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`Prove viability before building'

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PROPERTY industry players have come out in strong support of a recent statement by Prime Minister Datuk Seri Dr Mahathir Mohamad that developers should be required to prove they have ready buyers for their projects before building.

President of the Association of Valuers and Property Consultants in Private Practice (PEPS), Elvin Fernandez said the best way developers could prove the viability of their projects and a ready market for their units was by getting proper and detailed market and feasibility studies done before starting their projects.

"The best solution for the ills of the Malaysian property market is for developers to do proper and detailed market and feasibility studies for their projects before building," he said, adding this should be a requirement before projects were approved by the authority.

"In addition, Bank Negara Malaysia should insist that financial institutions do not provide funding for projects unless developers can provide a complete market and feasibility report," he added.

Fernandez said even before purchasing land for development purposes, such studies should be done and continuously updated during the process of approval and obtaining funding.

Housing Developers Association president Datuk Eddy Chen urged developers to be cautious when building and said they should gather information on the supply and demand situation before building in any location.

"With the formation of the National Property Information Centre, such information will be within the reach of developers, and they should be willing to spend money on market research to ensure their projects are successful."

President of the International Real Estate Federation's Malaysian chapter Datuk Alan Tong said developers should conduct market surveys to test the viability of their products before deciding to build.

"They should also be allowed to carry out the surveys via media advertisements, which should be used strictly for the purpose of information-gathering and not selling units," Tong said.

Currently, housing developers are only allowed to advertise properties for sale if they have received an advertising and sales permit from the Ministry of Housing and Local Authority.

"If the response to the proposed project is poor, the developer would be ill-advised to proceed. But if the response is good, and buyers clamour to register their names for properties, then the developer knows he is on the right track." Property consultant C.Y. Wong said between pre-registration exercises and market and feasibility studies, the latter would give a better indication of whether a project would receive good response from buyers.

"Pre-registration exercises do not really give a good indication of the demand for a particular type of property, they merely indicate the level of interest of potential purchasers. This may not be converted into real sales after the properties have been launched," he said.

Wong quoted the example of a project in Shah Alam, where the developer had launched 150 affordable double-storey terrace houses and had a pre-registration list of 2,000.

"You would have expected all the units to be snapped up on the first day

of the launch. However, only 50 per cent, or 75 units were sold, indicating that only about three to four out of every 100 registrants actually bought units."

He said market and feasibility studies conducted by reputable valuation firms would give a better indication of the potential of a project.

"However, if they are to be effectively used to determine a project's viability, the assessing officers in the local authorities must be able to read and appraise them, even to the extent of analysing the internal rate of return based on realistic assumptions."

Wong said research agencies such as the National Property Information Centre (Napic) and others should begin the task of collating data on demand by examining the pricing trends in various locations.

"For example, if there is a steady increase in prices within a short time-frame in any particular location, it could imply a strong demand coupled with limited supply. Thus it would be feasible to build such units there."

He said such information should be collated as frequently as possible for it to be effectively used by developers in gauging market demand for particular properties in specific locations.

According to the Ministry of Finance's first Property Overhang Report, this sector alone accounts for some 76 per cent of the total overhang of properties valued at an estimated RM29.02 billion as at December last year.

In the case of residential units, the overhang is valued at RM6.48 billion, contributed largely by the higher-end housing category.

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