CHAPTER 2
FINANCIAL CRISIS AND PROPERTY DEVELOPMENT INDUSTRY

2.1 THE ASIAN ECONOMIC MIRACLE AND ITS SUBSEQUENT COLLAPSE

2.1.1 INTRODUCTION

If there is one phrase that sums up the modern East Asian experience, it is 'economic miracle'. The word miracle has been commonly used by economists such as Paul Krugman (1998) to describe East Asia's remarkable growth during much of the 1980's and 1990's. Countries such as South Korea, Thailand, Indonesia, Malaysia, Singapore and other countries in the region enjoyed growth rates of nearly 8% (1) a year which is above that of the United States of America and many industrialized Western nations. The Asian miracle was considered extraordinary in part because low levels of unemployment and reduced wealth gap accompanied the region's rapid economic growth between the rich and the poor.

However, circumstances have dramatically changed since July 1997. South East Asia has been gripped by an economic crisis of formidable proportions. In the beginning, the economic crisis was limited to Thailand's financial sector when the Bath devalued, but it has quickly grown to engulf neighboring Malaysia, Indonesia and even South Korea as well. The immediate trigger that caused East Asian economies to crumble was the devaluation of currencies in the region. This translated to the inability of businesses to pay back debts they owed in foreign denominations, such as US Dollars. This inability was caused by the fact that capital employed by most organizations was largely of debt rather than equity. This has resulted in a wave of loan defaulters, causing much of Asia's financial sector to loom towards bankruptcy. Unable to raise enough financial capital to heal their ailing economies, several Asian government was then forced to seek international help from bodies such as the International Monetary Fund (IMF). The question on everyone's lips would have been: ' What went wrong?' The crisis can be traced back to some common problems. Several years of excessive lending by private companies and financial institutions, partly funded by foreign borrowings (e.g. in U. S. Dollar), led to unsustainable levels of private debt. Weak financial supervision and poor accounting standards has made it hard to measure the full extent of the problem. Financial institution such as banks followed bad lending practices, and to make matter worse, there seemed to be a reluctance to take strong corrective actions. According to the 1997 Annual Report published by Central Bank of Malaysia, non performing loans (or NPL's) of financial institution rose from 3.6% of their total loan portfolio in July 1997 to 5.8% in December 1997(2). In addition to these common problems, each country also had its own unique economic situation.

2.1.2 THE ASIAN MIRACLE

The "Asian Miracle" had aroused both awe and fear, especially in the 1980's when the Asian countries became formidable competitors in the global market place. For instance, Japan had risen from the suffering of extensive damage during the Second World War to become the World's second most powerful economy (1) after the United States, even making inroads into the US domestic automobile and electronic markets in the 1980's.

Many other countries in East Asia have also done well to pick themselves from dire poverty and become some of the strongest economies in the world. South Korea, for instance, was left weak and impoverished after a fierce period of fighting with North Korea, which ended in a stalemate in 1953. Yet, in the years running up to the 1990's, the country experienced tremendous economic growth to become the world's 11 th. most powerful economy as a result of rapid industrialization(1). This is attributed to South Korea following the model of the world's second largest economy - Japan. Japan, being a colonial power in the Korean peninsular between the late 19 th. century until the end of the Second World War in the 1948 had influenced the South Korean economy.

In particular, South Korea borrowed two major concepts from the Japanese - orienting the economy towards aggressive exporting and initiating a system of joining companies together in large interlocking corporations or conglomerates, known as *chaebols*. In contrast, its neighbour in the north remains largely an isolated nation, cut off from the mainstream activities of Asia and the rest of the world.

Many other East Asian countries had similar success stories. Collectively, South Korea, Taiwan, Hong Kong and Singapore were known as the "Four Tigers" (3) because of their fast and aggressive economic rise into the global market place. Similarly, other "tiger" economies such as Japan, Thailand, Indonesia and Malaysia made extraordinary bounds in wealth and living standards in a relatively short period of time, between the years following the Second World War to the 1990's.

East Asia's success in shaping its economies can be traced back to the governments that had a large hand in shaping the market place through indirect stakes in multi national corporations. Asian bureaucrats took a leadership role in promoting certain industries and businesses and nurturing them with generous tax incentives and subsidies. Rather than let the ravages of the free market determine which business would succeed (or fail), government leaders picked would-be winners and ensured their prosperity. Asian governments also implemented tariffs and other measures to protect their domestic industries from international competition. For instance, one example of such industry is that of the automotive sector, where Malaysia had succeeded in producing its national car in 1985. As such, Proton has gone on to become the best selling car in the country due to its competitive pricing. Such policies had the effect of encouraging the growth of large corporations that became powerful competitors in international markets.

South Korea perhaps exemplifies the Asian model of combining government and business to build a vigorous economy. Backed by governments of the day, conglomerates (or known as *chaebols*) such as Hyundai Motor Co. and the Samson Group have become some of the most successful corporations in the world. Other such prominent corporations would also include Malaysia's national petroleum company, Petronas and Indonesia's Salim Group.

On the whole, Asian governments ruled with a firm hand and such created a stable economic system and a low wage workforce that has managed to lure foreign investment and contributed to high living standards in the region, which in turn had resulted in positive economic growth. On the other hand, this may have given rise to abuse of those in power.

2.1.3 THE BEGINNINGS OF A CRISIS

East Asia's troubles began in July 1997 when Thailand's central bank devalued its currency, the Bath. Like that of many other Asian currencies, the value of Bath had been pegged to the value of the US Dollar to help to ensure its stability. In recent years, however, a robust US economy had strengthened the Dollar, a trend that may have led many investors to believe that the Bath and other currencies pegged to the Dollar were overvalued. Devaluation essentially lowers the price of goods in Dollar terms, making products more competitive in foreign markets and attracting new investment to the region.

Concerned that the Asian currencies would become unstable and suddenly decline in value, many investors exchanged these currencies for US Dollars, whose value in the international currency was more certain. As confidence in these currencies eroded, more and more companies operating in the region scrambled to get rid of these currencies.

However, the act of devaluating Asian currencies had other side effects on these economies that exposed weaknesses. A large portion of money used by businesses in the region was borrowed from foreign financial institutions. Those foreign debts, denominated in terms of the US Dollar, became more expensive to pay when currencies were devalued. Most businesses defaulted on their loan repayments, and such a flurry of loan defaults caused problems for financial institutions, which also veered towards bankruptcy.

To this effect, Paul Krugman (1998) had also put forward the notion that the problem began with financial intermediaries - institutions whose liabilities were perceived as having an implicit government guarantee, but were essentially unregulated and therefore subject to severe moral hazard problems. The excessive risky lending of this institutions had created an inflation of asset prices. The overpricing of assets drove up the price of risky assets, making the financial condition of the intermediary's sounder than it was. When the bubble burst, falling asset prices made the insolvency of intermediaries visible, forcing them to cease operations, leading to further asset deflation.

With the banking and financial system battered and the threat of economic collapse looming, many countries sought international help. It came as no surprise that each of their currencies lost more than forty- percent (1) of their value by the end of 1997. The Malaysian Ringgit is one such example, dropping in value from RM2.5746 to the US Dollar in July 1997 to RM 3.7785 in December 1997 (4). Stock market indices also plummeted as a result. Countries such as South Korea, Thailand and Indonesia sought international help from the International Monetary Fund (IMF) to assist them in curing their financial ills. Whether or not the IMF prescribed aid is effective in bailing out these economies is beyond the scope of this paper. Thus, it would be sufficient to say that the IMF has extended a helping hand to these three countries. The following part takes a brief look at the various countries hardest hit by the crisis and the subsequent revival plans.

2.1.3.a. Thailand

The first country to be affected by the currency crisis, Thailand accepted a US 17 billion bailout package from the IMF in August 1997 (1). As part of the deal, the government pledged to cut spending, reorganize its financial sector and increase corporate transparency (by conducting deals in an open and public manner) to better protect against the accusation of corruption. The result of the crisis has reduced many top-flight executives to street vendors and hawkers' overnight, performing menial tasks.

2.1.3.b. Indonesia

The IMF coordinated a US 43 billion rescue package for Indonesia (1). The IMF reforms require Indonesia to eliminate subsidies and tax breaks to various monopolies, many of which are controlled by the ruling government. As the recession sets in, President Suharto and his family came under close scrutiny as they were thought to have amassed large amounts of wealth during his rule. Violence erupted and he promptly stepped down, paving the way for B.J. Habibie to be appointed President.

2.1.3.c. South Korea

With the world's 11 th. largest economy, South Korea is the most prosperous of the three countries receiving help from IMF. In return for a US 57 billion (13) bailout package, the South Koreans agreed to implement a series of free market reforms. This includes loosening limits on ownership of domestic companies, fully opening its bond market to foreigners, introducing greater flexibility in its labour market, closing insolvent financial institutions and eliminating government influence over bank's loaning decisions.

2.1.3.d. Japan

After the boom period of the 1980's, Japan's economy showed signs of slowing down from 1992 and appeared to be heading towards a recession. Throughout

1997, the country's financial sector was beset by a series of scandals and bankruptcies. This was made more apparent by forced resignations of prime ministers and ministers alike. The government, in December 1997, announced a two trillion-yen (US 16 billion) tax cut and a 30 trillion-yen spending package to bail out the country's debt ridden banks (1).

2.1.3.e. Philippines

Sometimes called the "sick man of Asia" because it has not enjoyed the same robust economic growth as its Asian neighbours, the Philippines has so far avoided much of the financial problem bed eviling the region. The Philippine peso has declined in value , but not as much as the other regional currencies, and the country's financial sector has not experienced any large bankruptcies.

2.1.3.f. Malaysia

Although it has not sought aid from the IMF, Malaysia's economy has also been significantly impacted by Asia's economic crisis. The Malaysian government announced a series of austerity measures, including a cut in public spending, limits on further construction and banking reform. It also effectively pegged the Ringgit to the US Dollar at a fixed rate of RM 3.80 to US 1.00(1) as of September 1998 in efforts to curb excessive fluctuations in the world's currency markets. Its recent political events in September 1998 have not really had an effect on the revival plans.

2.1.4 SUMMARY

The eruption of financial difficulties in several Asian Countries has demonstrated interconnections within the regional, as well as the world's economy. It has been seen that economic difficulties in one country in Asia had triggered a series of problems elsewhere in the region.

Reform of the economies in Asia will be a long and difficult process. Meanwhile, these economies plunder on in the turmoil with perhaps a faint light beckoning at the end of a long dark tunnel. Governments may have promoted business practices that have imperiled these economies. Perhaps, a veil of secrecy, thus giving rise to abuses and corrupt practices that became apparent when the crisis hit the region may have shrouded the involvement of Governments in business practices. The crisis has revealed that the Asian miracle was based on a mountain of bad debt and excessive bureaucratic control over the economy. Meanwhile the situation in Asia remains precarious.

Finally, the weaker Asian currencies mean that Asian-made goods drop in price, making them more competitive. This may translate into trade surpluses as exports increase in terms of monetary value due to the stronger Dollar. On the other hand, a strong Dollar would make foreign goods more expensive to purchase in Asia, and hence, reducing imports into the region.
There are, however, signs of revival in Asia as the year 2000 approaches. Most countries have put behind the worst of their troubles and are now slowly getting back on their feet. Economies are forecasting tiny percentages of growth rates after two years of negative growth. The accuracy of these forecasts is yet to be seen, and may even be disputed by some Governments, but one thing is clear - there appears to be a faint light at the end of the tunnel.

It is against this backdrop that this project paper will look at how a medium sized property development concern in Malaysia survives these turbulent times. The following chapter will provide a background to the property development industry in Malaysia and in particular references will be made to a property developer in Malaysia, upon which this study is based on.

2.2 ASSESSMENT OF PROPERTY DEVELOPMENT INDUSTRY.

2.2.1 INTRODUCTION

Malaysia has been experiencing rapid economic growth since 1988 until the crisis in 1997. Overall growth in gross domestic product (GDP) increased at an average rate of 9.5% for 1995 which was an improvement over the rate of 9.2% in 1994. Growth in real aggregate domestic expenditure was charted at a vibrant rate of 14.6% in 1995 compared to 13.2% in 1994.(5)

However, eight continuous years of high economic growth has imposed some strains on the Malaysian economy. Policy makers have in the recent years become increasingly concerned with rising prices, the shortage of labour and the increasing current account deficit.

For 1996, the Malaysian economy was projected by Bank Negara to perform favourably, albeit at a more sustainable pace of 8.3% in 1996. The Government had in its 1996 budget, allocated RM 12.7 billion for development expenditure, representing an increase of 12.6% compared to the 1995 budget. With this increase in allocation for growth spending, Malaysia's economy was set to remain vibrant.

The Consumer Price Index was expected to rise in 1996 from 3.4% in 1995, given the strong growth in demand as well as pressures emerging from rising wages and costs. The Government was committed to measures, which will limit inflation to below 4% in 1996. It was expected that the Government will exercise monetary and fiscal policy restraints to ease the pressures of increasing aggregate demand in order to limit price rises. (Bank Negara Report 1995)

Consistent with this, one of the major development thrust unveiled under the Seventh Malaysian Plan ("7MP") 1996 - 2000, announced in May 1996, is for the maintenance of real GDP growth at an average rate of 8% while keeping inflation low.

2.2.2 THE PROPERTY MARKET IN MALAYSIA PRIOR TO CRISIS 1997

The property sector experienced strong demand pressures for 1995. This is reflected in the total number and value of transactions in new and existing properties, which grew by 15.8% and 34.1% respectively in 1995 (Bank Negara Malaysia Report 1995). The vibrant state of the property market was evident from price and rental hikes registered in the various property sectors. (Bank Negara Malaysia Report 1995). With the objective of curbing property speculations and preventing the overheating of property market, the Government implemented the following measures in 1995:-

i. The Foreign Investment Committee, on 24 June 1995, increased the minimum acquisition price of all properties by foreigner's to RM 250,000;
ii. Bank Negara Malaysia revised its credit guidelines with effect from 17 October 1995. A limit was imposed on loans granted to finance the purchase of properties to 60% of the property values or the purchase price of the property, whichever is lower. These guidelines apply in respect of non-owner occupied residential and retail properties exceeding RM 150,000 or RM 300,000 respectively;
iii. The 1996 Budget introduced:-
    a. a RM 100,000 levy on all purchases of properties by foreigners; and
    b. raised Real Property Gain Tax ("RPGT") rates by 5 to 10%, depending on the dates of disposal in the case of Malaysian citizens and a flat 30% on foreigners, irrespective of disposal dates.

These measures, in particular the RM 100,000 levy affected the property market in the last quarter of 1995. The total volume of transaction shrank in the last quarter of 1995. According to the Property Market Report 1995, the total number of transactions fell in the last quarter of 1995 to 66,532 compared to 70,020 in the previous quarter. However, certain property consultants submit that the negative impact of the levy and the 30% flat rate of RPGT on foreigners affected the lower end and not the upper end of the property market. Yields for higher end apartments (i.e. those worth above RM 450,000) are still sufficient to offset the levy and RPGT imposed *(The Edge, 12 February 1996)*.

It must be noted that the objective of these measures are not to damage the prospects of the property sector but to ensure that prices remain affordable for local house buyers.

2.2.2.a. The Residential Sector- Housing Sector Objectives under the Seventh Malaysia Plan (7MP) - 1996 to 2000

The objective of the housing development programs under the 7MP is to provide Malaysians of all income levels accessibility to adequate, affordable and quality houses. The implementation of housing programs will continue to give priority to development of low cost houses and greater emphasis to low-medium cost houses. The private sector is expected to play a major role in the implementation of housing programs. During the planning period the private sector is expected to construct 570,000 units of the total 800,000 houses required during the period of the 7 MP. Of the number to be constructed by the private sector, 24.6% will be low cost houses and 42.1 % will be low-medium cost houses. During the 7 MP period, the demand for houses is expected to increase due to the expanding population and the growing number of new households. (Seventh Malaysia Plan 1996-2000)

The residential sector maintained its position as the leading property sector in terms of both volume and value of transactions in 1995. Despite the general feeling that the property market has reached its peak in 1996, the residential properties continued to register strong demand. Growth at then, in volume and value of transactions was registered at 11.66% and 25.02%. (Property Market Report 1995).

In 1994, 1995 and 1996, growth in the market for housing was fueled principally by:-

i. higher income levels from eighth years (1989 to 1996) of robust economic growth:
ii. easy access to financing;
iii. recent good performance of the residential sector raising expectations of capital appreciation;
iv. improved infrastructure - the completion of major highways, particularly the North South Highway has significantly reduced the traveling time between the major towns in West Malaysia, thus enhancing demand for properties in the vicinity of these highways; and
v. relaxed rules for withdrawal of savings under the Employees Provident Fund for the purchase of houses. The limit for withdrawal was increased from 20 to 30%. Additionally members can now withdraw up to three times to finance the purchase of the property.

Demand for conventional housing remained strong with price escalation recorded between 1.5% to 37.5% throughout the country. Capital appreciation was the highest in the state of Selangor at 77.0%. Launches pertaining to conventional housing were well received. Similarly, the rental market for conventional housing reflected strong demand and inadequate supply resulting in rental hikes of up to 26.7%. (Source: Property market Report 1995).

With the decreasing number of houses in good residential areas and land in the city become more scarce, condominiums are the means by which development profits can be maximized for residential development. One of the major factors leading to the jump in the demand for condominiums was the increasing number of expatriates following the inflow of foreign investment in recent years (before 1997). Condominiums have also gained acceptance from locals in the growing upper and middle income groups as their standards of living increase with their income. As such, factors such as commuting time to workplace, good location, the availability of security and recreational features are factors influencing their choice of residence.

The condominium subsector experienced slow demand reflecting a possible saturation of this market. (Bank Negara Malaysia Report 1995). Price increases softened for condominiums and apartments between 1% and 28%, when compared to 10% to 37% in 1994. This softened demand may be a result of the impact of the Government's measures to reduce property speculation and the overheating market at that time. Despite the above, new condominiums and apartments enjoyed a good 70% to 80% take up rates especially in Kuala Lumpur and Selangor. (Property Market Report 1995).

However, when the expected cycle of economic turn otherwise coupled with the currency devaluation which results in the Asian economic crisis have soften the property development market. This is principally due to:-

i. the future prospects of an individual employee are questioned as unemployment is expected to increase as many companies are facing financial difficulties.
ii. financing is difficult
iii. demand for cash money is high as almost everyone wants to prepare themselves for rainy days. Besides this the fixed deposit rates are very high to

the extent of approximately 20%. This causes a higher demand for money to be deposited with the bank.

iv. Based Lending rates were very high which is not encouraging.

v. many organizations have off shore loan. When this occur, the depreciation of the local currencies have resulted in a higher repayment back to the foreign banks. This in turn causes non-performance loan to the bankers.

2.2.2.b. Commercial

This sector recorded a favorable performance in 1995, despite a significant increase in supply. The average occupancy rates of office space declined only moderately from 97% in 1994 to 93% in 1995 (Bank Negara Malaysia Report Malaysia 1995). The property market report in 1995, also recorded similar findings with purpose built office space commanding occupancy rates of 84.8% to 100%.

There was evidence in 1995 that there would be a significant increase in supply of office space in Kuala Lumpur by 1998. Bank Negara Malaysia's survey on office in and around Kuala Lumpur then suggested that a total of 93 commercial buildings projects were at various stages of construction and were expected to contribute an additional 3.2 million square meters of office space by 1998. This represents an increase of more than 100% over the stock of 3.1 million square meters as at end 1995. Many believe that this will lead to a market consolidation in 1997/1998.

However, the Bank Negara Report 1995 anticipates that the overall situation for the office space market is expected to remain favorable with strong underlying demand.

2.2.2.c. Retailing sector

In 1995, although market consolidation was noted, the volume and the value of transaction grew at 10.14% and 5.56% higher respectively than in 1994 (The property market Report 1995).

The prices and rentals of shophouses in 1995 recorded significantly higher increases. Prices of shophouses increased by 5% to 33% and rentals between 3% to 35% throughout the country. Gross yields for this subsector ranged between 4% and 14.7%.

Rentals of retail space within shopping centers generally remained at 1994 levels, although hikes of between 2 to 38% were noted in Kuala Lumpur City center, Penang, Petaling Jaya, Alor Setar, Sungai Petani and Kota Kinabalu. With new supply for retail spaces, occupancy rate suffered a slight setback with some cases reaching lows of 33%-60% (Property Market report 1995).

There are concerns over the future of retail market in the Klang Valley. Both rental and occupancy are in the downward pressure despite the fact of oversupply of spaces. This is probably due to the interest by the international chains to locate to Malaysia (Lee & Co (Research) - Fund Manager's digest 1996).

2.2.2.d. Industrial sector

For 1995, increases of 41.94% and 36.35% were noted in respect of the number and value of transactions in contrast with 14.62% and 18.74% registered in 1994. This may be a result of heightened industrial development in Klang Valley and Penang and improved road linkages and other infrastructure facilities (Property market report 1995).

2.2.2.e. Tourist related developments

An increased number of completions for both international and budget hotels were noted throughout the country in 1995. Another 9,509 rooms were under construction (Source: Property market report 1995)

Future prospect for the hotel industry remain favorable due to the following factors:-

i. the continued growth expected of the Malaysia economy will contribute to demand for hotel accommodation, exhibition and convention facilities;
ii. Government tourist agencies have been and continue to be aggressively promoting tourism and this is expected to increase the arrival of tourist to Malaysia; and
iii. the 1998 Commonwealth Games and 1999 FT Sepang Circuit in Kuala Lumpur is expected to boost the tourism industry.

2.2.3 WHAT HAPPENED IN 1997 & 1998?

Malaysia's impressive decade of long growth came to an abrupt halt with the depreciation of the Ringgit on the 2 July 1997. Initially, Malaysia tried to defend the Ringgit when it came under attack , but this strategy was not sustainable and proved costly(3). On July 14, the Ringgit was allowed to depreciate. From RM 2.50 to US$1, the Ringgit slipped to RM 2.61 (July 14) and gradually to RM 2.72 (August 11) and RM 2.83 (August 12) before reaching RM 3.00 on September 2. The Ringgit sank to an intraday low of RM 4.88 on January 7, 1998, before recovering along with the regional stock market rally after the Chinese New Year/ Hari Raya Puasa holidays. Following poor local corporate performance and negative developments in Japan, the Ringgit weakened and reached RM 4.16 on July 8 1998.

Besides the above, growth in 1995 and 1996 were based on credit creation and not from productivity improvements. This is a most undesirable outcome when the Malaysian economy was already outstretched. The Malaysian economy had grown rapidly for a long stretch of time. As a result, the conditions locally were already ripe for some form of downturn. There is many resources excess that is created in many levels and we have had many years of account deficit. Our tight labour got worse as the economy continued to gallop ahead without any offsetting rise in productivity. Although our economic was still robust, most of it came from domestic demand. The problem was that it came mainly from unhealthy surges in an almost runaway credit created situation.

When the above occurs, the economic crisis came in and confidence level of the people is dampened. This can be observed by virtue of public perception on investment into properties. Below is a summary of a report extracted from an international well-known property consultant "C H William" on property development in 1997 and 1998.

i. Residential Property

The rate of condominium building in Kuala Lumpur slowed in the second half of 1997. A total of 7,353 new apartments/ condominiums in 25 projects were completed mainly in the sub RM 250,000 price bracket. Some 7,883 units are expected in 1998 and 6,996 in 1999.

Table 2: Property Report for Residential Sector

Prime Apartment* Values: Malaysia (RM/sq.m)		
	Dec Q '97 *low - high*	*Forecast Dec Q '98* *low - high*
Kuala Lumpur *	3,983 - 5,920	3,385 - 5,032
Johor Bahru *	2,888 - 3,434	2,888 - 3,432
Georgetown	1,900 - 2,700	1,900 - 2,700
* 3 bedroom		
* 150 square meters		

Source: CH William, property market report 1999

ii. Commercial

Approximately 98,520 square meters of new office space was completed in the second half of 1997, bringing the city wide office stock up to 3.72 million square meters. Potential future supply is in 580,000 sq meters in 1998 and 617,000 square meters in 1999. The current CBD vacancy rates across all building grades is 20 percent while for prime space it is 10 percent.

Two notable en-bloc office transactions took place in the second half of 1997. RHB-Daewoo sold its second office tower to Nuglobe Consolidated Sdn. Bhd. for RM159.68 million. The 33,930 square meters building is expected to be completed by 1998 end. In the second transaction, Star Publication (M) Bhd. acquired the 17 storey office tower (15,330 square meters) within the Phileo Damansara II development for RM 61.05 million. It will house the headquarters when completed in 1998.

Table 3: Property Report for Commercial Sector

Office Capital Values: Malaysia (RM/sq m*)		
	Dec Q '97 low - high	Forecast Dec Q 98 low - high
Kuala Lumpur	6,458 - 6,674	5,813 - 6,006
Johor Bahru	4,844 - 5,699	4,822 - 5,683
George Town	4,400 - 5700	4,400 - 5,700
*net lettable area.		

Source : CH William, property market report 1999

iii. Retail properties

During the third quarter of 1997, increases in common credit and automobile sales suggested that retail spending was growing strongly. That was prior to the crises and attendant interest rate rises and stock market falls. Now, higher prices for shoppers due to currency devaluation and confidence sapping higher interest are likely to see reduced growth rates for retail spending in 1998.

Tower Records and Planet Hollywood opened prominent stores in Kuala Lumpur during the second half of 1997. No new retail space was completed in the second half of 1997. However in 1998, some 400,000 square meters of new space in Kuala Lumpur are scheduled for opening, taking total stock to about 1.73 million square meters. New supply in 1999 is expected to be 405,000 square meters.

The only major retail property transaction during the final six months of 1997 was effectively an internal 'transfer' when MBF Land Bhd. bought two retail centers from its subsidiaries for RM 276.4 million (336,552 square meters) and RM 21.1 million (6,821 square meters) respectively.

Table 4: Property Report for Retail Sector

Retail Property Capital Values:Malaysia (RM/sq.m)		
	Dec Q '97 low - high	Forecast Dec Q '98 low - high
Kuala Lumpur* CBD	22,000 - 32,000	21,000 - 32,000
Regional shopping center	8,500 - 18,000	8,100 - 17,100
Johor Bahru* CBD	5,304 - 21,313	5,304 - 21,313
*prime shops **average, prime shopping center		

Source: CH William, property market report 1999

iv. Industrial properties

Output expansion in the manufacturing sector is expected to remain strong in 1998 although at the reduce rate of 10.5 percent (1997: 12 percent), with its share of GDP expected to increase to 36.6 percent in 1998 (1997: 35.5 percent). A slow down of foreign investment in manufacturing is already evident, with some RM 5.4 billion approved in the first half of 1997 compared to RM 17 billion in 1996. Simultaneously leasing activity has dropped and some types of accommodations are oversupplied - in particular terraced factories.

Table 5: Property Report for Industrial Sector

Industrial Property Capital Values: Malaysia (RM/sq.m)		
	Dec Q '97 low - high	Forecast Dec Q'98 low - high
Kuala Lumpur*	969 - 1,292	969 - 1,292
Johor Bahru#	1,138 - 1,165	1,138 - 1,165
*outer metropolitan area		
#suburban area		

Source: CH William, property market 1999

2.2.4 SUMMARY

The property market has generally shrunk effectively since July 1997. People have lost confidence in property market and strongly believe that there is a glut in this sector. As a result people stop at buying for investment and concentrated in building up their funds for the rainy days. However there is no denying that properties for end-users especially on residential unit is still very strong. This is especially true for residential houses with price ranges below RM 150,000. Government is taking every step at least to ensure that affordable housing scheme to be carry out. This includes reducing the individual tax in order to increase individual consumption. This indirectly would stir the economies accordingly. Steps taken by the government include in having property fairs such as 'Home Ownership Campaign' where all property developers can take this opportunity to display their products for all respective or potential purchasers for them to make comparisons accordingly. In this particular fair, many incentives were provided in order to enhance the sales and to boost up and thus reviving the economics.

2.3 FAR EAST CONSORTIUM (M) LTD. - THE COMPANY

2.3.1 THE BACKGROUND AND HISTORY

Far East Consortium (M) Ltd. has commenced its operation and established a substantial presence in Malaysia since 1989. It has completed numerous projects in prime locations in the Klang Valley.

FEC (M) Ltd. has close links with the Hong Kong based Far East Group of Companies, Dato' David Chiu, the Vice-Chairman of Far East Group of Companies a Public Listed company listed in the Hong Kong stock exchange. Additionally, various companies within the FEC (M) Ltd. namely Fortune Plus Sdn. Bhd., Tomarta Sdn. Bhd., Suzin Mizlin Sdn. Bhd., Libran Star Sdn. Bhd., Vintage Fame Sdn. Bhd., Corporate Plus Sdn. Bhd., Universal Star Sdn. Bhd., Equatora Sdn. Bhd. and Karunmas Ehsan Sdn. Bhd. formed company's property investment in Malaysia.

The Far East Group is a prominent property development and investment group with diverse and sizeable developments and investments in the Asia Pacific region. The ultimate holding company of the Far East Group is FEC, a company incorporated in Cayman Island, which has been listed on the Hong Kong Stock Exchange since 1972. For the year ended 31 March 1998, the Far East Group's total assets and annual turnover amounted to approximately HK$3 billion (about RM1.5 billion) and HK$ 539 million (about RM269.5 million) respectively. The FEC (M) Ltd.'s close link with the Far East Group will enable it to benefit from the Far East Group's as well as Dato' David Chiu's in-depth experience in the property development industry on the international scene.

The activities of the FEC (M) Ltd. originated when Dato' David Chiu ventured into the Malaysian property market around 1988 - 1989, when Malaysia was beginning to emerge from recession. At that time, the sentiment in the property market was generally bearish and many property developers were facing the situation of slow demand in respect of the sales of their projects.

Dato' David Chiu assumed the development and completion of 88 units of terrace houses in Sri Hartamas and successfully re-modeled and re-packaged these products for sale through their own company, Corporate Plus. The resulting response to these products was very successful. All the units were subsequently sold out. This was a notable achievement given the dampened state of the property market at that time.

In addition to these development activities, efforts were taken by Dato' David Chiu and his management to gradually build up the Group's land banks in prime and strategic locations within the Klang Valley. They believe that the single most important factor on the success of any properties is its location and not so much as to the size of the landbanks. As a result of this, the Group has substantial holdings of land in prime and strategic locations, including Sri Hartamas, Klang, Cheras, Jln. Kuching, Seremban, Ampang, Jalan Imbi and Jalan Jati.

2.3.2. FEC (M) LTD.'S PROPERTY DEVELOPMENT ACTIVITIES.

The FEC (M) Ltd.'s property development activities are broadly based divided into four (4) major activities.

i residential developments;

ii commercial developments;

iii industrial developments; and

iv leisure-related properties developments.

In addition, FEC (M) Ltd. also have a few property development projects and investment in Australia. Further information on these developments are set out as below:-

i Residential Development

The main thrust of FEC (M) Ltd.'s residential development has been and will be concentrated in Sri Hartamas and along Jln. Kuching, Kuala Lumpur, which has been touted as one of the hottest growth areas in Kuala Lumpur. (The Edge, 8 Jan 1996).

In addition to his successful debut on the Malaysian property market, Dato' David Chiu, through Universal Star, entered into a joint venture agreement in 1989, to develop a 3-tower condominium, Menara Hartamas in Sri Hartamas. The project comprised of 136 units of low-density condominiums, which then were selling at a price ranging from RM 305,000 to RM 922,000. This project were fully sold out in 1993. It was relatively popular among the upper income segment of the market. This is reflected by the fact that the senior management personnel, expatriates and professionals presently occupy many of the units.

In the wake of Menara Hartamas' encouraging sales, FEC (M) Ltd. peruse further into the next property venture, Puncak Prima which was equally successful. The Puncak Prima project was undertaken by Equatora. Being located in the vicinity of Menara Hartamas, the project, comprising 300 units of residential condominiums was well received. The primary attractions which contributed to this success was its close proximity with Kuala Lumpur as well as the reputation of FEC (M) Ltd. as the developer behind the project. This project was completed 14 months ahead of the proposed completion date to the purchasers as indicated in the sales and purchase agreement.

Another residential development taken by FEC (M) Ltd. is by Karunmas Ehsan in Balakong, Cheras. It features 427 units of 2 ½ storey terrace houses, 240 units of condominiums and 170 units low cost housing. All the 2 ½ storey terrace houses were fully sold at an average price of RM165,000 while 70 % of the condominiums were sold at an average price of RM 115,000. This project is still in the midst of construction and is scheduled for completion by Nov 2000 and June 2001 respectively. This proposed development is aimed at the middle income class purchasers.

Ampangpuri, developed by Tomarta, is a 3-storey bungalow-style condominium consisting of 12 units of exclusive, luxury condominium with sizes ranging from 1,872 to 2,475 sq ft. The condominiums are located in the prestigious neighbourhood in Jalan Nipah, Off Jalan Ampang. It is known to be with the "Embassy Row" and is within a short distance to the Kuala Lumpur city center. This development was completed in 1996 and are aimed at attracting the upper of the market.

In 1998, Fortune Plus manage to complete another condominium project at Jalan Jati, Off Jalan Imbi, Kuala Lumpur. This project consist of 24 units of apartments. In view of its strategic downtown location, the company decided not to sell these constructed apartments and instead kept it for rental yield. It attracts many expatriates and tourist that prefers staying in apartment rather than in a room for short term.

FEC (M) Ltd.'s next residential developments in Sri Hartamas is the Plaza Damas project. The Plaza Damas project is a large-scale project integrated freehold development comprising of residential, retail, and commercial developments sprawled over approximately 20 acres in Sri Hartamas. The Development Order has been approved and construction have started on the basement carparks since June 1999. Plaza Damas is developed jointly by Universal Star and Vintage Fame. Its site is adjacent to Menara Hartamas and Puncak Prima. Plaza Damas' residential development will, upon completion comprise of 5 blocks of condominiums totaling 690 units of apartments and 20 units of 3-storey terrace houses.

Other than the above, Libran Star is planning for a residential development in Segambut. The site is situated adjacent to Sri Hartamas, which is just a short drive to Kuala Lumpur. The location of the project offers easy accessibility to the North - South Highway and the New Klang Valley Expressway, via the Jalan Duta Interchange. This project is pending the local authorities' approval.

ii Commercial Developments.

The FEC (M) Ltd.'s commercial projects are mainly undertaken under the mammoth Plaza Damas. The commercial properties to be erected under the Plaza Damas project comprises:-

a. a 3 storey shopping complex consisting of 500,000 square feet;
b. two blocks of service apartments of small unit sizes which ranges from 400 sq ft to 510 sq ft.. The total number of units is 590 which made up of 265 units in block 1 and 365 units in block 2;
c. 98 units of 3 ½ storey shopoffices;
d. two blocks of condominium style like of service apartments with unit sizes that range from 1,100 sq ft. to 1,300 sq ft.
e. approximately 2,650 carparking bays, which is intended to serve the occupants of the commercial properties as well as the residential properties at Plaza Damas.

It is planned that Plaza Damas, when completed, will transform Sri Hartamas into a complete and integrated township, which is located a mere 10 minutes drive away from Kuala Lumpur.

Aside from this development, Karunmas Ehsan and Suzin Mizlin will also have 46 and 30 units of shops respectively.

iii Industrial properties

Suzin Mizlin has received an approval to develop 7 units of bungalow factories, 50 units of semi-detached factories, 42 units of terrace factories as well as 144 units of hostel to provide for factory workers' accommodations in 1997. The project is located on a 45.2 acres of land in Telok Gong in Klang. Accessibility is through the Shah Alam Expressway linking Kuala Lumpur/Shah Alam and Klang to Westport.

iv. Leisure related property development

In 1995, FEC (M) Ltd. has started on the construction of its hotel at Jalan Imbi, which is meant to be managed by the holding company, Far East Group of Companies. This hotel development is undertaken and completed in year 1998 and has since started its operation. It has 329 rooms with facilities such as swimming pool, lounge, restaurants, gymnasium, business center and meeting rooms. This hotel is a four star hotel targeting business man as their customers.

2.3.3 SUMMARY

The organization is basically public listed in Hong Kong and having other various investment in overseas. The company's core business has always been on property development and only believing in 'good' land banks. The company's philosophy in development goes along the saying of 'fast in and fast out' and 'expensive in expensive out'. They strongly feels that it does not matter on the size nor the price of the land but the most important thing is that it can be digested in the quickest manner.

2.4 PROSPECTS FOR THE FEC (M) LTD.'S PROJECT

In the year 1995 - 1996, the management of FEC (M) Ltd. were very optimistic that the projects to be launched by the company would be successful. This is due to the fact that, FEC (M) Ltd. can draw from its past experience on projects that were completed during the earlier days as well as the international experience in the development of its properties to maximize sales and profits in a competitive environment. FEC (M) Ltd. has the requisite experience to operate even in an environment more competitive than the state of the Malaysian property market in 1989, prior to the recent boom in the property market, at a time when demand for properties was still sluggish. Moreover, FEC (M) Ltd. can draw from the experience of Far East Group which has, since 1972, been operating in the competitive conditions of Hong Kong where land is scarce and land cost is high.

Besides the above, it is projected then the economic growth will continue, albeit at a moderate pace, for the years 1996 - 2000 under the 7MP. It was also expected that there will be renewed interest in the Malaysian property market because of the expected growth in the country is likely to increase disposal income and consequently, the demand for properties.

Below is the analysis of how the company perceived their development in 1996. This analysis is confined to only a few projects that have the highest weightage that could affect the overall company's stability in terms of financial situation.

2.4.1 PLAZA DAMAS

Plaza Damas is located in Sri Hartamas, in the Hartamas North area, which has been labeled as one of the "hottest growth area in Kuala Lumpur". (The Edge, 8, January 1996). The area has become one of the most attractive locations in Kuala Lumpur for the following reasons:-

i. land for development in Kuala Lumpur has shrunk dramatically;
ii. the area is flanked by the prestigious neighbourhoods of Damansara Heights and Bukit Tunku;
iii. the area is in close proximity with Kuala Lumpur city center. Major road linkage are available, Jalan Damansara and Jalan Duta interchange to the North South Highway as well as the New Klang Valley Expressway being nearby; and
iv. planned nearby developments and amenities include educational facilities e.g. the Garden International School nearby as well as private medical center and private colleges.

As it is a large scale integrated development comprising residential, commercial and retail properties, Plaza Damas has strong potential of being the commercial and focal point of Sri Hartamas and the neighbouring areas of Bukit Kiara, Mont Kiara, Bukit Tunku and Damansara heights. To the knowledge of the management of FEC (M) Ltd. , there is no other project, existing or planned in Sri Hartamas area which will rival Plaza Damas in size or diversity of developments.

The condominiums for the Plaza Damas project will be attractive to purchasers, not just because of Sri Hartamas' prime location but also its accessibility, being sited on land which fronts the main road from Sri Hartamas to Jalan Duta. Commuting to Kuala Lumpur's city center will be a convenient drive of about fifteen minutes. Despite concerns of a glut in the condominium market, property consultants expect that projects centrally located and accessible will continue to be sought after. Some of the quoted locations include the Damansara - Sri Hartamas area where it is viewed that the potential for capital appreciation exist (The Edge, 6 May 1996).

The office space to be developed at Plaza Damas will offer an attractive alternative to office in the Kuala Lumpur city Center because of its location. Being on the fringe of but yet within close distance to the city, workers in offices at Plaza Damas may avoid traffic congestion and businesses will be able to reap the benefits of lower rentals as compared to the city Center. According to the Bank Negara Report 1995, there was a slight decline in the average occupancy rate of offices in Kuala Lumpur city center in 1995 as companies relocated to new office building located at the city fringes and secondary areas to avoid traffic congestion and to take advantage of lower rentals. This current trend of decentralizing from the city center to suburbs is expected to continue if prices in the central business district remain high. (Lee & CO (Research) - Fund Manager's Digest 1996) This augurs well for the office developments at Plaza Damas.

It is anticipated that Sri Hartamas' surrounding affluent community will provide a ready market for the shops and shopping center at Plaza Damas once these developments are completed. Currently, there are no retail centers in Sri Hartamas, Bukit Kiara, Mont Kiara, Bukit Tunku or Damansara Heights. The nearest retail center are in Bangsar and in Petaling Jaya.

The shopping center at Plaza Damas is positioned to sell a wide range of affordable merchandise, not just to the upper class but to the middle income group. This enables the shopping center to tap into a wider market. This formula has proven to be successful for nearby shopping centers such as the Bangsar Shopping Center and 1 Utama Shopping Complex in Bandar Utama. A significant attraction of the retail center is Plaza Damas' huge car park with approximately 2,600 bays for the whole complex, which will enhance the retail center's popularity.

Aside from this, being away from the Kuala Lumpur city center and in an accessible location, Plaza Damas has a competitive edge when compared to the mega-malls being constructed in the city center because it is nearer to residential centers. Some property analyst now believe that shoppers prefer to patronize shopping centers which are closer to where they work and live and as such shopping centers in the city are likely to lose their market share to these shopping centers (Asiamoney, May 1996 - Property Sector Review).

2.4.2 *RESIDENTIAL DEVELOPMENT AT KAMPONG BALAKONG CHERAS - DESA KARUNMAS*

The proposed development site is located at Cheras, an area which is gaining popularity as a residential area due to improvements in infrastructure and accessibility, such as the Light Rail Transit 1 project and the Highway linking Cheras to Petaling Jaya and the Kuala Lumpur Seremban Highway. The Property Market Report 1995 notes that there were significant notes that there were significant price increases of 4% - 31% for certain areas, which included Cheras.

With the reduce number of new residential launches for landed units as noted in the Property Market Report 1995 coupled with its accessibility to Kuala Lumpur and Petaling Jaya via the Kuala Lumpur Seremban Highway, it is expected that terrace houses to be developed at the project sited at Balakong will meet with favourable response. Due to the strong demand for low and medium-low cost and medium cost apartments to be developed at this project are also expected to have a high take up rate. It should be noted that the development of these apartments is in line with the Government's objective under the 7MP, that the private sector play a major role in the implementation of housing programs, particularly the low cost and medium cost housing.

2.4.3 *INDUSTRIAL PARK AT TELOK GONG, PORT KLANG.*

The industrial park is located at Teluk Gong, Port Klang which is only 1 km away from the established Pandamaran industrial and residential estates in Klang. More importantly, the project is close to the Shah Alam Expressway linking

Kuala Lumpur/ Shah Alam/ Klang to the future Westport at Pulau Indah. Westport is being developed to handle large ocean-going vessels and when developed will have a larger capacity than Port Klang's North and South Ports combined. In the future, the industrial park in Port Klang will be easily accessibility to Port Klang and to the Kuala Lumpur International Airport at Sepang via the North South Central Link Expressway. It is expected that Klang will be undergoing rapid development. Under the Klang Draft Structure Plan 1986 - 2005, which is envisioned that Klang town will turn into a prime commercial center with adequate and affordable housing estates, condominiums, education, sports and recreational facilities.

Given the growth of Klang and its proximity with the new Westport, the industrial park in Port Klang will be an ideal place for medium sized industries.

2.4.4 SUMMARY

The projects that are currently under the company can be categorized into two categories. They are namely:-

i. Prime location

   The prime location properties are properties located at prime area such as Plaza Damas in Sri Hartamas.

ii. Secondary location

   These properties are located at the fringe of Kuala Lumpur. They are good properties that can have a high demand compared to supply.

Generally all the properties that the company has are digestible as they are located at locations that have a high demand.