inflated and not real market value prices) (Noorsidi, Samuel, Ibrahim, Razak, 2017).

Flipping activity in housing sector- the way they speculate- purchasing a unit of house – and before the Sale and Purchase agreement is being signed or before it is finalized or before the transfer of ownership from developer to the speculator takes place on the house grant, the speculator would find for a potential immediate buyer and sell with high price and it consumes only in several months. Sometimes, it can be settle before developer launch the project. This is the recent way that property speculators usually do. They are profiteering by the banking system that we have nowadays which allow speculative activity to happen as well as buying and selling system that held in Malaysia which is we must pay only 10% of down payment before purchasing the unit (Ariffian, Izzuddin, 2017). Investors who flip houses accomplish the same basic task that real estate agents accomplish. Specifically, the flipper investor buys real estate with the intention of immediately reselling for profit. As a flipper, he buys properties at substantially less than the going or retail rate. He acts as both principal and middleman, buying at one price, then reselling at a higher price. If a deal is marginal (with not much profit) and he adds no value to the property, the flipper's profit is commensurate to that of a real estate agent. Unlike an agent, however, the flipper may have only a few hours of his time tied up in the deal. Furthermore, the flipper's upside profit potential is much higher than an agent's commission, for an occasional bargain purchase can bring a tremendous return. The flipper does not need a license to practice, nor is he under the watchful eye of a government agency (Bronchick and Dahlstorm, 2006). Therefore, house flipping is an old real estate tactic that has been resurrected in the current financial crisis, with some tweaks. Typically, speculators push distressed homeowners into selling on the cheap and then immediately resell the house to someone who, quietly, has agreed to pay a higher price.

For individual and developers who speculate by buying or purchasing property in bulks, they must obtain prior approval from the Controller of Housing to make bulk sales of more than four units. Indeed, speculators are not breaking any laws, but a scrutiny on such bulk purchases is necessary as they could create fluctuation and inflate the property market. They also deprive ordinary house-buyers of equal opportunities. This shows that housing prices should be determined by demand and supply, not by unhealthy speculation.

## **FINDINGS AND DISCUSSION**

### **The Impacts of Speculation in Residential Property Market**

Real estate crisis is a global crisis. Housing problems are not just the developing countries, but the developed countries also receive the same fate and have yet to be resolved (Nabil, 2015). Malaysia is also involved in this crisis. In fact, according to Demographia's study, the property market in Malaysia is least affordable compared to countries like Singapore, Japan, the United States and others (Angie, 2015). According to the World Bank, apart from Japan, South Korea, Singapore and Taiwan, Malaysia is among the most populous nations behind them (Zulkipli, 2016). Examples of states in Malaysia experiencing the inability of home ownership are the major states of Selangor, Penang, Kuala Lumpur, Johor. The market value of real estate in those big cities increased by 20% per year (capital appreciation) compared to other states. This is because these states are the major employment centers in Malaysia and see the incapability of home ownership in these states is quite significant.

Often, trading in tangible assets, without the intention of owning and/or using them, is also speculation, whereby the trader knows that certain product is going to appreciate or brings a new product to the market, hoping that it will sell with a profit. In this sense, the trader, though still speculating, produces something good in the market, namely, bringing something tangible for others to buy, use or resell. Hence, the intention of making a profit by buying and selling a tangible product does not have any negative connotation in itself. Moreover, owning a tangible asset has the risk of losing or destroying it. Therefore, some economist contend that speculation has positive impact on the markets, whereby assisting in price stabilisation, market efficiency and providing liquidity (Kaldor, 1939; Emery, 1969; Bernhardt and Taub, 2008; Nikalous, 2010; Norfield, 2012). However, in the property markets, speculation is quite different.

For many goods, if demand increases for that good then the producers of that good will make more of them to meet the increased demand. Take cars for example, if there is an increase in demand, car manufacturers produce more cars to meet that demand. Car prices therefore do not go up much as there are enough new cars being built to satisfy the extra demand. It is different in the housing market. First, in Malaysia it takes a long time for new houses to be built. Second, there is a large stock of existing houses. As of 2010 there were about 4.4 m houses in the formal sector. Every year, 100,000 new houses are built and 200,000 houses out of the existing stock are sold (Khazanah, 2015). Since far more existing houses are being sold than new houses, it is the price of existing houses that determines the price that new houses are being sold at. If demand increases, there are not enough new houses and a limited supply of existing houses to satisfy the new demand. House prices therefore go up. So even if the actual cost of the new houses is far lower than the market price, they will be sold at that higher market price.

The price a developer is willing to pay for new land will go up as the market price for new housing increases. Suppose a developer wants to buy a site to erect a house. If old houses in the vicinity are being sold at RM150,000 and it costs him (including his normal profit) RM100,000 to build the house, then he will be willing to bid up to RM50,000 for the land. If prices of existing houses continue to rise due to increased demand, then this will lead to higher land prices and a vicious cycle of ever increasing prices. Speculative behaviour exacerbates the situation. By this we mean purchasers who buy houses and sell them soon thereafter, instead of after five to ten years. If supply is inelastic (as it is in Malaysia) every time a speculator buys a house and resells it at a higher price, that new higher price becomes the benchmark price for all similar houses.

As we know that Malaysia practices open markets for property, housing price, like any other goods and services in a market economy, are determined by the interactions of demand and supply (Zainal, 2010; Zamri et. al.,

2016). Nevertheless, there's an invisible hand that create the artificial force of demand that intervene the efficient market which is speculation and consequently, Malaysia is undoubtedly experiencing a housing bubble and the unsold properties are a natural consequence of this bubble (Alias et. al., 2006)). Figures from NAPIC have indicated that as of the first quarter of 2017, some RM10.08 billion worth of residential unit are unsold in Malaysia. This bubble is due to two specific economic dynamics, the first is natural business cycle, and the second is the intervention by the authorities (Robin, 2017). Natural business cycle began when the property market was expected to boom after the end of the 2008 global financial crisis. This is in turn, attract new investors, which is in this case, are speculators who are looking to make quick profit. They further contribute to the market boom. On the intervention by authorities, while the business cycle unavoidable, the resulting inflation was made worse by external intervention, particularly the low interest rates set by Bank Negara Malaysia.

In addition, the flippers selling residential property at high prices has created the market value that is not reflects time-based or natural changes. As a result, the buyer buys a home in a rush due to the fear that house prices will continue to rise and make the cost of real estate unaffordable. Not only low-income families but also the middle-income group found it difficult to purchase the housing units as the prices got higher and higher. Apart from that, subprime loans that allow borrowers to buy houses with little capital or without capital have caused land boom due to the rising demand for housing supply at a very high rate. Other than that, financing for buying a home are very easily approved. When mortgages are easily approved due to the lack standards and conditions for applying the financing, many investors buying residential property to resell it in short term without having intention to occupy it. This increasing of demand for housing supply has caused sharp increase in the house price and consequently, to a possible asset bubble. Kindleberger (2011) defines bubbles as non-sustainable increases in the indebtedness of a group of borrowers, or non-sustainable increases in the prices of [assets].

### **Speculation from *Shariah* Perspectives**

The current monopoly issue of the property should be taken seriously and resolved promptly as this issue is a national issue and a major mistake (al-Mazini, 2015). Those who monopolize the property and gain from it which causes some people to have no home and hard-earned place, in essence against the original nature of earth and earth created by God for the benefit of all of His creatures. While all people have ownership rights over real estate (*property rights*), not just the right of the rich and the powerful. The rise in home prices has caused housing ownership issues to be critical. In this regard, there is a problem of equilibrium experienced by subordinates who live in the city as a result of the lack of social facilities such as housing. The squatting issue is a manifestation of urban poverty. Thus, the ability of the people to buy a home was affected when home prices rose significantly due to speculative activity. This situation can indirectly affect the real estate market in the long run.

In fact, Islam emphasizes the importance of owning his own home as a treasure to have a proper living as basic needs and to not leave the heirs such as children or individuals under the liability of homelessness if they have died. When home prices reach an inadequate level, there are many who do not have their own homes, rent to death, occupy squat areas illegally, or even worse things, homeless and live begging. Social problems such as prostitution, drug addiction will occur because of the economic standard of living that is not in favor. So, the rich will grow and the poor will be poorer. This will generate a caste system and widen the gap between society while Islam opposes human classification.

In addition, this property monopoly issue shows the oppression of the rich who make profits on other people's hardships when they buy cheap houses for resale at high prices. As a result, it hinders the low income group to buy affordable and affordable home units for purchase. Many investments are concentrated in the real estate sector and generate high demand with limited supply of supplies as property is not something that can be renewed. According to data, investors are more investing in the residential sector than in the luxury and commercial markets, causing supply in the two sectors to be excessive, but the supply in the residential sector is limited and it increases demand.

The rise in home prices has resulted in the inability to own a home, especially for medium- and low-income Malaysians living in urban areas (Hui, 2010), especially the income is lower than the high house prices. This can have an impact on daily economic activity as people are more sensitive in spending (Li and You, 2007). This is because, in the event of economic problems, people's purchasing power is getting low. If this situation persists, the human ecosystem in the economy is also disturbed and can cause a bad crisis to the whole society.

This is evidenced by the deterioration of the overseas economy such as Japan or called the Lost Decades in 1989 as a result of the collapse of the asset market, particularly the property sector and the stock market, was a result of high-scale speculative activity (Nazari, 2011). This is an example that can be seen as a result of excessive speculative activity. Promotion of massive non-controlling debt lending has spiked speculative activity sharply. Consequently, asset prices such as stocks and real estate doubled. As a result, financial bubble has occurred. The rise in prices is not based on something fundamental, but it is just a reflection of the speculation activity that takes place, rather than the real demand. This caused the situation to be sustained and eventually the stock and property prices fell sharply. Due to the fact that many debtors are unable to repay the debt, the Japanese economy has undergone an economic shrinking process that has been impacting up to now. According to this issue, the thing to be aware of is the cause of economic downturn due to speculative factors.

So by looking at the detrimental effects that can affect one of the fundamental interests of human beings, how does syarak's view on such economic activities. Whereas, the objective of *Shariah* determines shelter and right of having residence should be pursued as a basic necessity besides food and clothing. Thus, speculation activity in property market is seen as an element that leads to *mafsadah* beyond *masalahah*. *Maqasid al-shariah*, or the objectives of Shari'ah, are designed to promote benefits and repel harms (al-Zuhaili, 1998). Imam Ghazali (1993), one of the earliest scholars to discuss this issue, has categorized the objectives into two primary categories; the *deeni* (related to *deen*) and the *duniawi* (related to this material world). The *duniawi* purposes are further divided into four types, which are all individually meant to serve the single *deeni* purpose. The four *duniawi* purposes are protection of *nafs* (life), *nasl* (lineage), *'aql* (intellect), and *mal* (wealth). Whatever ensures the safeguard of these five serves public interest and is desirable (Chapra, 2000). Generally, the Shari'ah is predicated on benefiting the individual and the community, and its laws are designed to protect these benefits and facilitate the improvement and perfection of human life in this world. This perfection corresponds to the purposes of the Hereafter.

Somehow, legitimate speculation is viewed as supporting *al-maslahah* as it is needed to generate economic growth and sets liquidity in property market but when it becomes excessive, unregulated and uncontrolled, consequently can lead to the aftermath of the skyrocketed house price until it becomes unaffordable beyond the level of people's ability to have home ownership especially towards the low and middle class. Our pre-analysis ascertain that it is not concurrent to objective of *shariah* if we see it from the perspective of majority of general Malaysian folks as the house price is not proportioned to the increase of median household income as the increment is not solely because natural cause but artificial. ? Therefore, if such economic practices can cause damage, then it should be restricted and established clear laws and guidelines to resolve this issue.

## Approach in Curbing Speculation

Malaysia, like many other countries, has put in place measures to curb speculation.

### 1. Real Property Gain Tax (RPGT)

The Real Property Gains Tax Act 1976 (ACKHT 1976) was introduced on 7 November 1975 to replace the Land Speculation Act 1974. Both of these acts were introduced to control property speculative activity in property sector which has resulted in a sudden rise in real estate prices by imposing tax on gains on the disposal of real property in Malaysia (flats, houses, condominiums, apartments, farms, vacant land and others) as well as shares of Real Estate Company (SHT). Beginning of October 21, 1988, this tax has been extended to profit from disposal of shares in Real Estate Company. On 1974 had imposed a 50% tax on the profits on the sale of a property within the first two years. This was later changed to 40%. This law was replaced by RPGT in 1976 (Lee, 2013). Nowadays, the tax on profit imposed is 30% for properties disposed of within three years. For real estate properties disposed of within four and five years, the rates would be increased to 20% and 15%, respectively. For properties sold after five years no RPGT will be imposed, whereas companies are taxed at 5%. As a result, flip or buy activity and quick sell slowly slowed down. Since Malaysians have opened their eyes on real estate investment since 2010, property under construction became demanded. Malaysians indulge in property speculation as a livelihood and for income and some purchasers are merely speculators (not investors)

– completed projects – signboard advertising unit for sale upon the delivery of keys. Not “owner occupied” (Loong, 2013). Therefore, RPGT should be imposed to control the speculative investment activities (Rohaniah, 2013). Table 1 shows the revised RPGT rates since 2014. In the federal Budget 2014, RPGT was significantly increased (Table 1) and the threshold for foreign buyer of property was raised to RM1 million.

Disposal period	RPGT rates (percentage)		
	Companies	Individual (citizen/PR)	Individual (non-citizen)
For disposals within 3 years	30	30	30
For disposals in the 4 <sup>th</sup> year	20	20	30
For disposals in the 5 <sup>th</sup> year	15	15	30
For disposals in the 6 <sup>th</sup> and subsequent years	5	0	5

Table 1: Revised RPGT Rates

However, the imposition of RPGT to tax gains from property transactions should be counted from the date of completion of the property and not from the signing of the sale and purchase agreement as what is being practised now. This is given that it takes three years for high-rise residences to be delivered to buyers upon the signing of the sale and purchase agreement, and two years for landed property.

## 2. The Abolishment of DIBS

Developer Interest Bearing Scheme (DIBS) contributes house price to increase because it is being a platform for speculators to profit more from price selling. Therefore, government abolished DIBS to deter speculative activities and instead encourage the “build-and-sell” concept to protect buyers from the risk of abandoned projects. It means financing loans won’t commence until properties are completed. It forbade banks from offering financing via Developers Interest Bearing Schemes (DIBS), where the developer paid the interest on buyers’ loans during construction of a project. DIBS-financed projects have tended to be significantly more expensive than others, as their prices include financing costs and reflect future property values. According to some, the schemes distorted the market, and in any case, added to buyers' liquidity. DIBS is an innovation in real estate financing where the original purpose is to help reduce the cost of home ownership. Under DIBS, interest payments will be borne by the developer during the construction process. However, speculators have taken this opportunity to buy real estate with lower capital expenditure.

The abolition of the scheme prevents the buyer from enjoying interest-free periods and increasing the required spending limit for property speculation. This measure has effectively prevented speculation from low and middle income groups. However, the weakness of this system is that property becomes less affordable to those who are really interested. In total, DIBS's abolition has prevented the less fortunate from playing speculative real estate.

## 3. Moratorium

We also have moratoriums on the sale of certain properties. For instance, PR1MA homes are subject to a ten-year moratorium, during which the property cannot be sold and bought without the prior approval of PR1MA. They have the effect of slowing down the escalation of PR1MA house prices as home owners cannot immediately ‘flip’ their property.

The drawbacks however are that they also prevent homeowners from accessing their equity in their house should they need do to so and that they also impede mobility as they can prevent people from moving to an area more suited to their needs (eg somewhere closer to work, to schools, etc). A well designed moratorium should therefore be as short as possible and allow for exceptions in true cases of need. As we will see more of later, we

would recommend that new housing built under the national business and procurement system we are proposing also be subject to a moratorium of five years. This is sufficient time for new developments to be built under this system so that there is a steady stream of new affordable housing. The moratorium acts as a buffer period to allow for the subsequent batches of affordable homes to be supplied at prices that make speculative behaviour redundant.

#### 4. Placing more stringent terms for second homeownership and upwards

This move is aimed at curbing rising property speculation and to give ordinary individuals an equal opportunity to buy houses. For example, State of Selangor - restrict the purchase of a home for one individual not exceeding 4 units (this should be ensured). The State Government controls the price of houses so that Selangor affordable homes are free from speculation through the Selangor Housing and Property Board (LPHS). Terms are tightened for at least five years for affordable homes purchased for renaming to other individuals. However, it is excluded for parents who want to give it to the child. In addition, priorities are given to those who do not have the home and the income eligibility that meet the criteria set. The government also imposed maximum loan-to-value ratio of 70% for third house financing.

For individual and developers who speculate by buying or purchasing property in bulks, they must obtain prior approval from the Controller of Housing to make bulk sales of more than four units. Indeed, speculators are not breaking any laws, but a scrutiny on such bulk purchases is necessary as they could create fluctuation and inflate the property market. They also deprive ordinary house-buyers of equal opportunities.

## CONCLUSION

Among the basic necessities of descent living, shelter ranks only next to food and clothing. In Islam, even though the fulfillment of basic needs, including housing is the individual's own responsibility, government should intervene when deficiency is acute. The government therefore, should take proper initiative to provide affordable housing through internal management and also by supporting other institutions like banks. Islamic financial institutions play towards mitigating the issue. The provision of affordable homes remains a major problem facing policymakers around the world, with Malaysia being no exception. Malaysian policy initiatives which focus on ensuring affordable housing have typically involved the transfer of physical or financial resources to low-income households who cannot house themselves adequately. The scarcity of such resources then forces government housing agencies to focus on a small and limited housing agenda and stymies efforts to understand or manage the housing sector as a whole. there is a need to improve housing affordability by making supply more responsive to demand, by either reducing the time period required to build houses or ensuring a steady supply of affordable homes

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