HB ADVISOR

JUL - SEPTEMBER 2022

PLUS

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Retail Remix - Relief, Inflation, Shortage

Shopping traffic throughout Malaysia has witnessed a return to pre-Covid-19 levels since the end of 2021 with the peak spotted 3 weeks preceding Hari Raya Aidilfitri and the height of it all in the final week before the celebration. Many shoppers were even caught stuck in the car parks of these malls, a phenomenon never before seen. In the weeks after Raya, shopping traffic in major shopping malls continued to register high volumes of traffic.

The high traffic has influenced large turnouts in the events, bazaars, flea markets and activities organised by the shopping centre managers in recent months. Presumably, after 2 years of movement restrictions, Malaysians have become more eager to participate in activities held in enclosed places again.

So while retail footfall may have bounced back to 2019 levels, occupancy rates and rental rates have not kept up with pace. A full recovery as such can only be anticipated in 2023.

In terms of new supply, Mitsui Shopping Park Lalaport Kuala Lumpur was opened in Bukit Bintang early this year and 7 more in Klang Valley are in the pipeline to open in the next 6 months. This will bring the total new retail supply for 2022 to close to 5 million sq ft.

Coming on the back of the challenging trend, newly opened shopping centres in the last few years will continue to struggle to secure new tenants and high occupancy rates. Those that have been suffering from low traffic will continue to face the same challenges in the second half of this year.

Retail sales on the other hand are expected to normalise in the second half of this year although the increased prices of many consumers' goods since the beginning of this year have resulted in a higher cost of living for Malaysians. The percentage increase of many of these products are in fact registering double digits, a price shock that has never happened before in the country.

Further to the inflationary pressures, Bank Negara Malaysia has also raised the overnight policy rate (OPR) by 25 basis points to 2.0% on 11 May 2022 and again on 6 July by the same margin to 2.25%. Admittedly, this was the first rate hike since July 2020 but with another uptick likely to take place again before the end of this year, the overall impact would really erode the purchasing power of many Malaysians.

There was nevertheless a silver lining when the international borders were open from 1 April 2022. This has brought relief to retail businesses which were dependent on foreign tourists before the pandemic days. Although business has somewhat returned, sales volume has not, as such full recovery is only expected to begin from next year.

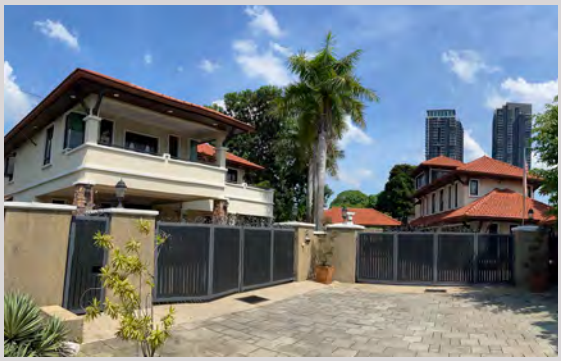
And finally, the seemingly never-ending Russia-Ukraine war has dramatically disrupted the global supply chain. This has caused higher energy prices, induced raw material and industrial parts shortages that affected not just Malaysia but also around the world. While some retail outlets in Malaysia are facing shortages of merchandise to sell, many have little choice but to deal with the higher costs of retail goods.

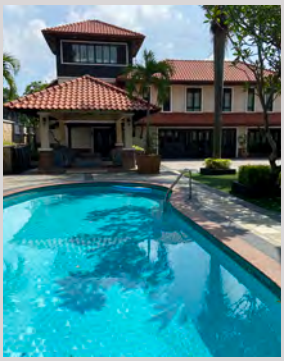
Tan Hai Hsin
Managing Director
Henry Butcher Retail

KDN PP18893/11/2015(034373)

HENRY BUTCHER REAL ESTATE SDN. BHD.
No.199201004957 (236461-w)

FOR SALE: TWIN VILLAS, TAMAN TASIK TITIWANGSA, KUALA LUMPUR





RM8.5 mil (nego)
Type Twin Villas **Tenure** Leasehold
Land Area 14,875sf **Built-Up** 9,848sf **Bedroom** 7 & en-suite bathrooms + 1 powder room
Features Cul de sac unit with KL city view, perfect for gathering & events, and surrounded by garden landscapes and trees. Multipurpose hall, gymnasium, pantry, garage (up to 5-6 cars), guard house with en-suite bathroom, swimming pool, gazebo.

Situated less than 1km from Taman Tasik Titiwangsa, this area is close to Setapak, Jalan Ipoh, Kampung Baru and Ampang, which provides easy access to food, groceries and utilities.

There are a few primary and secondary schools nearby, and a university campus. Healthcare facilities nearby include Kuala Lumpur Hospital, the National Heart Institute, the National Blood Centre and KPJ Sentosa Specialist Hospital.

Titiwangsa is easily connected to the highways like DUKE, MRR2 and Karak Expressway.

Agent Linda Ooi (REN09433) 012-236 3065; **John Lim** (REN59672) 016-2023962;
Office 03-2693 8380

FOR SALE/RENT: BUNGALOW, JALAN U-THANT, KUALA LUMPUR

RM10,800,000.00 (nego); RM15,000/month
Type 2-storey Bungalow **Tenure** Freehold
Land Area 13,196sf **Built-Up** 5,000sf
Bedroom 5 + 2 maid rooms **Bathroom** 4
Furnishing Partly furnished
Facilities Swimming pool

Agent Christine Chua
(REN09437), 012-3142864;
Linda Ooi (REN09433) 012-236 3065;
Office 03-2693 8380

A beautiful 2-storey bungalow with split level, in a pleasant residential area located within the enclave of the upper class and close proximity to KLCC. Convenience & leisure in the vicinity, including the Great Eastern Mall, Hock Choon Supermarket, The Linc, Intermark Mall, KLCC, Bukit Bintang, Ampang Point, M-City, Royal Selangor Golf Club and Ampang Hilir Park and many more.

There's a host of educational institutions nearby such as The International School of KL (ISKL) , Sayfol International School, Taylor's International School, The Children's House and Tree Top House.

Quality medical facilities within the vicinity include the Gleneagles Hospital, HSC Medical Centre, KPJ Ampang Puteri Specialist and KL International Dental Centre.

It is easily connected to AKLEH, SMART Expressway, SUKE and DUKE.

July - September 2022

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by Henry Butcher Malaysia

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Art Consultancy
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OUR OFFICES
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Rising Construction Costs to Lead to An Increase in House Prices?

The past two to three years have witnessed a number of major global events which have greatly disrupted supply chain continuity and adversely impacted production levels worldwide. This has led to delays in delivery of goods and materials resulting in shortages as well as an increase in prices of raw materials and finished goods.

Mercury Rising

Firstly. the Covid 19 pandemic which affected the whole world led to lockdowns imposed by governments worldwide in an attempt to fight and control the spread of the highly contagious and deadly disease which have resulted in more than half a billion infections worldwide and more than 6.3 million deaths at the point of writing this article. The disease has gone through various mutations and the number of infections have since then been brought under control in most countries.

The spike in cases in Shanghai a month ago has however led China, which has adopted a zero Covid-19 policy, to implement new lockdowns which once again affected production and delivery of essential components like semiconductors and other key parts which go into the production of all kinds of everyday necessities and items ranging from computers to mobile phones and cars.

The lockdown in Shanghai has since been eased after the number of infections have been brought under control but a new lockdown has just been announced in Central Anhui where there was a recent spike in the number of infections. The lockdowns certainly affected production of not only manufactured goods but also component parts for other manufactured goods as well as food items, all of which in turn led to a rise in production costs, not just in the higher cost of raw materials but also holding, financing and management costs.

The Russian invasion of Ukraine was something which the world did not bargain for although there were signs that were pointing towards that happening even a year ago. The cost of war, both direct and indirect, is high as food production from Ukraine, the world's bread basket was adversely disrupted and the sanctions imposed by the US and its Western allies on Russian exports caused a curtailment in supply chains and a steep hike in prices. In particular, oil and gas prices shot up multi fold and this in turn led to a significant increase in production costs.

Crude oil prices fell to a low of under US$20 per barrel in April 2020 during the height of the Covid-19 pandemic when economic activities came to a near halt but have since not only recovered but went on an upward trajectory, especially after sanctions were imposed on import of Russian oil and gas by the US and its Western allies. Crude oil has now breached the US$100 mark and still rising.

As oil and gas are the principal sources of fuel used by most industries, this has naturally led to a jump in production costs and consequently resulted in an increase in prices of intermediate goods such as steel bars, aluminium and cement. This has then resulted in the rise in the cost of building materials required across the full spectrum of the industry such as electrical wiring, water pipes, sanitary ware and fittings etc.

MY Indicators

In Malaysia, added to the woes faced by the construction industry was the current labour shortage faced not only by the industry but across all economic sectors including the hotel, F&B, manufacturing, plantations and even the domestic workers' sector. The relevant ministries have, until now, not been able to resolve the labour shortage and alleviate the pains faced by businesses in the country. This has, together with the significant jump in building material prices, led to some contractors declining to participate in bids, turning away jobs or adopting a more conservative approach in pricing their tender bids.

There were also instances where contractors who were tied to fixed price contracts chose to abandon the work sites as they would suffer even more financial losses if they were to continue till the works' completion due to the higher material prices which they did not anticipate and factor in.

In its Property Industry Survey 2H2021 and Market Outlook 2022 released in March this year, the feedback gathered by REHDA amongst its members was that **"the average percentage increase in cost of building materials over two years was 55% for aluminium, 52% for timber, 38% for steel, 19% for cement, 18% for sand and 16% for concrete. The REHDA survey also estimated that there will be an average 19% increase in construction cost in 2022 and that based on this increase, there would easily be an 8% to 12% increase in the selling prices of the properties being built."**

The survey also revealed that some developers may hold back on new launches this year due to the uncertainty posed by the rise in construction costs which may affect their pricing strategies and sales take-up rates.

The Department of Statistics Malaysia (DOSM) also confirmed the increase in construction costs. In their latest posting on their website, the DOSM revealed the following:

- ***All building materials recorded increases in May 2022 as compared to a year ago. Steel bars increased 20% with an average price of steel bars @ RM3,910 per metric tonne as compared to the previous year (May 2021: RM3,258 per metric tonne). Meanwhile, cement recorded an increase of 12.2% in May 2022 with RM20.89/50kg as compared to RM18.61/50kg in May 2021. In addition, prices of most building materials such as aggregates, sand, bricks & walls, roofing materials and ceiling materials also registered increases.***
- ***The unit price index of building materials increased between 4.1% to 19.9%. The price index per unit of steel and steel & sections increased by 19.9% and 18.1% respectively in May 2022 as compared to May 2021. In addition, the price index per unit of cement also increased by 12.4% during the period.***

All these seem to point to a strong likelihood of house prices being raised by property developers in the coming months. Nevertheless, there are other factors besides construction costs which determine the pricing of houses. The state of the economy and the housing market, and the receptiveness and ability of buyers in accepting price increases is one major factor which will determine how much of the cost increase can be passed onto the buyers. We now examine some of these factors.

Recess Time?

Global economic growth this year appears to be easing towards a slowdown as a result of the difficulties and challenges posed by the economic sanctions imposed on Russia by the US and its allies. According to a research report by Nomura Holdings Inc., there is a likelihood of many major economies slipping into recession and if this happens, Malaysia will quite likely experience a slowdown in its exports growth and this will then inevitably impact overall economic growth for the year. In turn, this will affect investors' sentiments and result in not only the equities market but also the property market taking stock of the situation and tapering off to a certain extent. Once demand for properties cool off, developers will be in a weaker position to pass on any additional costs to the buyers. As it is, the residential property market, although showing some signs of a recovery from the slowdown caused by the pandemic, have yet to demonstrate that the recovery is sustainable and not just a temporary correction.

Based on the latest available data from NAPIC, the Malaysian House Price Index recorded a 2% q-o-q decline in Q1 2022 or a -0.1% drop y-o-y compared with Q1 2021. NAPIC's report also revealed that a total of 94,544 units were transacted in Q1, representing a marginal 4.9% drop from the previous quarter. The performance of the property market in the second half of 2022 will provide clearer signs of the direction of the market.

The recent hikes in interest rates by Bank Negara Malaysia (BNM) and anticipated further hikes this year has increased borrowing costs and this will have a negative impact on the property market although the extent of the impact will depend on how high the central bank is prepared to push up the OPR without sacrificing growth. Banks have also been adopting more stringent criteria in processing loans and this will provide a sort of handbrake on property sales to borrowers who are financially less capable of adding onto their financial commitments.

Amongst some of the major domestic concerns affecting the country is the continued political uncertainty and constant jostling for power not only between the parties in the ruling government and the opposition but also amongst the various rival camps within each of the parties, both within as well as outside the government. There have been opposing stands on when GE15 (15th General Elections) should be held depending on which camp the politicians are in although it would appear quite likely to be within this year. This uncertainty has caused investors to adopt a more cautious stance and is certainly not helpful to the property market.

The moving on of the country to an endemic phase has resulted in easing of SOPs and the return of tourists into the country. Nevertheless, we have yet to see a resurgence of buying interest in

Malaysian real estate by foreign investors. The stricter and less favourable qualifying criteria under the revised MM2H (Malaysia My 2nd Home) programme have not helped either and it will take quite a while and much more effort by all stakeholders before foreign investors return in a big way to help reduce the stock of unsold upmarket homes.

In conclusion, it is clear that property prices are headed for an increase this year as developers will have to pass on the higher costs of building these properties to the buyers. However due to the many challenges and uncertainties that the country is currently and will continue to face for the rest of the year, it is unlikely that developers will be able to pass on all the additional costs to the buyers. They will have to find the right balance of recovering some of the additional costs which will affect their bottom line but without sacrificing sales momentum which is important for cash flow considerations.

Developers will probably try to absorb as much of the costs as they possibly can and for those projects which are in good locations and which can still attract strong interest, the price increase, if we dare to venture a guess, would likely be in the range of between 5% to 10%.

For projects which are not selling that well despite having been on the market for some time since being launched, there would likely be minimal or no increase in selling prices. We also believe that there will not be any increases in prices of completed properties in the secondary market, particularly of those in the higher price brackets and in locations where demand is not so strong and the rental market is a bit weak.

With the increase in interest costs, it will become more burdensome to even owners of medium priced properties to service their mortgages and those who are financially more hard pressed would be more willing to consider lower offers for their properties. At the same time, buyers will also have to reconsider their budget for property purchase as their loan eligibility limits will be affected somewhat by the increase in monthly mortgage repayments due to the increase in interest costs.

Unit Price Index of Building Materials by Top 3 Regions, Malaysia, June 2022

Building Materials	Region	Index			Percentage Change (%)	
		Jun'21	May'22	Jun'22	Month-on-Month	Year-on-Year
Cement	Pahang	96.1	113.0	113.0	0.0	17.6
	T'ganu & K'tan	101.6	114.0	114.0	0.0	12.2
	Penang, Kedah & Perlis	109.7	120.7	120.7	0.0	10.0
Steel	S'ngor, KL, Melaka, N. Sembilan	111.6	143.3	143.4	0.1	28.5
	Johor	106.3	127.7	127.7	0.0	20.1
	Penang, Kedah & Perlis	121.9	135.9	135.8	- 0.1	13.2
	Pahang	122.3	138.5	138.5	0.0	13.2
Aggregates	Penang, Kedah & Perlis	109.2	131.7	132.9	0.9	21.7
	Kuching	101.2	110.2	111.8	1.5	10.4
	K. Kinabalu	100.1	103.0	106.8	3.7	6.7
Sand	T'ganu & K'tan	100.4	112.6	115.9	2.9	15.4
	Penang, Kedah & Perlis	131.6	145.0	145.0	0.0	10.2
	Perak	112.3	119.8	121.2	1.1	7.9
Bricks & Wall	Johor	94.6	106.2	107.5	1.2	13.6
	S'ngor, KL, Melaka, N. Sembilan	102.6	114.6	114.6	0.0	11.6
	Pahang	100.8	111.8	112.1	0.3	11.2
Timber	Kuching	100.0	115.8	115.8	0.0	15.8
	Penang, Kedah & Perlis	105.6	113.0	114.5	1.3	8.4
	Sibu	100.0	107.8	107.8	0.0	7.8
Roofing Materials	K. Kinabalu	106.0	121.7	121.7	0.0	14.7
	Miri	99.5	110.6	111.7	1.0	12.2
	Pahang	105.3	117.3	117.3	0.0	11.3
Ceiling Materials	S'ngor, KL, Melaka, N. Sembilan	98.3	117.0	120.2	2.7	22.3
	K. Kinabalu	100.1	111.1	113.3	2.0	13.1
	Pahang	105.7	114.0	114.0	0.0	7.8
Steel & Metal Sections	Miri	120.4	156.6	157.0	0.3	30.4
	Perak	123.1	158.0	159.8	1.2	29.8
	Pahang	114.3	141.0	146.6	3.9	28.3
Plumbing Materials	Pahang	106.3	123.4	124.8	1.1	17.4
	Perak	111.0	123.3	123.6	0.3	11.4
	Sandakan	110.4	121.0	123.0	1.7	11.4
Floor & Wall Tiles	T'ganu & K'tan	118.5	145.1	150.8	3.9	27.3
	Perak	108.3	119.9	121.0	0.9	11.8
	Pahang	106.9	115.5	115.9	0.4	8.5
Sanitary Fittings	Pahang	127.0	155.6	158.8	2.0	25.0
	K. Kinabalu	108.1	126.3	128.1	1.4	18.5
	Perak	113.0	127.8	127.8	0.0	13.1
Glass	Penang, Kedah & Perlis	96.0	115.1	118.0	2.5	22.9
	S'ngor, KL, Melaka, N. Sembilan	111.6	131.5	131.5	0.0	17.8
	Perak	109.3	118.7	120.2	1.3	10.0
Paints	K. Kinabalu	101.8	112.9	116.2	2.9	14.1
	Pahang	106.7	117.8	121.1	2.9	13.5
	Sibu	99.3	108.7	110.7	1.8	11.5

Note: List of areas by highest year-on-year percentage index.
Source: Department of Statistics, Malaysia.

MRTrilogy Coming Full Circle

All eyes are on who will get the project and how the 50.8km MRT 3 or the Circle Line will impact property values after MRT Corp (Mass Rapid Transit Corporation Sdn Bhd) made the official announcement to the tender bidders in June 2022.

Based on a report by The Edge, there was a flurry of activities at the tender announcement of the largest civil project of its kind, estimated at RM50 billion. The culmination of this day came from the back of a project drought since 2018 and MRT 3 has unveiled a glimmer of hope, if not to all tender bidders, at least to the eligible ones as this colossal job requires a hefty deal from the financial coffers to fulfil the delivery.

The general consensus about the arrival of a city link like this is that it will certainly add to the accessibility factor of the localities, raising the desirability as place to stay and invest in, and thereby increasing demand and occupancy of the properties in these areas. The quantum of how much it will influence depends on the profile of the demographics.

For example, those residing in Mont Kiara and Setiawangsa have a higher socioeconomic standing and as such may not find the MRT as appealing. Prices of properties in these places are also generally at the higher thresholds and are therefore less likely to appreciate as much as other lower priced areas as a result of the commencement of the MRT services.

The story is different for other localities with city folks who are more reliant on public transport. They may have a genuine need to hop on the train than be at the mercy of the buses due to road traffic conditions.

Another school of thought may also find matured localities such as Hartamas and Universiti Malaya to be inconvenient due to the scarcity of parking, constant congestion and the lack of public transport to even serve the local population to their desired commercial hubs. As such, when MRT 3 comes around in 2028, it will bridge this missing link and go as far as ferrying people from other parts of Klang Valley to also visit these bustling commercial zones. When this is realised, it will see an increase in property demand, capital values and rentals.

But because MRT 3 (Circle Line) was drawn up to connect with the existing Lines 1 and 2, areas along this new route are technically already not too far away from one of the existing lines. The impact of MRT 3 on these areas will therefore not be as great as those far away from any MRT or LRT/ monorail lines.

Nevertheless, property values are influenced by many factors and not just availability of public transportation, these include popularity & perceived desirability, image of the location, ease of accessibility, proximity to schools, shopping, social & recreational amenities, changes in government policies and development of new infrastructure & amenities.

Based on the Singapore and Hong Kong models, properties located close to rail stations do gain popularity and often, *ceteris paribus*, appreciate more than other similar properties which do not have any stations in the neighbourhood or are located further away from the stations.

In Singapore, a research by the National University of Singapore (2009-2013) indicates that "the closer a property is to an MRT station, the higher the price, with 500 metres or closer being the "gold standard". The research, cited by Property Guru in December 2020, also shared that the commissioning of a rail line increased "non-landed private housing by an average of 1.6%" and "those within 400 metres of the stations saw an increase of 13.2% more than those outside of this distance."

In Klang Valley, our research showed that generally most properties registered an upward price trend after Sungai Buloh-Kajang Line (SBK) MRT began in 2016. Values were however predicated by other factors which may influence price movements, making the trend less obvious.

Moving forward, based on our observation, the commencement of MRT 3 should benefit areas along Setapak, Setiawangsa, AU Keramat, Pandan Indah, Cheras, Bandar Sri Permaisuri, Salak South, Kuchai, Old Klang Road, Pantai Dalam/Kerinchi, Jalan Universiti/Taman Jaya, Bukit Kiara/Mont Kiara, Segambut, Titiwangsa and Sentul.

Did You Know?
Titiwangsa Station will be an interchange station for 5 rail lines - MRT 3, MRT Putrajaya, LRT Ampang, LRT Sri Petaling and Monorail KL. This will provide great connectivity and convenience to the people residing in the neighbourhood and those close by, and will have a very positive impact on residential areas and commercial hubs in the vicinity.

Potential Projects Along MRT 3

Setapak Platinum Casa Danau, J. Satine, Kenwingston Platz, Curvo Residences, EdgeWood Residences, M Astra, Astrum Ampang.

Setiawangsa/AU Keramat The Valley Residences.

Cheras Sunway Alishan Residences, Emerald 9 Cheras, Metro Cheras in Taman Sri Raya.

Titiwangsa/Sentul d'Brightton Titiwangsa.

Kuchai/Old Klang Road The Harmony, Old Klang Road.

Segambut/Bukit Kiara/Mont Kiara Savio@ Riana Dutamas, The Fiddlewoodz@KL Metropolis, The Era@Duta North.

Note: *Data is not exhaustive and devoid of specific details eg. distance to stations.*

Featured - Commercial For Sale

RM25mil (nego)
Petaling Jaya
Type Stand Alone Warehouse/Office
Tenure Leasehold
Built-Up 3,800sf
Land Area 31,787sf
Agent Linda (REN09433), 012-2363065

RM1,650,000.00 (nego)
Menara Bangkok Bank, Kuala Lumpur
Type Grade A Office
Tenure Freehold
Built-Up 12,000sf
Furnishing Unfurnished
Agent Nigel (REN09436), 012-3960307

RM1,600,000
KL Trillion Corporate Tower
Type Grade A Office
Tenure Freehold
Built-Up 1,076sf
Furnishing Partly Furnished
Agent Nigel
(REN09436), 012-3960307

RM6,000,000
Sunway Giza Petaling Jaya
Type 3-storey Shop Office
Tenure Leasehold
Built-Up 5,758sf
Furnishing Unfurnished
Agent Samantha
(PEA3432), 017-6028938

RM500psf (nego)
Bangsar Trade Centre
Type Office Suites
Tenure Freehold
Built-Up 800-7,000sf
Furnishing Unfurnished
Agent Nigel
(REN09436), 012-3960307

RM2,155,000
Cantara Retail
Type Retail Space
Tenure Freehold
Built-Up from 1,841sf
Furnishing Unfurnished
Agent Nigel
(REN09436), 012-3960307

Commercial to Lease

From RM1.80 to 4.00psf
Hexa Walk, Desa Petaling
Type Retail Space
Built-Up 26'x80' (approx1,575sf)
Furnishing Unfurnished
Agent Nigel (REN09436), 012-3960307;
Samantha (PEA3432), 017-6028938

RM4.50psf
Menara Public Gold, Jalan Tun Razak
Type Office
Built-Up 1,452-13,924sf
Furnishing Unfurnished
Agent Nigel (REN09436), 012-3960307;
Samantha (PEA3432), 017-6028938

RM6.00psf
Vista Damai, Jalan Tun Razak
Type Retail Space
Tenure Freehold
Built-Up 4,070sf
Furnishing Partly Furnished
Agent Nigel
(REN09436), 012-3960307

Land for Sale

Seri Beringin, Damansara Heights
RM780psf
Type Bungalow Land
Tenure Freehold
Land Size 9,031sf
Agent Samantha
(PEA3432), 017-6028938

Seputeh
RM700psf
Type Bungalow Lot
Tenure Freehold
Land Area 8,000-23,000sf
Agent Christine
(REN09437), 012-3142864

Condominium

RM1,500,000 (nego)
Brunsfield Embassy View
Type Condominium **Tenure** Leasehold
Built-Up 1,963sf
Bedroom 3+1 **Bathroom** 3
Furnishing Partly Furnished
Agent Samantha (PEA3432), 017-6028938

RM880,000 (nego)
Nadayu 62, Taman Melawati
Type Condominium
Built-Up 2,015sf
Bedroom 3 **Bathroom** 2
Furnishing Partly Furnished
Agent Carolyn (REN09438), 017-8722781

Sale RM5,000,000 (nego); Rent RM16,000 per month
Kirana Residence, Kuala Lumpur
Type Condominium **Tenure** Freehold
Built-Up 6,035sf
Bedroom 5+1 **Bathroom** 6
Furnishing Partly Furnished
Agent Samantha (PEA3432), 017-6028938

RM960,000 (nego)
Twins, Damansara Heights
Type Service Residence **Built-Up** 850sf
Bedroom 1+1 **Bathroom** 1
Furnishing Fully Furnished
Agent John (REN56972), 016-2023962

Rare Opportunity for Art Collectors

Henry Butcher Malaysian and Southeast Asian Art Auction is happening on 17 July 2022.

Rare early works by pioneer artists are hard to come by, it's the best opportunity for collectors to acquire them in this auction, Sim Polenn, Director of Henry Butcher Art Auctioneers

On 17 July 2022, Henry Butcher Art Auctioneers (HBAA) will conduct the second auction of the year, featuring 204 artworks from pioneers, renowned modern masters, established artists, and up-and-coming young artists.

Awang Damit Ahmad's enormous masterwork Ingatan *Waktu Kecil (Childhood Memory)*, painted in 1985, will be the highlight of the auction, with estimates ranging from RM190,000 to RM300,000. This painting, among the first few pieces of his most celebrated *Essence Of Culture (E.O.C.)* series, was created in the artist's memory of his childhood in the village of Kuala Penyu, Sabah.

Another exquisite work by the same artist, *Angin Musim Kemarau (E.O.C. series)*, from 1994, is expected to sell at the estimates of RM160,000 to RM220,000. *E.O.C. series*, the most iconic and sought-after series, was created from 1985 to 1995. It is the artist's own brand of symbolisms related to land, ocean and life, about the struggles of the people (including fishermen and farmers), overcoming challenges and obstacles from a wellspring of hope, hard work, steely determination, and dogged persistence, making an honest living.

This auction will also present three rare, stunning abstract masterpieces painted by Khalil Ibrahim in the 1960s, titled *Breakfast At 16/10* (1968), *Reclining Figure* (1969), *Miura No. 4* (1969), which will be auctioned with starting bids of RM80,000, RM60,000, and RM40,000, respectively.

A significant painting by Abdullah Ariff titled *Boats Beneath A Tree, 1960* (estimate RM60,000-RM100,000) is another standout. This painting, which represents a rural scene of a boat bay under the canopy of a tree with overhanging branches, is brimming with the romance of bygone eras, when life was simple yet harsh, and happiness was plentiful.

Awang Damit Ahmad – *Ingatan Waktu Kecil (Childhood Memory)*, 1985
Acrylic on canvas, 137 x 168cm
Estimate: RM190,000 – RM300,000

Another pioneer artist Yong Mun Sen (some deem him as Father of Malaysian Art) is represented by his early work *Malay Gentleman*, which is anticipated to generate strong interest among the collectors.

"Old is Gold. Good, rare early works by pioneer artists are hard to come by, it's the best opportunity for collectors to acquire them in this auction," said Sim Polenn, Director of Henry Butcher Art Auctioneers. "Once it is sold, we don't know when it will be offered to the market again," he added.

The Kiss (1997) and *Rest* (1987), two rare works by Dzulkifli Buyong featuring cats, will be auctioned at the estimates of RM45,000 to RM75,000 each.

For those who appreciate Jolly Koh's paintings, there are three masterpieces on offer, titled *Dragon*

Lai Foong Moi – *Untitled (Boats)*, 1959
Oil on board, 70 x 105cm
Estimate: RM70,000 – RM120,000

Country (2005), *Yellow Reflection III* (2006), and *Balloon Nebula* (2013), with attractive starting prices.

The batik section offers a rare, elegant work produced in bluish-purplish hues by Ismail Mat Hussin titled *At Work* (2011) with the estimate of RM68,000 to RM100,000. In this work the artist created a dramatic composition of fishermen mending nets here, focusing on soft shimmering light to capture the evening ambiance as the sun sets.

The other batik piece highlight would be Dato' Chuah Thean Teng's *Make-Up* (c.1980s), with an estimate range of RM35,000 to RM60,000. The artist, better known as Teng, is widely recognised as the Father of Batik Art, the first who incorporated art elements into the traditional batik medium.

For the Nanyang style paintings bridging eastern and western art traditions, it will be led by Lai Foong Moi. A 1959 oil on board painting *Untitled* (Boats) is on offer with an estimate of RM70,000 to RM120,000.

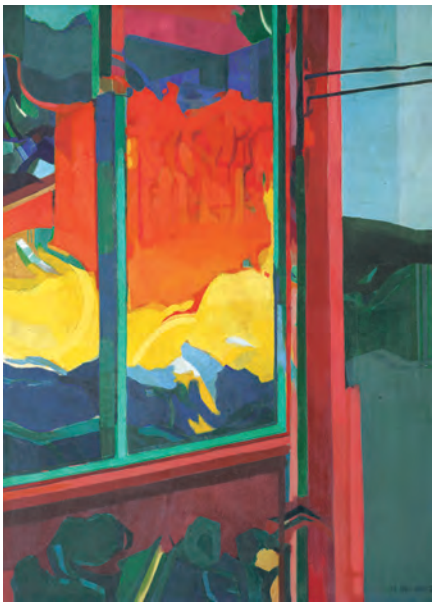
Works by Zulkifli Yusoff, Ahmad Zakii Anwar, Chong Siew Ying, Nadiah Bamadhaj, Hamir Soib, Ahmad Shukri, Jailani Abu Hassan, Yusof Majid, Raja Shahriman, Ismail Awi, and others will together represent the contemporary art section.

Moving on to the Southeast Asian section, this sale will feature Indonesian artists such as Agus Suwage, Heri Dono, Lee Man Fong, Haji Widayat, Popo Iskandar, Nyoman Gunarsa, Jeihan Sukmantoro, and many others. Alongside them will be Vietnamese artists Bui Xuan Phai, Nguyen Tu Nghiem and Nguyen Lam, Thai artists Pinaree Sanpitak and Manit Sriwanichpoom and Singaporean artists Tay Bak Koi, Choo Keng Kwang, Robert Zhao Renhui and Genevieve Chua.

For more information, kindly contact Sim Polenn at 016-2733628 or visit www.hbart.com.my for the E-catalogue.

Auction Day
Sunday, 17 July 2022, 1 – 4pm
Galeri Prima, Balai Berita Bangsar,
31, Jalan Riong, Bangsar, 59100 KL.

Preview Dates
8-16 July 2022, 10am-6pm daily; same venue.



Khalil Ibrahim – *Breakfast At 16/10*, 1968
Acrylic on canvas, 118 x 88cm
Estimate: RM80,000 – RM130,000

Awang Damit Ahmad – *Angin Musim Kemarau (E.O.C, Series)*, 1994
Mixed media on canvas, 153 x 122cm
Estimate: RM160,000 – RM280,000

Abdullah Ariff – *Boats Beneath A Tree*, 1960
Watercolour on paper, 37 x 54cm
Estimate: RM60,000 – RM100,000

Fewer Launches in 1H 2022 vs 1H 2021

The absence of the Home Ownership Campaign (HOC), increasing inflationary pressures and the unexpected Russia-Ukraine war may have caused less launches coming into the market in 1H 2022.

Kuala Lumpur

1) **Bangsar = 2 Projects**
   Highrise = RM1,000 - RM1,800psf
2) **Bukit Bintang = 1 Project**
   Highrise = RM900 - RM1,300psf
3) **Segambut = 1 Project**
   Highrise = RM700 - RM800psf
4) **Setapak = 2 Projects**
   Highrise = RM400 - RM500psf

- The first half of 2022 had far fewer project launches than in 1H 2021 with only 14 projects or about 38% against 37 projects. This is likely to be attributed to the expiry of the HOC on 31 December 2021.

- In terms of units, there were 7,595 units in 1H 2022 compared to 11,560 units in 1H 2021. This year's units make up about 66% of the total units in 1H 2021.

- Selangor had 8 projects launched compared to Kuala Lumpur's 6 projects in 1H 2022. This is marginally higher when compared to the statistics in the same period in 1H 2021 where Selangor launched 27 projects against Kuala Lumpur's 10 projects.

- By units, Selangor had a slightly higher 4,283 units or commanding 56% of the total units launched compared to Kuala Lumpur's 3,312 units or 44%. This is in total contrast to the corresponding period last year where Kuala Lumpur had the lion share of 69% or 7,937 units of the total units launched compared to Selangor's 31% or 3,623 units.

- The most active month in the first half of 2022 is January with 4 projects (same as January 2021), perhaps from the spillover effects of the just expired HOC or for projects that couldn't or did not launch in 2021 due to certain reasons. The momentum however receded over time with no project launches in April 2022 as well.

- Terrace houses and serviced residences/serviced apartments dominated 1H 2022 with 6 projects each, with zero projects for the larger homes like bungalow, semi-detached and cluster homes, probably due to the impending economic conditions of the country that may shrink a buyer's appetite. In 1H 2021, terrace houses was leading by a big margin with 17 projects launched.

- There were 10 high-rises and 6 landed projects launched in 1H 2022 compared to 13 high-rises and considerably more landed properties with 30 projects in 1H 2021.

- By percentage and by property type, there's a similarity between both periods with 78% of the units contributed by the high-rises and 22% by the landed properties although the total number of units is far less in 1H 2022 with 7,595 units compared to 11,560 units in 1H 2021.

- Properties measuring 801 sq ft to 1,000 sq ft were featured by 7 projects, the most number, in 1H 2021, which is similar to the corresponding period in 2021 with 10 projects selling units with similar built-ups. The larger 1,200 sq ft to 1,500 sq ft saw 6 projects carrying them in 1H 2022 followed by 601 sq ft to 800 sq ft, slightly different from 1H 2021 with 8 projects each carrying the 1,201 sq ft to 1,500 sq ft and 1,501 sq ft to 1,800 sq ft built-ups.

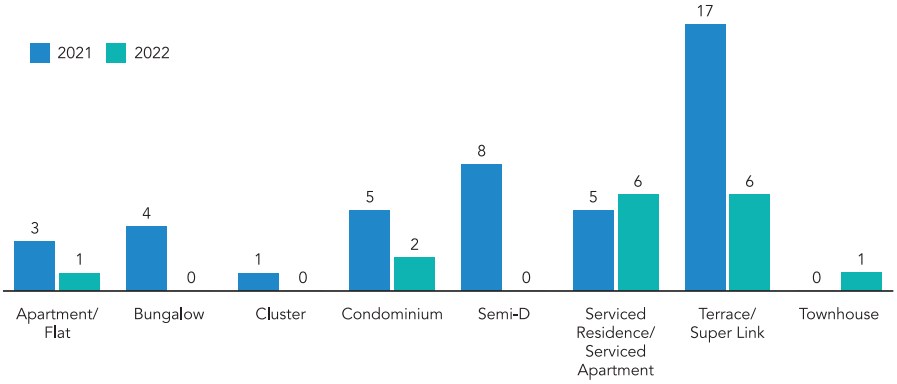
Total Projects Launched

	2021	2022
Projects	37	14

Total Units Launched

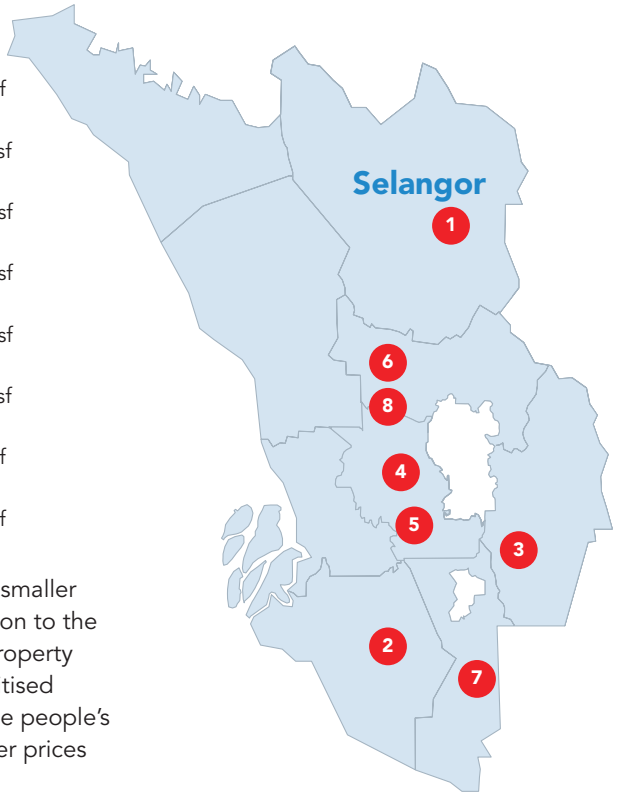
	2021	2022
Units	11,560	7,595

Types of Projects



Selangor

1) **Batang Kali = 1 Project**
   Landed = RM150 - RM300psf
2) **Dengkil = 1 Project**
   Landed = RM300 - RM400psf
3) **Kajang = 1 Project**
   Highrise = RM600 - RM800psf
4) **Petaling Jaya = 1 Project**
   Highrise = RM400 - RM500psf
5) **Puchong = 1 Project**
   Highrise = RM450 - RM500psf
6) **Rawang = 1 Project**
   Landed = RM350 - RM400psf
7) **Salak Tinggi = 1 Project**
   Landed = RM250 - RM350psf
8) **Sungai Buloh = 1 Project**
   Landed = RM500 - RM750psf



This changing trend to the smaller units may be a direct reaction to the market conditions where property developers may have prioritised selling properties that fit the people's budget than to sell at higher prices but risks a lower demand.

- The change in pricing also saw the selling prices per unit of RM401,000 to RM600,000 category featured by the most number of projects, 10, in 1H 2022. In the corresponding period last year, 31 projects had units priced above RM1 million and this could likely be attributed to the HOC's incentives for the buyers that emboldened the developers despite the full effects of Covid-19 had yet to play out.

- There were also more projects with projects sold at the lowest pricing per sq ft ie. below RM500 per sq ft in 1H 2022, compared to other higher price brackets. Although it was also popular in 1H 2021, the RM501 to RM750 per sq ft and the RM751 to RM1,000 per sq ft price brackets did not trail very far. Again, this could be due to the changing market environment in 2022.

- Bangsar and Setapak in Kuala Lumpur led the market with 2 project launches each in 1H 2022.

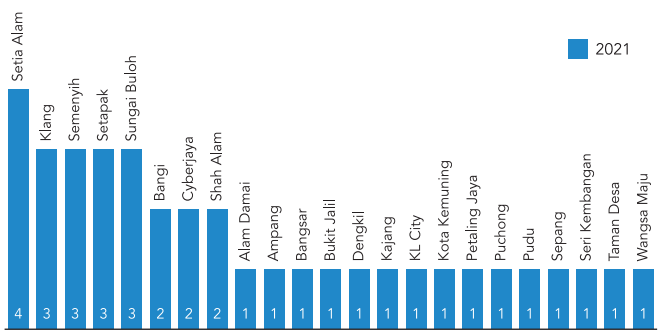
NB: The percentages shown in the table are based on our analysis of the projects that we surveyed but they are not computed based on the number of units within those projects. The way to read this table is as follows eg. based on the projects that we analysed, 56% of them included units of above 2,000 sq ft in size. It however does not mean that 56% of all the units are above 2,000 sq ft. Each project will probably only have very few units of above 2,000 sq ft in size.

UNIT SIZES BY PROJECTS		
2021		**2022**
5%	Below 600sf	19%
16%	601sf - 800sf	31%
23%	801sf - 1,000sf	44%
14%	1,001sf - 1,200sf	25%
19%	1,201sf - 1,500sf	38%
19%	1,501sf - 1,800sf	19%
12%	1,801sf - 2,000sf	6%
63%	Above 2,000sf	19%

PRICING BY PROJECTS		
2021		**2022**
9%	Below RM400,000	31%
28%	RM401,000 - RM600,000	63%
51%	RM601,000 - RM800,000	38%
47%	RM801,000 - RM1,000,000	25%
72%	Above RM1,000,000	31%

PRICE PER SQUARE FEET (PSF)		
2021		**2022**
49%	Below RM500	63%
42%	RM501 - RM750	19%
28%	RM751 - RM1,000	19%
7%	RM1,001 - RM1,500	19%
0%	Above RM1,500	6%

Location



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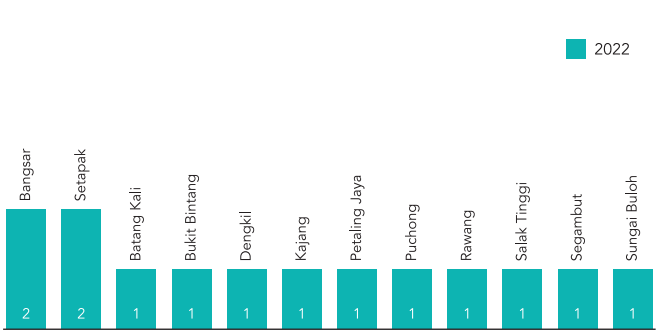

Recent Development in Law Concerning Real Estate Developers in Malaysia

2022 mid-year real estate law updates.

By Charlie Ng Zheng Hui, Oui Pei San and Bridgett Wang Shi-En

Housing Integrated Management System (HIMS) is moving on as a one-stop platform.

With the reopening of international borders and MySejahtera check-ins no longer required to enter premises effective from the second quarter of 2022, which are in line with the Malaysian government's plan of transition from the pandemic to endemic phase, the economy along with the real estate sector is expected to progressively return to normal. In uncertain times, there is one certainty: Real estate developers must quickly adapt to market changes, including legal development, in order to stay nimble. This article gathers and summarises the latest regulatory rulings of the first half of 2022, and shall help keep real estate developers updated on the most recent changes in the legal landscape that are now affecting their businesses.

(a) Introduction of the Housing Integrated Management System ("HIMS") and eSPA by the National Housing Department (Jabatan Perumahan Negara, "JPN") of the Ministry of Housing and Local Government (Kementerian Perumahan dan Kerajaan Tempatan, "KPKT")

What is HIMS all about? HIMS is a single-entry system developed by KPKT to replace BLESS, IDAMAN, and e-Pemaju. It is a one-stop platform for them to regulate, manage, engage, receive, and gather data. There are no variations of the Housing Development (Control And Licensing) Act 1966 or the Housing Development (Control and Licensing) Regulations 1989 ("Regulations") that are brought on by HIMS.

What does eSPA mean? The use of the alphabet "e" is a misnomer. The Scheduled Sale and Purchase ("SPA") is not in electronic form. Rather, all Schedules G, H, I and J of the Regulations ("Scheduled SPAs") now need to be generated using the HIMS platform. There are no amendments or variations of the current form and structure of the Scheduled SPAs. HIMS does not extend to the preparation of Form 14A.

HIMS allows draft SPAs to be generated for verification before the final version is printed. The physical copy will then be handled according to its existing procedure i.e. the copy must be physically signed by the purchaser and stamped. Any errors or typos can be amended within the eSPA module of HIMS. After stamping of the SPA, the stamped copy must be uploaded to HIMS for data collection by KPKT and subsequent management between KPKT and the developer-purchaser (if any). The final uploaded stamped copy of the SPA can be cancelled and the parcel/lot will be then available for a fresh SPA to be generated for a new purchaser subject to the conditions fixed by JPN. This will prevent double sale of the same parcel/unit.

What to expect now? KPKT has advised that HIMS is a work-in-progress intended for new projects. All existing projects will maintain its status quo, which is manual preparation of the SPA by the developer or its appointed solicitors. The only effect of HIMS is that now the Scheduled SPAs can only be generated via the HIMS platform. HIMS does not change the legal landscape of the developers and solicitors.

(b) Significance of Bludream City Development Sdn Bhd v Kong Thye & 184 Ors and other appeals [2022] MLJU 74 ("Bludream City Case")

Powers to grant an extension of time (EOT). The Bludream City Case has clarified that the KPKT Minister must not delegate his powers under the HDA to grant an EOT for the completion of a housing development to the Controller, but shall personally exercise such powers to waive/modify a contract of sale himself.

Not obliged to provide the purchasers' the right to be heard before EOT is granted. Such right to be heard is not expressly stated in the statute or regulation. What is required of the KPKT Minister is to act honestly and by honest means: to act justly in the context of natural justice in administrative law.

Can KPKT Minister's decision to grant EOT be challenged? It is well settled law that a decision made by a Minister or by a public body can always be reviewed by an application of judicial review when such decision does not comport with the principles of fairness, reasonableness, proportionality and basically human decency.

(c) The Concept of Environmental, Social and Governance (ESG) in Real Estate Industry

The ESG concept first made headway in a report prepared by the United Nation's Environment Programme Finance Initiative (UNEP FI), which recognises the severe environmental and social impact due to the reluctance of markets to embrace sustainability, promulgated the urgent need to account for and integrate ESG governance into market, investment and board room considerations for long-term value creation.

What is ESG for Malaysia? While ESG is more prevalent in Europe and in the US, and that it is more nascent here in Malaysia, the interest level has been increasing. More real estate developers like SP Setia Bhd, Mah Sing Bhd and UEM Sunrise Bhd have been taking cognisance of the importance of ESG especially after the Covid-19 pandemic. Various stakeholders are also starting to realise that businesses are more than just making money.

What is ESG for real estate? It is a broad acronym which encompasses a variety of factors which can largely be interpreted as follows:

Environmental: This limb incorporates (amongst others) climate change, natural resources, pollution, recycling and waste. In real estate terms, this primarily focuses on the energy efficiency and emissions of buildings which are increasingly determined and assessed against "green" rating system.

Social: This limb incorporates human capital and social opportunities. In real estate terms, this focuses on a project's impact on society, for example, the health and wellbeing of property owners, investors and the local community.

Governance: Governance includes factors that are difficult to quantify such as diversity, culture, and reputation and which are applicable not just to the property owners but also to the tenants, management companies and other on-site staff(s).

This article is written by Charlie Ng Zheng Hui, Corporate & Commercial Practice Group, Oui Pei San and Bridgett Wang Shi-En, Real Estate & Project Practice Group, of Messrs. Kuek, Ong & Associates (Advocates & Solicitors). For more information, please email general@kuek-ong.com.

Consideration of ESG in Business Valuation - Part 1

By Nai Siu Loon

Sustainable Funds have demonstrated a better survival rate than traditional funds, is this the way of the future?

Let us begin by understanding what ESG stands for. ESG represents Environmental, Social and Governance. ESG investing and analysis have attracted increasing interest among the investment professionals, in particular the institutional investors globally such as governments, large asset portfolio owners, and high-net worth investors who have all begun considering the impact of ESG factors on their investments and the respective local markets.

According to a recent study by Morningstar – *How Does European Sustainable Funds' Performance Measure Up*, over the 10-year period to 2019, nearly 59% of surviving sustainable funds across the categories were considered to have beaten their average traditional counterparts. More sustainable funds have survived in the past 10 years, in relative terms. Of sustainable funds available to investors 10 years ago, 72% have survived, compared with less than half (45.9%) of traditional funds. Sustainable funds held up better than their traditional counterparts during the COVID-19 sell-off, delivering superior returns in all but one category.

Environmental *Conservation of The Natural World*	**Social** *Consideration of People & Relationships*	**Governance** *Standards for Running A Company*
Climate Change & Carbon Emissions	Customer Satisfaction	Board Composition
Air & Water Pollution	Data Protection & Privacy	Audit Committee Structure
Biodiversity	Gender & Diversity	Bribery & Corruption
Deforestation	Employee Engagement	Executive Compensation
Energy Efficiency	Community Relations	Lobbying
Waste Management	Human Rights	Political Contributions
Water Scarcity	Labour Standards	Whistle-Blower Schemes

Source: ESG Investing and Analysis, by CFA Institute

There is no one exhaustive list of ESG examples. ESG factors are often interlinked, and it can be challenging to classify an ESG issue as only an environmental, social, or governance issue, as the table here shows. These ESG factors can often be measured (for example, what is the employee turnover for a company?), but it can be difficult to assign them a monetary value (ie. what is the cost of employee turnover for a company?).

ESG metrics reporting is not mandatory under the current financial reporting standards just yet. However, companies are increasingly making disclosures in their annual report or in a standalone sustainability report. It should not be long before financial reporting standards catch up. The IFRS Foundation has begun a project on ESG by seeking input on whether there is a need for an internationally recognised ESG standards, and whether it should play a role and scope of its role in developing such standards, through the issuance of its recent *Consultation Paper on Sustainability Reporting*.

ESG in Business Valuation

One of the key challenges is how to integrate the ESG factors in business valuation, an area which is still under development. Let us look at two of the common and traditional valuation approaches – market and income, from an ESG perspective, which is also detailed in the paper *ESG and Business Valuation by IVSC* and *ESG Factors for Equity Valuation by CFA Institute*.

The Market Approach

While ESG data and disclosures are becoming more standardised for public companies, most companies that are the subject of valuation exercises are private. To account for ESG factors a valuer will be required to:

- Identify and assess the relevant ESG criteria for the comparable companies of the subject company and the industry it operates in;
- Assess the performance of the subject company for such criteria; and
- Calibrate the market inputs (for example, transactions/earnings multiples (such as EBITDA and Net Profits)) to the subject company to consider the relevant performance as compared to its comparable companies.

At first, this process appears daunting. However, such a process is similar to existing procedures in which a valuer must:

- Understand the size, risk, future growth, business comparability etc. of the comparable companies;
- Assess the performance and characteristics of the subject company in terms of its history, historical and forecast results, business plan, its prospects and risks; and
- Calibrate the market inputs to the subject company to take into account the relevant performance as compared to the comparable companies.

By integrating ESG considerations into the existing market approach procedures, the valuation task becomes more practical and manageable.

The Income Approach

While the income approach requires similar calibrations as the Market Approach, to compare the performance and characteristics of the subject company to that of the comparable companies, the greater reliance on future expectations and its explicit consideration in the financial forecast/ projections does add an additional layer of complexity to this approach.

For example, it is common practice to include a risk premium to the discount rate (or discount to the comparable company multiples in the case of Market Approach) to account for the relatively smaller size of the subject company. These risk premiums are supported by historical analysis that shows a statistically higher rate of return for smaller companies as compared to larger ones. However, an examination of criteria often cited as the rationale for the existence and magnitude of size premiums used in the discount rate derivation, shows overlap with what many would consider to be "ESG" factors. As such, current practice may partially account implicitly for some of the risk calibration of ESG factors from large public comparable companies to that of a smaller private company ie. the subject of the valuation. This represents just one example of potential overlap, as multiple other aspects of the income approach will require specific consideration.

In the next and concluding part of this article, we shall dive deeper into other specific considerations while adopting the Income Approach.

This article is authored by Nai Siu Loon, the Co-Founder and Associate Director of Spring Galaxy, an Associate firm of Henry Butcher Malaysia. Siu Loon has been providing valuation and related advisory services to the corporate sector in Singapore, Malaysia and the wider AsiaPac region for more than 10 years.

Spring Galaxy is a business valuation and strategic advisory services provider. For more information, please visit: https://springgalaxy.com/

HENRY BUTCHER
ART AUCTIONEERS

Malaysian & Southeast Asian Art Auction

17 July 2022

AWANG DAMIT AHMAD *Ingatan Waktu Kecil (Childhood Memory) (E.O.C. Series)*, 1985, estimate **RM190,000 - 300,000**

2016 **RM 2.4** million auction sales
2017 **RM 3.3** million auction sales
2018 **RM 5.8** million auction sales
2019 **RM 8.3** million auction sales
2020 **RM 8.5** million auction sales
2021 **RM 11.6** million auction sales

VIEWING
8 - 16 July 2022 | 10am - 6pm daily
Galeri Prima, Balai Berita Bangsar

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Elizabeth Wong	+60 13 355 6578

For more info, **www.hbart.com.my**