Tender Price Movements in the Malaysian Construction Industry, With Specific Reference to Housing Projects in the Klang Valley

by

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21st May 2015
Introduction

- On-going debates on the continuous and upward increase in the prices of houses

- Very little has been said about construction costs of houses

- Are trends in the construction costs of houses moving upward in similar patterns too?
Problem Statement

The study endeavors to seek answers to the following key questions:

- Is the construction costs of houses moves in similar pattern with the movement of house prices; and
- Is construction costs of houses moves in similar pattern with the movement in the economy?
One way to examine such trends is through studying the tender price index of housing projects and comparing it with the index of selling price.

- Tender price index representing the cost of construction
- House price index representing the price of newly built houses
Aim

- To improve key stakeholders’ understanding of the nature and extent to which future cost movements are likely to affect the overall costs of carrying out housing projects in the Klang Valley over the next short to medium terms
Objectives

- To examine trends in tender prices of construction projects in Malaysia, specifically for housing projects in the Klang Valley.
- To determine the extent to which tender prices of construction projects, specifically for housing projects in the Klang Valley have moved overtime.
- To examine trends in the prices of houses (newly built) in Malaysia, specifically for houses in the Klang Valley.
- To determine the extent to which prices of houses (newly built), specifically for houses in the Klang Valley have moved over time.
- To determine the extent to which tender prices of construction projects, specifically housing projects in the Klang Valley varied with the movement in the economy.
- To determine the extent to which prices of houses (newly built), specifically housing projects in the Klang Valley varied with the movement in the economy.
Methodology

Phases of the study

Start

Phase 1 Literature review

Phase 2
a) Questionnaire survey (postage, email and face to face interview)
b) Secondary data collection

Phase 3 Analysis and results

Phase 4 Interview experts to validate preliminary findings

Phase 5 Additional Data Collection – House Prices

Phase 6 Analysis and results

Phase 7 Discussion and Conclusion

Presentation of progress report
# Sampling – Respondents

Table 1 Responses to questionnaire surveys and interview

<table>
<thead>
<tr>
<th>Surveying Firms</th>
<th>No. of Questionnaires sent out (snail and email)</th>
<th>No. of Questionnaire returned (postal and email)</th>
<th>No. of interviews</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity</td>
<td>220</td>
<td>13</td>
<td>10</td>
<td>23</td>
</tr>
<tr>
<td>Contracting</td>
<td>318</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>firms (CIDB G7)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>538</td>
<td>16</td>
<td>11</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(2.97%)</td>
<td>(2.04%)</td>
<td>(5.01%)</td>
</tr>
</tbody>
</table>
### Sampling – Types of housing projects

Table 2 Types of housing projects (n=90)

<table>
<thead>
<tr>
<th>State</th>
<th>Terrace</th>
<th>Detached</th>
<th>Semi-D</th>
<th>High Rise (Low)</th>
<th>High rise (Med)</th>
<th>Condo</th>
<th>Town house</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kuala Lumpur</td>
<td>5</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>18</td>
</tr>
<tr>
<td>Selangor</td>
<td>43</td>
<td>7</td>
<td>10</td>
<td>2</td>
<td>7</td>
<td>1</td>
<td>2</td>
<td>72</td>
</tr>
<tr>
<td>TOTAL</td>
<td>48 (53%)</td>
<td>11 (12%)</td>
<td>10 (11%)</td>
<td>2 (2%)</td>
<td>11 (12%)</td>
<td>3 (3%)</td>
<td>5 (6%)</td>
<td>90 (100%)</td>
</tr>
</tbody>
</table>
## Analysis & Result

Table 10 Movements in house tender price index, house price index and GDP, 2005-2013 (% year on year)

<table>
<thead>
<tr>
<th>Indices/Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>House tender price index</td>
<td>100</td>
<td>108</td>
<td>152</td>
<td>157</td>
<td>172</td>
<td>193</td>
<td>249</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(8%)</td>
<td>(41%)</td>
<td>(3%)</td>
<td>(10%)</td>
<td>(12%)</td>
<td>(29%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>House price index (NAPIC)</td>
<td>100</td>
<td>103</td>
<td>112</td>
<td>118</td>
<td>114</td>
<td>127</td>
<td>137</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(3%)</td>
<td>(8.6%)</td>
<td>(5.2%)</td>
<td>(-2.8%)</td>
<td>(11.2%)</td>
<td>(7.6%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>House price index (based on collected data)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>122</td>
<td>124</td>
<td>130</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(22%)</td>
<td>(2%)</td>
<td>(5%)</td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>100</td>
<td>106</td>
<td>113</td>
<td>118</td>
<td>116</td>
<td>124</td>
<td>131</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(5.8%)</td>
<td>(6.6%)</td>
<td>(4.70%)</td>
<td>(-1.7%)</td>
<td>(7%)</td>
<td>(5.5%)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Analysis & Result

Movements in house tender price index, house price index and GDP, 2005-2013
Findings & Discussion

- Tender prices for building works tapering down since 2008 and the movement is closely related to the general movements in the economy.
- Data from 27 responding firms – average increase in house tender prices (2005-2011) is 17% (cost of constructing houses – excludes prelims, ext. works, land, etc.).
- NAPIC and collected data from published advertisements suggest upward trend in the prices of newly built houses of all types.
  - NAPIC: about 5.5% (2005-2011)
  - Data from published advertisements: 9% (2010-2013)
Findings & Discussion

- The movements in the house price index and GDP appear to be quite consistent.
- Consistent upward movement in house tender price index although when economy is negative rate of growth.
- Data from NAPIC suggested that the movement of house price is consistent with the economy, upward trend when economy is positive rate of growth and downward movements when economy is negative rate of growth.
Conclusion

- The study concludes that there is positive relationship in terms of upward movements between construction costs, selling prices and the economy during periods of economic growth.
Recommendation

- Index on cost is vital as to understand the actual cost of construction and prices of houses to enable the policy makers to better monitor the supply and demand of housing properties in the market. It is also to ensure the supply of affordable houses and help the buyers and investors in making investment decisions.

- Data collection of this nature requires the effort to be institutionalized for better results.