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Planning Malaysia  
Volume 15, Issue 4, 2017, Pages 21-34

### What drives house price in Malaysia? In search of an alternative pricing benchmark for Islamic home financing (Article)

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#### Abstract

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The current practise of the Islamic banks to rely on market interest rate as pricing benchmark for their home financing products has been a subject of intense debate among many parties. Muslim scholars have warned that it is highly discouraged as it could lead to a possible convergence between the practices of the Islamic and conventional banks. This paper intends to address the financing issues in the discussion of human settlement or housing policy by presenting the determinants for house price index as well as looking into the possibility of adopting the House Price Index (HPI) to replace the market interest rate as a pricing benchmark for the Islamic home financing. The study applies Auto-Regressive Distributed Lag (ARDL) method on a model comprising HPI as the dependent variable and a set of independent variables consisting of economic, housing demand and housing supply factors. The findings lead to the formulation of recommendations as a way forward for the Islamic banking industry in particular, and the economy in general. This will require a paradigm shift from basic financing products to a more holistic approach which integrates supply of housing factors, as well as urban planning and urban finance, with human rights and recognizes the need to place and shelter people. © 2017 by MIP.

#### Author keywords

[Benchmarking](#) [Home financing](#) [House Price Index](#) [Interest rates](#) [Islamic banking](#)

ISSN: 16756215

Source Type: Journal

Original language: English

Document Type: Article

Publisher: Malaysian Institute Of Planners

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