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# Valuers: Independent feasibility studies needed

## Property market in want of strict measures to flourish

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**PETALING JAYA:** Property consultancy companies say that the property market, plagued by an oversupply of offices, retail space and residential units, needs to be rectified with stringent measures by the government.

They say that the onus lies on the Housing and Local Government Ministry and Bank Negara.

Bank Negara oversees lending and financing when developers seek financing for their projects. Developers need to apply for development orders, or DOs, from local state authorities.

Their call is in response to the Association of Valuers, Property Managers, Estate Agents and Property Consultancies in the Private Sector Malaysia (PEPS).

PEPS president Michael Kong told StarBiz on March 11 that the novel coronavirus, or Covid-19, coupled with the massive global uncertainties of an unprecedented nature would have a massive impact on the property development sector.

Kong said today, independent and professionally executed market and feasibility studies were "more important than before" for the property development sector to be given a much-needed reset.

Khong & Jaafar group managing director Elvin Fernandez said detailed and independently done market and feasibility studies served two purposes.

First, they provide the banks and lending institutions with much-needed information when developers seek financing as to the viability of the project.

They also provide the local authorities with information to decide on the viability of a project when a developer applies for a DO.

"The same set of studies must, therefore, be given to the banks and lending institutions and a new set of studies must be done when the market conditions change, as what we are seeing today," Fernandez said.

The fees for these studies are a small fraction of the total gross development value of a project.

And this is to protect the banks, the developers themselves, the local authorities and



**Remedy needed:** The Kuala Lumpur skyline. Property consultants say stringent measures are needed to revive the property sector plagued by the issue of oversupply.

the people who buy into these projects, be it house or commercial property buyers.

Fernandez said there was no point now in trying to find out what was wrong with the property market because it is already broken.

"Don't try to find out what is wrong, find out what you can do about it," he said.

He said the stage to find out what went wrong is long gone and the current spate of uncertainties only cements the need to find solutions to correct the malaise.

Fernandez said one of the reasons why the stock market is more efficient than the property market is because there are various authorities focusing on the capital markets.

"The property market is heterogenous; the stock market is homogenous because one share is like another, although there are different sectors and analysts specialise in certain sectors.

"The property market is a lot more diverse with various sub-segments. Property is also very location-specific. So, there is a need for professionally trained valuers to prepare such studies," he said.

He added that there have been calls "to freeze certain developments" but this would lead to issues such as when to "unfreeze".

"The issue is, approvals have already been given. By the time the freeze takes effect, it

could be too late. So, it is better for the relevant authorities to institute detailed, comprehensive and independently done market and feasibility studies from day one in a strict manner," he explained.

Another valuer, C Y Lim of City Valuers, said developers cannot rely on internally done market and feasibility studies, as these cannot match the comprehensiveness of those prepared by valuers.

He said as far back as 2004 or thereabouts, Bank Negara had issued a circular requiring market and feasibility studies done by independent valuers for all project loans. Prior to that, there was no such requirement.

But this ruling was relaxed, which is one of the reasons why the property sector is in the current state.

Lim also said developers must also comply with recommendations, adding that of late, some banks had realised the importance of these studies which are produced by independent valuers.

"What we are seeing now is a perfect storm. The property market will definitely be negatively affected," he said.

The important thing is for the government to "do what is right" and handle the economy well and in a transparent manner.