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Maintaining the momentum

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How developers stay relevant in a pandemic

Growing demand: The local property market is seeing a rising interest in data centres as an alternative class of asset. — AP

WHILE the pandemic may have dampened an already softening property market, this does not mean that developers aren't taking measures or incorporating strategies to address the current crisis.

A property sector analyst points out that dealing with the global pandemic has not been easy, but adds that opportunities can be reaped regardless of how bad a situation is.

"Whether times are good or bad, companies owe it to their stakeholders to stay competitive and be ahead of the competition," he tells *StarBizWeek*.

Another analyst concurs, emphasising that while it is harder to accomplish goals during tough times, preparations need to be made for when things start to pick up.

"Nothing ever stays the same, be it good or bad times. With that in mind, moving forward is always key and in a global pandemic such as now, it is important to keep things going, so as to be prepared for any turnaround that may come."

The pandemic has certainly not held back property developers from acquiring more land.

Last week, Mah Sing Group Bhd announced that it had acquired a 100-acre piece of land in Sepang, with plans to develop affordable landed homes with an estimated gross development value (GDV) of RM656mil.

An analyst says the move would bode well for the company, given the high demand for affordable housing.

"To address the need for affordable housing, the government has proposed to build over 12,000 affordable homes in Putrajaya, which is around 30 minutes away from the Sepang district," he says.

Earlier this week, the Federal Territories Ministry, in collaboration with Putrajaya Corp, announced that it will build a total of 12,253 units of affordable housing under the Residensi Prihatin initiative. Currently in the planning phase, the initiative will involve 10 development projects in Presint 5, 7, 11, 16 and 19 and is expected to be completed in 2025.

The development would include facilities like a surau, multipurpose mall, kindergarten, nursery, trading spaces, badminton courts, children's playground and sheltered parking lots.

One industry observer says many affordable homes today are built in locations that are simply too inconvenient to live in.

"Many of them are located in areas where public transportation is a problem or there are no proper amenities."

He notes that the Residensi Prihatin initiative will resolve that problem.

"The amenities will in turn bode well for Mah Sing's development, which hopes to leverage on the established catchment and ready amenities within the vicinity."

RHB Investment Bank, in a note following the Sepang land acquisition, says it is raising Mah Sing's 2022 earnings marginally by about 1% to account for the incremental profits from M Senyum, the proposed affordable housing project that will be developed on the newly acquired land.

"Mah Sing's unbilled sales of RM1.76bil should provide good earnings visibility for the property development business."

TA Securities, meanwhile, says it is positive on the land acquisition, as the deal was in line with Mah Sing's focus to acquire prime land in strategic locations, especially within the Klang Valley.

"This new acquisition will increase the group's land bank to 2,096 acres with total remaining GDV and unbilled sales of RM25bil.

"Based on the estimated GDV of RM656mil (for M Senyum), the land cost makes up 14.6% of the total development value.

"As the land cost-to-GDV ratio comes below the general rule of thumb of 20%, we deem the acquisition price reasonable."

Separately, the pandemic has also not derailed any of Sunway Bhd's growth strategies, as the developer announced earlier this month that it is acquiring a parcel of freehold land measuring 3.34 acres in Cheras for RM42mil.

The proposed acquisition, which is expected to be completed by the third quarter of this year, is the group's first land deal for 2021.

TA Securities in a recent note says the acquisition would bode well for the developer.

"We are positive on the land acquisition as it will further expand the group's land bank in the Klang Valley, which is also in line with its objective to replenish land bank in strategic locations and be ready for launch over the near term.

"Overall, we expect the proposed freehold, close-to-transit development will cater to the pent-up demand for larger living spaces with more activities done at home as part of the new normal including working from home."

Meanwhile, Deloitte in a note on how property developers can respond to liquidity challenges in light of the pandemic, says developers should focus on special cash-flow management during the pandemic.

"We recommend that property developers design a cash flow budgeting and monitoring mechanism that is suitable to address the pandemic circumstances by increasing budget monitoring, improving sensitivity analysis, designing for comprehensive budget management, and coordinating the procurement, engineering, cost, sales, and human resource departments in budget formulation."

Deloitte also recommends that developers create an emergency management mechanism to identify crisis signals and early warning indicators.

"Large real estate groups should enhance cash flow management at the group level, with a special focus on concentration of payment authority and centralised management of capital."

It adds that comprehensive property groups that operate in multiple industries should pay special attention to the group's overall financial forecast and the operation of the monitoring mechanism, as well as isolate risks to avoid disproportionate distribution of capital in different industries and related risks.

"Businesses that are at the edge of a cash flow crisis should act quickly in decision-making, to centralise projects and regions and cash out certain projects to survive," Deloitte says.

For the property investor, Savills Malaysia deputy managing director and capital markets head Nabeel Hussain says the investment market will see some deals coming through this year, driven from long-awaited completion of deals from the last few years, post the 14th general election.

"There will be accelerated investments into quality logistics and out of less pandemic-proof sectors. We will see many more distress seller investors who simply need the cash now."

Knight Frank Johor branch head Debbie Choy says the local property market is seeing a rising interest in data centres as an alternative class of asset.

"Technological growth, fuelled by the industrial 4.0 revolution and 5G efforts by both the public and private sectors, increases the number of Internet users and durations.

"In the wake of the current pandemic, the importance of cloud computing has led to an increased demand for data centres as an alternative asset class."

She points out that there is an existing TM One Iskandar Puteri Data Centre in Iskandar Puteri, adding that there is also the ongoing construction of the 100,000-sq-ft Keppel Data Centre in Kulai Iskandar Data Exchange.

"Another data centre hub is located within Cyberjaya, Selangor. One of the key requirements for a data centre is to have stable power supply and Malaysia's ability to provide for this, along with more economical land prices as compared to our neighbouring countries such as Hong Kong and Singapore, gives appeal to investors and operators of the same category.

"We have begun to receive enquiries and expect to receive more in 2021," Choy says.