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Property and construction industry not affected by China lockdown ... yet

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Some say when China sneezes, the world catches a cold. What happens when China catches a cold?

The country has seen robust growth since it began opening up its economy in the late 1970s. According to the Organisation for Economic Co-operation and Development's April 2019 Economic Survey of China, the nation's economic growth is higher than that of the Group of 20 (G20), even though its real gross domestic product has slowed in recent years.

Investopedia defines G20 as "a group of finance ministers and central bank governors from 19 of the world's largest economies, including those of many developing nations, along with the European Union" that promotes global economic growth, international trade and regulation of financial markets.

The 19 countries are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the UK and the US.

The Covid-19 outbreak has seen cities across China being placed on lockdown. As a result, many businesses — from those in the travel and hospitality industries to manufacturers, logistics companies and retailers — in the country and overseas have been badly affected.

In Malaysia, the epidemic led to the cancellation of more than 157,000 hotel room bookings — a loss of revenue of RM66 million — as at Feb 17, according to the Malaysian Association of Hotels. The cancellations were mainly from the China market, with the rest from the domestic, Singapore, Hong Kong, Taiwan, Vietnam and Europe markets.

To what extent has the outbreak impacted the property and construction industry in Malaysia?

According to the Master Builders Association Malaysia (MBAM) and Real Estate and Housing Developers' Association Malaysia (Rehda), most local developers use materials that are sourced domestically, thus the impact is minimal for now.

MBAM president Foo Chek Lee points out that major construction products such as cement and steel are produced locally.

"In fact, there is a surplus of cement and steel in the market. Meanwhile, products like hot and cold rolled coils, flat steel and aluminium — mostly for, but not limited to, architectural finishes — could be imported from China due to the cheaper price. Depending on the product, other source countries for building materials are South Korea, Japan, Turkey, Indonesia, Thailand and Vietnam," he says.

"At this point of time, the supply of building materials is still sufficient



Most local developers are said to use materials that are sourced domestically



Soam: Local manufacturers may have to ramp up their production to cope with the additional demand

as most construction companies had planned well ahead to get their stock delivered to Malaysia before the festive break in January. Building material suppliers also have enough stock at the moment."

Rehda president Datuk Soam Heng Choon says property developers source their basic materials, such as sand, aggregate, timber and plywood, from areas near their project sites.

"Finishing materials such as tiles, sanitaryware and mechanical and electrical fittings and equipment could be imported from China. However, some of these materials are available locally, with some raw materials or components being imported from China.

"Developers constructing high-end products may opt to source their tiles and various types of finishing materials from Europe, such as Italy or Spain. At present, the property industry is not severely affected by the lockdown as it coincided with the normal slowdown due to the Chinese New Year period, particularly in terms of supply chain activity," he adds.

However, Foo and Soam both warn



Foo: At this point of time, the supply of building materials is still sufficient

that manufacturers of building materials and developers that depend more on China for raw materials and products will be affected if the lockdown period is prolonged, which could then hinder the progress of their projects.

The shipping of materials is another issue that they would need to overcome, says Foo. "However, depending on the sequence of the work, certain portions could be deferred to a later date, or materials may be replaced with equivalent ones that are available. It all depends on the contract terms between clients, consultants, suppliers and contractors, and the urgency of the project completion time."

Soam believes that affected developers may be forced to source specific materials locally or from other countries.

"Local manufacturers may have to ramp up their production to cope with the additional demand. We hope that they will not take advantage of the situation by increasing their prices. Developers also have the choice to source from other countries should the need arise," he says.