



JOURNAL OF VALUATION AND PROPERTY SERVICES

Vol. 5, No. 1, 2005

**Valuable Resources Of Malaysian Housing Developers:
The Resource-Based View**

Abdul Rashid Abdul Aziz, Ho Shiew Yi and Mastura Jaafar

**An Empirical Examination On The Use Of Asset-Backed Securities
As An Alternative Debt Financing: A Case Study Of Sunway City Berhad**

Rosalan Ali and Shafinar Ismail

**Speculation Or Rational Bases For Real Estate Pricing:
Understanding Condominium Values In Penang Before The Financial
Crisis Using A Hedonic Price Approach**

Chin Tung Leong, Arthur Preston and John Rice

**Corporate Real Estate Activities Of Listed Companies:
The Process Of Announcements And Related Listing Requirements**

Ting Kien Hwa, PhD

**Valuers' Perceptions On The Value Of Properties Located Proximate
To Transmission Lines**

Anuar Alias and Melati Baharuddin

Practice Notes:

**Strata Titles Act 1985 – Legal Needs, Implications And Impacts
Of The Recent Amendments: Part II**

Azimuddin Bahari, PhD

Budget 2005: Tax Exempt, Incentive And REITs

Ting Kien Hwa, PhD



National Institute Of Valuation
Valuation And Property Services Department
Ministry Of Finance, Malaysia

Publication Board

Valuation and Property Services Department
Ministry of Finance Malaysia

Chairman

Abdullah Thalith Md Thani
Director General
Valuation and Property Services Department

Advisor

Faridah Mohammed

Editor-in-Chief

Khuzaimah Abdullah

Executive Secretary

Zuraidar Husin

Production Executives

Kamarudin Yusof
Robaie Sadiyo
Khairul Nizam Jamal

Editorial Operations

Research and Development Centre
National Institute of Valuation (INSPEN)
Valuation and Property Services Department

Subscriptions

All orders and enquiries regarding subscriptions, sample copy requests, reprint services and further information, should be addressed to:

Director
National Institute of Valuation (Inспен)
No 5 Persiaran Institusi Bangi
43000 Kajang
Selangor Darul Ehsan
Malaysia

Subscription rate:

RM50 plus postage RM5

Aims and Scope

The Journal of Valuation and Property Services is a publication specially intended for property professionals to keep abreast with developments in the property industry as well as the real estate profession.

This journal serves as a platform for the exchange of information and ideas on property issues. It seeks to:

- address areas of major interest and practical relevance to the real estate profession
- create awareness of new theories, techniques and applications as well as related concepts relevant to the real estate profession
- discuss policy issues and regulations and their implications on the property market

We therefore welcome articles with theoretical and practical relevance to the real estate industry and profession, property valuation, property management, property investment and property market

Copyrights Reserved

Copyright of this journal is held by the Valuation and Property Services Department, Ministry of Finance Malaysia.

No part of this journal may be reproduced, stored in a retrieval system, transmitted in any form or by any means electronic, mechanical, photocopying, recording or otherwise without the prior written permission of the publisher. No responsibility is accepted for the accuracy of information contained in the text or illustrations. The opinions expressed in the articles are not necessarily those of the Editor or the publisher.

COMPLIMENTARY COPY
Not For Sale



JOURNAL OF VALUATION AND PROPERTY SERVICES

Vol. 5 No. 1 2005

CONTENTS

Valuable Resources Of Malaysian Housing Developers: The Resource-Based View	1
Abdul Rashid Abdul Aziz, Ho Shiew Yi and Mastura Jaafar	
An Empirical Examination On The Use Of Asset-Backed Securities As An Alternative Debt Financing: A Case Study Of Sunway City Berhad	15
Rosalan Ali and Shafinar Ismail	
Speculation Or Rational Bases For Real Estate Pricing: Understanding Condominium Values In Penang Before The Financial Crisis Using A Hedonic Price Approach	27
Chin Tung Leong, Arthur Preston and John Rice	
Corporate Real Estate Activities Of Listed Companies: The Process Of Announcements And Related Listing Requirements	41
Ting Kien Hwa, PhD	
Valuers' Perceptions On The Value Of Properties Located Proximate To Transmission Lines	51
Anuar Alias and Melati Baharuddin	
Strata Titles Act 1985 - Legal Needs, Implications And Impacts Of The Recent Amendments: Part II	63
Azimuddin Bahari, PhD	
Budget 2005: Tax Exempt, Incentive And REITs	71
Ting Kien Hwa, PhD	

Announcement

Notes to Contributors

REFEREE PANEL

Professor Dr. Andrew Baum
University of Reading
United Kingdom.

Professor Graeme Newell
University of Western Sydney
Australia.

Professor Dr. Muhamad Muda
Faculty Economy and Muamalat
Islamic University College of Malaysia.

Associate Professor Dr. Mohd Megat
Ghazali
Faculty of Geoinformation Science and
Engineering
Universiti Teknologi Malaysia (UTM)

Dr. Taher Buyong
Distinguished Academic Fellow
Kulliyah of Architecture and Environmental
Design
International Islamic University
Malaysia

Dr. Nasir Daud
Faculty of The Built Environment
University Malaya.

Dr. Ting Kien Hwa
Department of Estate Management
Faculty of Architecture, Planning and
Surveying
UiTM, Shah Alam
Selangor

Mr. Lim Kim Hoe
Deputy Director General I
Valuation and Property Services Department
Ministry of Finance

Dr. Norziha Md Zain
Director
Valuation and Property Services Department
State of Johor
Ministry of Finance.

Dr. Rahah Ismail
Director
Valuation and Property Services Department
State of Selangor
Ministry of Finance.

Dr. Zailan Mohd Isa
Director of Privatisation and Investment
Sector
Valuation and Property Services Department
Ministry of Finance.

Dr. Goh Ban Lee
USM Lecturer (retired)

VALUABLE RESOURCES OF MALAYSIAN HOUSING DEVELOPERS: THE RESOURCE-BASED VIEW

Abdul Rashid Abdul Aziz, Ho Shiew Yi and Mastura Jaafar
School of Housing, Building and Planning
Universiti Sains Malaysia,
11800 Minden, Penang, Malaysia

ABSTRACT

A study was conducted to look at the competitive resources of the private housing developers in Malaysia using the resource-based view (RBV) as the theoretical tool. Using a combination of research methods, starting with mailed survey questionnaires and then followed by in-depth face-to-face interviews, the study ranked fourteen resources according to their value, i.e. ability to exploit opportunities and/or neutralise threats. While some of the research findings conform to the observations of past studies on other industries, others interestingly do not, hence alluding to the unique characteristics of the private housing development sector in Malaysia. Practitioners can also take stock from the study to achieve high firm performance. The findings also provide a useful basis for future studies in this important economic activity.

Keywords: Malaysia, housing development, developer, resource-based view, valuable resources

INTRODUCTION

Since independence, the housing development industry has progressed to become an important economic activity in Malaysia. Private developers have been the prime driving force of the industry, fulfilling the responsibility of providing housing for the nation remarkably well. In fact, the government has relied on the private sector to provide housing for all income groups, including low-wage earners. Favourable economic conditions which have

increased purchasing power of house buyers have enabled housing industry to thrive. Except for the Fourth and Fifth Malaysia Plan time-frames when the nation suffered severe economic crisis, private housing developers consistently surpassed the target set for them by the government (see Table 1). Speculative housing however has become intensely competitive over the years due to ever increasing number of new players joining the industry, enticed by the prospect of making handsome returns.

Table 1: Housing performance of private developers

Period of Malaysia five-year plan	Units completed	Percentage from total achieved by private sector	Percentage of fulfilment against government target
Second (1971-1975)	64 862	37.3	-
Third (1976-1980)	199 490	55.0	199.5
Fourth (1981-1985)	104 800	51.3	30.0
Fifth (1986-1990)	196 319	96.3	36.4
Sixth (1991-1995)	551 613	98.0	142.8
Seventh (1996-2000)	724 153	98.1	130.5

Sources: Economic Planning Unit (1976; 1981; 1986; 1991; 1996; 2001).

Note: Private sector includes private developers, cooperative societies and individuals.

This paper presents the findings of a national study that looked into the competitive resources required by private developers in order to compete successfully in today's hostile housing development industry. For that, the ranking of the resources according to their 'value' (see below) was sought. Specific features of each of these resources were also investigate. To fulfil the research objective, the resource-based view (RBV) approach as developed by Barney (1991) was adopted as the theoretical tool.

One of the core arguments of the RBV is that a firm's internal resources provide a source of sustained competitive advantage. Of the four resource attributes, the research focused on value, i.e. the ability of the resources to exploit opportunities and/or neutralise threats. According to Barney (1995) the evaluation of the competitive implication of a firm's resources must begin by focusing on this attribute. The core idea of the RBV can be traced to earlier works such as by Selznick (1957), Penrose (1959), Ansoff (1965) and Andrew (1971). Since

its development, the RBV has found application in economics (Lockett and Thompson, 2001), strategic human resource management (Wright et. al., 2001), international business (Peng, 2001), marketing (Srivastava et. al., 2001) and entrepreneurship (Alvarez and Busenitz, 2001) academic disciplines.

RESEARCH METHODOLOGY

A questionnaire was drafted based on the literature search of previous empirically-tested RBV studies (i.e. Aaker, 1989; Hall, 1992; Carmeli, 2001; Kakela, 2002; Carmeli, 2004). A pilot test on three developers led to the addition of a few more variables and the omission of some. Respondents were asked to rate the variables listed in the questionnaires on a Likert scale of 1 to 5 (1 being insignificant, 5 highly significant) in terms of their value. Owner-managers or senior executives (managing directors, general managers and such like) were requested to answer the questionnaires as they have the best overall knowledge of their firm's resource base (Fahy, 2002).

Help was initially sought from the Real Estate and Housing Developers Association (REHDA), the largest trade association representing private developers in Peninsular Malaysia. On the basis of fore-warning by REHDA research officers that the response rate might be poor (even REHDA experience poor survey reception from its own members), it was decided that the questionnaires should be sent out to all its members rather than to adopt any sampling techniques. Questionnaires were also sent out to all members of the Sarawak Housing Developers' Association (SHDA). Sabah Housing Developers' Association (SHARED) declined to participate in the research and therefore its members were excluded from the study. In all, 1,677 survey questionnaires were sent out. As expected, only 40 completed questionnaires were returned, representing a response rate of 2.5%. Of these, 13 consented to being interviewed. The interviews provide the opportunity for the respondents to access people's perception as well as check on data consistency (Punch, 1998; Patton, 1990).

Table 2: Response rate

State	No of survey form sending out	No of returned questionnaire	No of interview
Kelantan	29	1	-
Terengganu	20	-	-
Pulau Pinang	154	6	-
Pahang	82	7	-
Negeri Sembilan	64	2	1
Perak	151	6	2
Johor	164	2	1
Melaka	113	-	-
Kedah / Perlis	115	2	1
Sarawak	186	5	4
Selangor	395	5	2
Wilayah Persekutuan (KL)	204	4	2
Total	1,677	40	13

The low response rate was compensated by the diversity of the firms that participated in the research in terms of geography (see Table 2), legal status (80.0% private limited, 12.5% public limited, 5% partnerships and 2.5% sole proprietors), age of firm (3 to 57 years), size (from 1 to 200 full-time employees) and turnover (for 2003, from RM0.3 million to RM600 million). The outcome was that the findings provide a broad portrayal of the industry's requirements for competitive resources.

FINDINGS

Table 3 shows the 14 variables in terms of value to the firms in descending order of their means. As mentioned before, valuable resources enable the firm to exploit opportunities and/or neutralise threats. This section elaborates on each variable based on interviews and contrasts the findings with available literature.

Table 3: Ranking of resources

Ranking	Firm's attribute	Mean	Standard deviation
1	Prime location	4.38	0.721
2	Cash flow	4.31	0.710
3	Assessing market potentials	4.27	0.804
4	Relationship with authorities	4.24	0.597
5	Top management	4.16	0.866
6	Organisational and service reputation	4.14	0.855
7	Ability to manage change	4.11	0.809
8	Relationship with competent support services providers	4.05	0.664
9	Skilled employees	3.92	0.759
10	Management tolerance to risks and uncertainties	3.86	0.918
11	Organisational strategy and policies	3.78	0.854
12	Staff training and development	3.59	1.040
13	Trade secret and project innovation	3.54	1.070
14	Part of a larger group	3.14	1.134

Source: Questionnaire survey.

Note: 1= insignificant; 2=little significance, 3=moderately significant, 4=significant, 5=highly significant

Prime location

Of all the firm's attributes, the respondents rank prime location the highest. Remarkably, one interviewee used the 'location, location, location' slogan when explaining this variable, what scholars (e.g. Snow, 1997; Brewer, 1998) in real estate do. From the field study, it was found that developers maintain land banks, which differ in size according to their financial means. Suitable lands are found either through own initiative or mediated by brokers (solicited as well as unsolicited). Joint venturing with land owners provides a means to reduce holding costs. As with developers elsewhere (Tse, 1998; Spiegel, 2001), the interviewees indicated that their land banks vary in size according to prevailing economic situation, i.e. acquiring lands when they are cheap in anticipation of greater capital gain some time in the future.

Cash flow

Cash flow recorded the second highest ranking. Housing development is capital intensive (Chiang et. al., 2002). While in most business situations return on investment is computed on net income, housing development, just like any real estate business, operates on cash flow (Wolitzer and Mildner, 1991). Several interviewees pointed to the most common cause of housing development failure as cash flow mismanagement. Good cash flow management provides strength to the firm. Steady cash flow also helps to secure bank loans. Some also alluded to a few Malaysian developers as being cash rich and therefore less constrained by cash flow. Even so, prudence dictates that they should borrow so that their cash resources are not tied up in work in progress (Dowdeswell, 2004).

Assessing market potentials

Whereas in the past, houses were built with little house-buyer focus, in today's competitive environment there is a crucial need to meet their ever-sophisticated preferences. Their preference for housing alternatives is a

function of objective and subjective characteristics (Nelson and Rabianski, 1988). In fact, some interviewees suggested that there is a need to be one step ahead of current market trends.

Real estate market is segmented by geographic location (Fisher and Webb, 1992). As elsewhere (Larsen, 2001), while there is a lot of information at the national level, the same cannot be said at the local level. Hence the importance of assessing market potential. One interviewee talked about the industry comprising a multitude of micro-markets. Good understanding of the market potential of a piece of land will determine the success of a development project. Developers have to undergo a learning curve with each unfamiliar locality. So highly specific are locational factors that developers contemplating developing a piece of land in an unfamiliar area may need to hire local people to assess its market potentials. For that reason, local developers have an edge over outsiders when developing a land within their locality. The field study found assessing market potential techniques range from the crudest of relying only on gut feel and observing competitors' projects, to the preparation of sophisticated feasibility study that incorporates desk research and field survey. Interviewees however emphasised that, no matter how rigorous the techniques may be, ultimately the decision of what to build on a piece of land rests on the entrepreneur's wisdom and judgement.

Relationship with authorities

Arguably, it is not the developers, but the bureaucratic regulators, that determine the landscape of towns and cities (Peiser, 1990). Housing development is highly regulated. In developing any housing project, approval must be obtained for land-use and development. Land administration in Malaysia differs from state to state as provided by the Malaysian Constitution (Omar, 2002). Hence, a developer

entering a new state needs to familiarise himself with the local land-use situation. Interviewees complained of the need to be constantly aware of ever-changing regulations. Furthermore, interviewees lamented about the lack of transparency, which opens up the opportunity for certain developers to form 'close rapport' with the authorities to 'bend the rules.' Malaysia is no exception in this regard; improprieties in property development have been documented in many countries including the Australia (Davies, 2004), USA (Stewart, 1998) and South Korea (Clifford, 1991).

Interviewees complained about the time it takes to get approvals, a problem that is also face when seeking land-use approvals (Agus, 2002). Planning approval may take up to three or four years (Usilappan, 1994), even as long as seven years (Singh, 1995). Developers lose money when the approval process takes too long (Friedman, 1997). Also, demographic, economic and technological changes might render the design inappropriate for the emerging market. Again, some developers may resort to dubious methods to expedite the approval process.

Top management

The returned postal questionnaires and interviews concurred with the observation of scholars about the importance of top management as an organisational resource, regardless of whether the organisations are family- or professionally-run. One interviewee likened top management as the driver and everyone else in the organisation as passengers. As far back as 1957, Penrose had already associated managerial capacity to firm growth. Several interviewees stressed on hands-on experience and expertise as the basis of top management guiding principles. Both these attributes often manifest as intuition or 'gut reaction', which comes into significance in strategic deliberations when there are unclear variables (Johnson and Levin, 1985) or missing information (Klayman and Schoemaker, 1993).

And certainly housing development is one economic activity that is fraught with many unknowns and information gaps. Byrne and Cadman (1984) highlight one source of uncertainties that is time-related. Because of the inevitable time-lag between conception and house-handover, housing development is especially vulnerable to broadly based and local, social, economic and financial changes.

Organisational and service reputation

Good reputation is essential for an industry where competition is stiff and house buyers have a wide range of choices of selecting which property they should purchase. It is all the more important when abandoned housing projects taken place far too frequently. Good reputation comes from completing projects on time and to the desired quality. Developers who want to remain in the business for a long time take great effort to nurture and protect their good reputation. This means building well-designed houses that are completed on time and with minimal post-construction defects.

Developers do not just build new neighbourhoods; they also build a reputation along the way (Martinez, 1997). Furthermore, good or bad reputation follows a developer wherever they go. Good reputation is also fragile; while it may take years to build up a good image, it can easily be destroyed due to complacency (Herbig and Milewicz, 1995; Schwartz, 2000). Strategically, Weigelt and Camerer (1988) point out that a firm's reputation becomes important in an incomplete information environment, when one firm does not know its rivals' pay-offs with certainty. Housing development certainly fits this description.

Ability to manage change

Respondents rated the ability to manage change as seventh in terms of value. Over the decades, the Malaysian housing industry has been subjected to major forces of change such as shifting preferences of housing types,

higher expectations in terms of design and quality, more intense competition, and ever-stringent legislative and regulative impositions. Being sensitive to shifting market conditions is therefore important for survivability and prosperity. Woolley et. al. (1997) had warned that the real estate players that survive are those with the ability and foresight to adapt quickly in the industry. Indeed, scholars like Kanter (1983) recommend that businesses should implement a strategy for managing change in increasingly uncertain environmental conditions.

Relationship with competent support services providers

Of the competent service providers, banks were the most frequently cited by interviewees. As pointed out earlier, housing development is capital intensive (Chiang et. al., 2002). Apart from government bureaucrats, bankers determine what gets built since most developers depend on them for financing (Peiser, 1990). Interviews pointed out that establishing a solid connection with financial institutions can result in less paper work, more favourable financial package and quick loan application process. Hence the importance of reputation to developers (see above). Banks too on the other hand align themselves with reputable and experienced developers for long-term commercial gains.

The other major services providers are the consultants (architects, quantity surveyors, engineers, town planners, etc.) who provide professional advice throughout the entire development process. Establishing good rapport with such parties that are competent translates into smooth development progress. As with banks, the other contributors to the development process also strive to establish long-term relationships with reliable developers. Literature-wise, Baker (1992) mentions the importance of developers in nurturing good relationship with accountants, lawyers and bankers.

Interestingly, contractors were not mentioned by any of the interviewees as one of the key services providers, perhaps as some have their own in-house contracting arms. For those that do not, the selection of contractors tend to be on competitive tendering basis. Implicit in this process is the rationale that any one of the tenderers is just as good as the other in undertaking construction work.

Skilled employees

Over the decades, scholars have consistently extolled human resources as a highly important, if not, the most valuable, asset to an organisation (Pfeffer, 1994; Huselid et. al., 1997). Contradicting this well-accepted philosophy are the respondents who gave relatively low ranking to this variable. When probed during interviews, it came to light that as developers outsource a large proportion of high-level knowledge-intensive activities, there is less need to engage and retain well-performing employees. Furthermore, employee flight, which is a common feature of labour relation in Malaysia, leads to loss of investment in people development. "If I want the skills, I can pay for it", said one interviewee. He went on, "Why should I bring in a trainee and train him? How sure are you that he will be reliable? I'd rather engage competent outsiders for the job."

At the same time, there were those who saw employees as company assets, arguing that those with long service understand the firm better than anyone else. Hence they are in the best position to influence project and company success. Companies that value their employees try to retain them through bonus schemes, promotion incentives, share options and such like.

The Malaysian housing development industry cannot lay claim to being the only economic activity where management practice diverge from management theory. In his paper, Sikula Sr. (2001) argues that many organisations do

not regard human resources in the manner propounded by scholars, as manifested by the treatment of employees as expenses and liabilities in the accounting sense, increasing use of part-time employees and temporary workers, and outsourcing of tasks.

Management tolerance to risks and uncertainties

All businesses take calculated risks to achieve their objectives (Stephen et. al., 2001). Among the risks associated with housing development pertain to construction, marketing, finance and interest rate (Marc and Brian, 2002). Housing development in Malaysia is certainly fraught with risks. As one interviewee remarked, "Don't think every time we put in money, the venture is guaranteed to make profit." Interestingly, the respondents give relatively low rating to management tolerance to risks and uncertainties as a resource. In an industry where every entrepreneur is a risk-taker (although the degree of tolerance to risks varies), having this attribute has little impact on competitiveness.

Organisational strategy and policies

Since the early 1960s, scholars (e.g. Ansoff, 1965; Mang, 2000, etc.) have been advocating the need for strategic planning. While there are real estate practitioners who echo this view (e.g. Sidenburg, 1998), there are others who do not find the prescriptive approach meaningful (e.g. Lewis and Drazga, 1999). Indeed, Mintzberg et. al. (1998) opine that strategic planning is of little practical use in an uncertain environmental context. The respondents to the present study concurred with the latter's viewpoint. As one cynic commented, "You can plan as far and as much as you want, the market will discipline you should the plan be wrong." Such cynicism is all the more interesting given that it came from an executive of a diversified public listed company. Several interviewees opined that projecting situations beyond five years is impracticable as the industry is subjected to housing cycles. One interviewee

mentioned that some developers plan according to the life span of the entire development projects but superimposed with additional short term planning of one to two years.

Strategic planning is also influenced by the management of the organisation. Self-made sole proprietors tend to make decisions based on gut feel, decisions in private family-run firms tend to be made by key family members while professionally run businesses tend to formalise their decision-making process.

Staff training and development

Scholars like Keep (1989) and Burden and Proctor (2000) have emphasised that training fortifies the organisation's competitiveness. Yet, the findings show that the industry does not think highly of human resource development, which ties in very well with their viewpoint about skilled employees (see above). As in Australia (Schaaafsma, 1997), the study found that learning-by-doing as the most common pathway to gain competences. Some executives did not see the logic of investing in training on staff that are likely to leave their organisations for better job offers. Others pointed to the difficulty of finding formal training programmes that are directly suited to housing development. There were a few interviewees who felt that staff training and development is vital for the long term success of the firm. Hence while some firms allocate a certain portion of their annual budget for staff training, others do not.

Trade secret and project innovation

Innovation is said to be central to organisational growth (Jagersma, 2003). Yet, innovation received the second lowest ranking, in part perhaps because of the little avenue to be innovative. One interviewee pointed out, "80 percent of the knowledge is widely available, and the remaining 20 percent is what developers do with that knowledge." Having said that, competitive pressures do force

Malaysian housing developers to be innovative. "Terrace houses have been designed to death, yet we still try", observed one interviewee. Innovation actually covers, not just the physical end product, but also the entire housing development process, which includes marketing, finance and even dealing with bureaucrats. Because of competitive pressure also, whatever innovation incorporated in one housing development project is very quickly 'borrowed' by other developers. Some executives even make it a point to visit foreign countries for new ideas. Hence the economic rent accrued from innovation very rapidly dissipates. One interviewee mentioned that he had borrowed a design idea for his apartment blocks from one of his trips to Hong Kong, only to find a nearby competitor adopting it just after his project was completed. Generally, a developer can actually be commercially successful in Malaysia without having to be particularly innovative.

Part of a larger group

Some of the Malaysian housing developers belong to part of larger groups. Those with in-house construction outfits gain from better construction cost, time and quality control, while those that belong to plantation groups derive the luxury of having huge land banks. Those belonging to cash-rich groups are better able to sustain during market downturns. The study however, found that being part of a larger group provides the least competitive leverage. Those that do not belong to large conglomerate can be seen to thrive just as well as those that do. In fact, during this current economic downturn, it is the smaller developers with low overheads that appear to be surviving better than the rest.

Literature on diversification and firm performance is mixed. Varadarajan and Ramanujam (1987) suggest that related diversification may be a necessary, but not sufficient, condition for superior performance. Amit and Livnat (1988) on the other hand found

that firms which diversify into related businesses have, on the average, higher profitability than non-diversified firms.

CONCLUDING REMARKS

This study has empirically demonstrated the applicability of RBV for explaining the resources profile of Malaysian housing developers. While the findings for some resources (e.g. top management, organisational and service reputation) concur with past studies, others (i.e. skilled employees, organisational strategy and policies, staff training and development, trade secret and project innovation) surprisingly do not. The contrasting results underscores the uniqueness of the speculative housing sector. In term of managerial implication, these findings call for the awareness on the importance of the firm's internal resources for firm competitiveness. The implication of the study is that successful entrepreneurs in other industries may not necessarily achieve similar performance in this economy activity. This study also provides the basis for subsequent in-depth studies on the competitiveness of speculative private housing developers

ACKNOWLEDGEMENTS

The authors wish to acknowledge the financial support from NAPREC which made this study possible.

REFERENCES

- Aaker, D. A. (1989), "Managing Assets and Skills: The Key to A Sustainable Competitive Advantage", *California Management Review*, Vol. 31 No. 2, pp 91-106.
- Agus, M. R. (2002), "The Role of State and Market in the Malaysian Housing Sector", *Journal of Housing and the Built Environment*, Vol. 17 No. 1, pp 49-67.

- Alvarez, S. A. and Busenitz, L. W. (2001), "The Entrepreneurship of Resource-Based Theory", *Journal of Management*, Vol. 27 No. 6, pp 755-775.
- Amit, R. and Livnat, J. (1988), "Diversification Strategies, Business Cycles and Economic Performance". *Strategic Management Journal*. Vol. 9 No. 2, pp. 99-110.
- Amit, R. and Schoemaker, P. J.H. (1993), "Strategic Assets and Organizational Rent", *Strategic Management Journal*, Vol. 14 No. 1, pp 33-46.
- Andrew, K. (1971), *The Concepts of Corporate Strategy*, Dow Jones-Irwin, Homewood IL.
- Ansoff, H. I. (1965), *Corporate Strategy*, McGraw Hill, New York.
- Baker, C. R. (1992), "A Guide to Project Financing", *The Journal of Bank Cost & Management Accounting*, Vol. 5 No. 3, pp 5-12.
- Barney, J. B. (1991), "Firm Resources and Sustained Competitive Advantage", *Journal of Management*, Vol. 17 No. 1, pp 99-120.
- Barney, J. B. (1995), "Looking Inside for Competitive Advantage", *The Academy of Management Executive*, Vol. 9 No. 4, pp 49-61.
- Brewer, J. G. (1998), "Location, Location, Location: Tunica County Case In Point", *Mississippi Business Journal*, Vol. 20 No. 21, pg 32.
- Burden, R. and Proctor, T. (2000), "Creating A Sustainable Competitive Advantage through Training", *Team Performance Management*, Vol. 6 No. 5-6, 90-97.
- Byrne, P. and Cadman, D. (1984), *Risk, Uncertainty and Decision-making in Property Development*, E. & F. N. Spon Ltd, London.
- Carmeli, A. (2001), "High- and Low-Performance Firms: Do They Have Different Profiles of Perceived Intangible Resources and Business Environment?", *Technovation*, Vol. 21 No. 10, pp 661-671.
- Carmeli, A. (2004), "Assessing Core Intangible Resources", *European Management Journal*, Vol. 22 No. 1, pp 110-122.
- Chiang, Y. H., Chan, P. C. and Hui, C. M. E. (2002), "Capital Structure and Profitability of the Property and Construction Sectors in Hong Kong", *Journal of Property Investment & Finance*, Vol. 20 No. 6, pp 434-453.
- Clifford, M. (1991), "South Korea: Land of the Bribe", *Far Eastern Economic Review*, Vol. 151 No. 9, pp 8-9.
- Davies, A. (2004), "Design Rules Won't Block Out Corruption", In *Finance CustomWire*, Dec 20.
- Dowdeswell, C. (2004), "What Finance is Available to the Smaller Residential Developer in The UK, and What is the Broker's Role in Arranging Such Finance?", *Briefings in Real Estate Finance*, Vol. 3 No. 3, pp 221-228.
- Fahy, J. (2002), "A Resource-Based Analysis of Sustainable Competitive Advantage in A Global Environment", *International Business Review*, Vol. 11 No. 1, 57-78.
- Fisher, J. D. and Webb, R. B. (1992), "Current Issues in the Analysis of Commercial Real Estate", *Journal of the American Real Estate and Urban Economics Association*, Vol. 20, pp 211-227.

- Friedman, A (1997), "Design for Change: Flexible Planning Strategies for the 1990s and Beyond", *Journal of Urban Design*, Vol. 2 No. 3, pp 277-295.
- Hall, R. (1992), "The Strategic Analysis of Intangible Resources", *Strategic Management Journal*, Vol. 13 No. 2, 135-144.
- Herbig, P. and Milewicz, J. (1995), "The Relationship of Reputation and Credibility to Brand Success", *The Journal of Consumer Marketing*, Vol. 12 No. 4, pp 5-10.
- Huselid, M.A., Jackson, S.E., and Schuler, R.S. (1997), "Technical and Strategic Human Resource Management Effectiveness as Determinants of Firm Performance", *Academy of Management Journal*, Vol. 40 No. 1, pp 171-188.
- Jagersma, P. K. (2003), "Innovate or Die", *The Journal of Business Strategy*, Vol. 24 No. 1, 25-28.
- Johnson, R. D. and Levin, I. P. (1985), "More Than Meets the Eye: The Effect of Missing Information on Purchase Evaluation", *Journal of Consumer Research*, Vol. 12, pp 169-177.
- Kaleka, A. (2002), "Resources and Capabilities Driving Competitive Advantage in Export Markets: Guidelines for Industrial Exporters", *Industrial Marketing Management*, Vol. 31 No. 3, 273-283.
- Kanter, R. (1983), *The Change Masters*, Unwin Paperbacks, London.
- Keep, E. (1989), "Corporate Training Strategies: The Vital Component?", In *New Perspectives on Human Resource Management*, Storey, J. (eds), Routledge, London, pp. 109-25.
- Klayman, J. and Schoemaker, P. J. H. (1993), "Thinking About the Future: A Cognitive Perspective", *Journal of Forecasting*, Vol. 12, pp 161-168.
- Larsen, M. (2001), "Commercial Experts Vie in Forecast Competition", *Inside Tucson Business*, Vol. 10 No. 52, pp 22.
- Lewis, D. and Drazga, D. M. (1999), "Construction Forecast", *ColoradoBiz*, Vol. 26 No. 3, pp 32-35.
- Lockett, A. and Thompson, S. (2001), "The Resource-Based View and Economics", *Journal of Management*, Vol. 27 No. 6, 723-754.
- Mang, P. (2000), "Crosstalk: Strategy and Management: Constantinos Markides Discusses Strategic Innovation", *European Management Journal*, Vol. 18 No. 4, pp 357-366.
- Marc, A. L. and Brian, T. M. (2002), "Managing Risk in Apartment Development", *Briefings in Real Estate Finance*, Vol. 2 No. 3, 203-209.
- Martinez, M. (1997), "3 Developers & Their Projects", *Wenatchee Business Journal*, Vol. 11 No. 4, pg 25.
- Mintzberg, H., Ahlstrand, B. and Lampel J. (1998), *Strategy Safari: A Guided Tour Through the Wilds of Strategic Management*, Free Press, New York.
- Nelson, T. R. and Rabianski, J. (1988), "Consumer Preferences in Housing Market Analysis: An Application of Multidimensional Scaling Techniques" *AREURA Journal*, Vol. 16, pp 138-159.
- Omar, I. (2002), "Rules Affecting the Land Development Process in Malaysia – A Review on Regulation of Environment Impact Assessment (EIA)", In 8th Pacific Rim Real Estate Society Conference, New Zealand, 21-23 January.

- Patton, M. Q. (1990), *Qualitative Evaluation and Research Methods*, Sage Publication, Newbury Park.
- Peiser, R. (1990), "Who Plans America? Planners or Developers", *Journal of the American Planning Association*, Vol. 56 No. 4, pp 496-503.
- Peng, M. W. (2001), "The Resource-Based View and International Business", *Journal of Management*, Vol. 27 No. 6, pp 803-829.
- Penrose, E. T. (1957), *The Theory of the Growth of the Firm*, Basil Blackwell Publisher, London.
- Penrose, E. T. (1959), *The Theory of the Growth of the Firm*, John Wiley and Sons, New York.
- Pfeffer, J. (1994), *Competitive Advantage Through People: Unleashing the Power of the Work Force*, Harvard Business School Press, Boston MA.
- Punch, K. F. (1998), *Introduction to Social Research*, Sage Publications, London.
- Schaafsma, H. (1997), "Alternative Pathways to Management Competence: Housing Construction", *Journal of European Industrial Training*, Vol. 21 No. 1, pp 19-25.
- Schwartz, P. (2000), "When Good Companies Do Bad Things", *Strategy & Leadership*, Vol. 28 No. 3, pp 4-11.
- Selznick, P. (1957), *Leadership in Administration: A Sociological Interpretation*, Harper & Row, New York.
- Sidenburg, D. (1998), "Real Estate Executive Plans to Serve Niche Market" *Des Moines Business Record*, Vol. 94 No. 9, pg 32.
- Sikula Sr., A. (2001), "The Five Biggest HRM Lies", *Public Personnel Management*, Vol. 30 No. 3, pp 419-428.
- Singh, G. (1995), "Land-use Planning and Development Control in Malaysia." In Pacific Asia Property Research Conference, Singapore.
- Snow, T. (1997), "Developers Must Learn High-Technology Trends", *Las Vegas Business Press*, Vol. 14 No. 30, pp 7-8.
- Spiegel, M. (2001), "Housing Return and Construction Cycles", *Real Estate Economics*, Vol. 29 No. 4, pp 521-551.
- Srivastava, R. K., Fahey, L. and Christensen, H. K. (2001), "The Resource-Based View and Marketing: The Role of Market-Based Assets in Gaining Competitive Advantage", *Journal of Management*, Vol. 27 No. 6, 777-802.
- Stephen, W. B., Anthony, P. and Paul, L. W. (2001), "A Road Map to Risk Management", *Journal of Accountancy*, Vol. 192 No. 6, pp 65-69.
- Stewart, B. (1998), "Consultants Investigated Over Bribes for Buildings", *New York Times*, August 8.
- Tse, R. Y. C. (1998), "Housing Price, Land Supply and Revenue from Land Sales", *Urban Studies*, Vol. 35 No. 8, pp 1377-1392.
- Usilappan, M. (1994), "Property Market Outlook", In 6th National Real Estate Convention, Kuala Lumpur, 7-9 August.
- Varadarajan, P. and Ramanujam, V. (1987), "Diversification and Performance: A Reexamination Using a New Two-Dimensional Conceptualization of Diversity in Firms", *Academy of Management Journal*, Vol. 30 No. 2, pp. 380-393.

- Weigelt, K. and Camerer, C. (1988), "Reputation and Corporate Strategy: A Review of Recent Theory and Applications", *Strategic Management Journal*, Vol. 9 No. 5, pp 443-454.
- Wolitzer, P. and Mildner, M. E. (1991), "Real Estate Workouts – Problems and Opportunities for The CPA", *The CPA Journal*, Vol. 61 No. 10, pp 33-36.
- Woolley, S., Morris, K., Melcher, R. A. and Anderson, S. (1997), "The New World of Real Estate", *Business Week*, Vol. 3545, pg 78.
- Wright, P. M., Dunford, B. B. and Snell, S. A. (2001), "Human Resources and the Resource-Based View of the Firm", *Journal of Management*, Vol. 27 No. 6, 701-721.

“AN EMPIRICAL EXAMINATION ON THE USE OF ASSET-BACKED SECURITIES AS AN ALTERNATIVE DEBT FINANCING: A CASE STUDY OF SUNWAY CITY BERHAD ”

Rosalan Ali and Shafinar Ismail
Department of Finance, Banking and Insurance
Faculty of Business Management
UiTM Shah Alam.

ABSTRACT

The objectives of the study are to evaluate the mechanism of Asset-Backed Securities (ABS) in Malaysia and examine the use of ABS by Sunway City Berhad as an alternative debt financing. The study examines only Sunway City Berhad as a case study because it is the first ABS in Malaysian capital market, and the launching of mortgage-backed securities since 1986 to asset-backed-securities in 2001. The study covers a period of financial years of Sunway City Berhad from 1999 as a pre-ABS to 2003 as post-ABS. The results of the study show that the use of ABS helps Sunway City to improve its financial performance gradually with the declining of its long term debt obligations and its ability to reduce its debt exposure as an effective risk management tool.

Keywords: Asset-Backed Securities, financial performance, financial years, debt obligations, risk management

1. INTRODUCTION

Securitisation began in the United States in the 1970s with the initiation of government funding programmes for residential mortgages, followed by private financings for mortgages and credit cards. Interestingly, since the beginning of the 1980s, it has become a global financing tool. As one of the fastest growing forms of finance, securitisation is now a feature of most financial markets, including Malaysia.

In the case of Malaysian market, the origin of securitisation can be traced back to 1986 when the government set up its national mortgage agency, Perbadanan Cagaran Malaysia (Cagamas) Bhd. Cagamas was formed on the model of Fannie Mae and Freddie Mae of USA. Accordingly, Cagamas functions as a Special Purpose Vehicles (SPV) between the house mortgage lenders and investors of long-term funds. Cagamas is by far the most important issuer of securitised instruments in Malaysia. Since 1986, the securities issued by Cagamas have acquired the name "Cagamas Bond" in Malaysian debt market.

Since asset-backed securities (ABS) were first introduced to the domestic market in 2001, much has been said about the potential for securitisation in Malaysia and the fresh impetus it brings to the capital market. Though three ABS deals followed quickly on the heels of the regulatory guidelines in 2001, the market has since little activity of a similar nature. This scenario is justified as the past year only saw two securitisation transactions coming into the market whilst another two deals that had long been in the pipeline eventually failed to make a debut for various reasons. With transactions worth

RM 2.37 billion to date, ABS only forms a miniscule fraction of the growing RM 113 billion debt market in Malaysia.

With the inconsistency market for asset-backed securities and development of bond market, this study attempts to examine on the use of ABS with reference to real estate as alternative debt financing in Malaysia since 2001.

2. SIGNIFICANCE OF THE STUDY

According to Rating Agency Malaysia (RAM) in their report on March 2005, asset-backed securities or securitization are increasingly getting popular in Malaysia. With sizeable transactions originated in the residential mortgage segment, securitization is poised for steep growth by 2010, as part of Securities Commission's 2001-10 Capital Market Master Plan to develop a viable bond market in Malaysia.

In view of the vast developments that have occurred in financial markets since the introduction of the asset securitisation in 1986, it recognizes the importance of developing a comprehensive capital framework for asset securitization, including both traditional forms and synthetic forms of securitisation. However, like many modern and sophisticated financial instruments, in the wrong hands or with the wrong strategies, many organisations may be on the path to destroy rather than enhance the rewards of asset securitisation.

Thus, this research is attempted to examine the use of asset-backed securities and their complimentary roles towards the development of active bond market in Malaysia by 2010 with reference to Sunway City as its pioneer.

3. RESEARCH OBJECTIVES

The objectives of the study are to overview of the Malaysian ABS market, examine mechanics of its securitisation and measure its viability as alternative debt financing in Malaysian capital markets.

4. RESEARCH SCOPE

The study will examine Sunway City Berhad because it was the first Malaysian Asset-Backed Securities (ABS) as alternative debt financing in Malaysian capital market. This study is timely and justifiable as Malaysia has introduced securitisation of housing government loans since 1987 as mortgage backed-securities as opposed to asset-backed-securities in 2001.

5. RESEARCH METHODOLOGY

The monthly data will be collected from the annual reports of Sunway City Berhad from 1999 to 2003. The year 1999 was chosen in order to reflect its financial before issuing ABS, and 2003 as its post-ABS. The data will be analysed using the descriptive statistical tool to measure the mechanism and viability of ABS in the Malaysian financial markets.

6. LITERATURE REVIEW

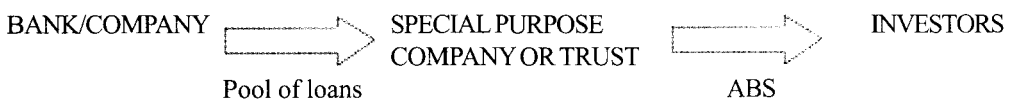
In finance literature, Asset-Backed Securitisation (ABS) is defined as a

creative way of raising funds through the issuance of marketable securities backed by future cash flows from revenue-producing assets. By trading procedure, securitisation is the transformation of an illiquid asset into a security that is issued and more importantly it can be traded in a capital market. Assets that have been transformed in this manner include residential mortgages, auto loans, credit

card receivables, leases and utility payments. The term asset-backed security (ABS) is generally applied to issues backed by non-mortgage assets (Ming, 2005). These asset securitisation techniques are being embraced by a number of Asian countries seeking to promote home ownership, to finance infrastructure growth, and to develop their domestic markets, including Malaysia.

Asset securitisation differs from collateralized debt or traditional asset-based lending in that the loans or other financial claims are assigned or sold to a third party, typically a special-purpose company or trust. This special-purpose vehicle (SPV) in turn issues one or more debt instruments (the asset-backed securities) whose interest and principal payments are dependent on the cash flows coming from the underlying assets. This process is outlined in Figure 1.

FIGURE 1: PROCESS OF ASSET-BACKED SECURITISATION



The technique of asset securitisation involves the separation of good assets from a company or financial institution and the use of those assets as backing for high-quality securities that will appeal to investors. The assets, financial claims or contract securing future revenue flows, are typically sold to a special-purpose entity that is independent of the originator's credit (Tan and Ting, 2004).

ABS process is a more complex transaction compared to the traditional funding approaches provided by the financial intermediaries. Unlike the traditional collateralized loans, ABS is a more sophisticated financial innovation that involves off-balance sheet transfer of assets into a Special Purpose Vehicle (SPV), which in turn issues marketable securities to fund the purchase of assets. This situation is understood as asset-backed differs from collateralized debt or sold traditional asset-backed lending in that the loans or other financial claims are assigned or sold to a third party, typically a special-purpose company or trust. Furthermore, the securitisation process begins when a lender (usually a bank or finance company) creates a special-purpose entity such as a corporation, a limited liability corporation, or a business trust, and transfers to it the ownership a portfolio of loans that are similar in type (mortgage, auto loan, and credit card), maturity, interest rate and their likelihood of default. As such, asset securitisation is a highly adaptable and versatile technique for mobilizing capital, notably debt financing.

The regulated Malaysian ABS with the guidelines of Securities Commission is timely for debt market as securitisation is already providing to an important option for governments seeking to promote private-sector growth and employment

and to access funding for infrastructure development, as contained in the Ninth Malaysian Plan. Interestingly, Malaysia was the first country in the region, probably one of the earliest among the developing countries to establish a secondary mortgage market with the launching of Cagamas bonds in 1987, referred as mortgage-back securities.

As noted earlier, the process of asset securitisation is a new and innovative financing method used for funding and risk management purposes. Evolved over the last few decades, securitisation represents a substantial and established part of US and global capital markets, including Malaysia. Therefore, Kuala Lumpur sets to transform mortgage-backed to asset-backed securities as contained in strategic planning of Securities Commission, 2001-2010.

Over the past 25 years, financial innovation has produced revolutionary changes in financial instruments and processes, notably assets securitisation. Therefore, a process of asset securitisation has now being regarded as a notable example of such innovation by global investors. Therefore, by trading procedure, securitisation can be viewed as the process by which pools of illiquid and relatively homogenous financial assets are converted into a tradable security in a secondary market.

Securitisation first came to prominence in the early 70's in the USA and has developed at a rapid rate with around 60% of all new residential lending currently funded through this techniques. In recent years, adoption of securitisation has become widespread in many other parts of the world including Europe and Australia. Past empirical studies attribute the growth in securitisation to its central

role in enabling financial firms to dissect their core functions as asset origination, servicing and funding. As such, securitisation allows loan originators to specialise in bearing only those risks in which they have a comparative advantage, while shifting other risks to banks and investors better able to absorb them. In other words, it recognises that the growth of firms specialising in origination of assets such as residential mortgages has enabled the development of securitisation markets, including Malaysian property market.

Literally, asset securitisation is the segregation of a particular set of cash flows from corporation's other assets and the issuance of the securities based only on these cash flows. The types of financial assets involved in asset securitisation transactions are frequently receivables. The practice of securitisation originated with the sale of securities backed by residential mortgages, but a wide variety of assets have been securitised including lease, auto loans and credit cards receivables, commercial mortgages, equipment leases, franchise fees, state lottery winnings and litigation settlement payments. Due to its dynamic innovations, it is expected that more unconventional assets have been the subjects of securitisations.

Securitisation has enjoyed high growth over the last two decades. Annual issues are over \$500 billion, current outstandings are \$2.5 trillion and \$5 trillion have been issued since the market's inception. In 2004, to highlight its significance, about one-half of mortgages and one-fourth of consumer credit are securitised in USA. Securitisation generally gives an opportunity to financial institutions to sell off large fixed income portfolios, thereby obtaining financing potentially less

expensive than through direct borrowing and also possibly improving risk sharing. As a result of this, securitisation has the potential to alter the wealth and the risk of the securitising corporation, and hence, ABS is seen to provide a hedging tool as in the cases of derivatives.

Over the past two decades, ABS has developed remarkably worldwide and has grown into an alternative, attractive and importance source of funds in the capital markets. However, as mentioned before, the asset backed securities process involves much more complicated transaction arrangements than the traditional funding approaches provided by financial intermediaries, and in particular more complicated regulatory problems and relevant arrangements which in fact to a large extent determine whether or not successful asset backed securitization transaction can be carried out, notably the new ABS markets.

The asset backed securitisation process involves a number of important third party that provides various commitment and services to an asset backed securitisation transaction such as credit support provider, underwriter, paying agent, custodians, and rating agency. As such, they can affect the structural and procedures feature of asset backed securitisation transactions by means of different ways. While the basic transaction of asset backed securitisation is the swap of securitised asset and funding proceeds between the originator and the SPV, the specific structure of asset backed securitised transactions are often complicated due to the involvement of the different types of third party, notably the degree of default by the issuers, as in the cases of bond market.

As mentioned before, securitisation involves packaging financial promises and

transforming their cash flows into a form whereby they can be freely traded among investors. The market for asset backed securitisation (ABS) that includes home equity loans, credit cards, automobile loans and equipment leases, increased from \$316 billion in 1996 to \$1.69 trillion in 2003. Securitisation has been very popular in USA with commercial banks, lending subsidiaries of industrial companies (such as General Motors Acceptance Corporation) and other specialised lending institution such as The Money Store with approximately 60% of the residential mortgages and a similar fraction of revolving consumer credit (credit cards) securitised.

7. PROFILE OF SUNWAY CITY

7.1 Corporate Structure

Sunway City Berhad (Suncity) was incorporated as a private limited company under the Company Act, 1965 on 13 July 1982 as Sri Jasa Sdn Bhd and subsequently changed its name to Sri Jasa Development Corporation Sdn Bhd on 1st December 1986 and Bandar Sunway Sdn Bhd on 25th July 1987. It was converted to a public limited on 24 July 1995 and assumed its present name as Sunway City Berhad on 2 April 1996. Sunway City Berhad (Suncity) is a member of The Sunway Group, one of the largest Malaysian conglomerates.

The company was officially listed on the main board of Bursa Malaysia Securities in 1986 (formerly known Kuala Lumpur Stock Exchange). Sunway City Berhad (Suncity) is one of the country's fastest growing property development and property investment companies. It has 21 subsidiaries in various sectors namely

entertainment, hospitality, healthcare, industrial and residential properties.

The principal project of Suncity was the development of the 494-acre Sunway City into an integrated township. Through subsequent land acquisition, the township development finally spanned over 800 acres. The success of Sunway City spurred on the developer to take on various developments around the country, most notably the 1,309-acre Sunway City Ipoh, a joint-venture development with Perbadanan Kemajuan Negeri Perak in 1996.

The company has received various great achievements since it was commenced. First and foremost, Suncity has received four recognitions from World FIABCI Award. The first reward was won by Sunway Lagoon Theme Park as its "Best Resort / Leisure Development" in 1993, "The Best Shopping Centre" award went to Sunway Pyramid in 2000, "The Best Hotel Development Award" was won by Sunway Lagoon Resort Hotel in 2001 and Sunway Lagoon Resort has won the prestigious "FIABCI d' Excellent Award" in the Leisure Category.

7.2 Reasons For Asset Securitisation

Suncity had undertaken the securitisation exercise for the following reasons:

- I. To enable the company to obtain a fair sale price for the properties owned
- II. To enable the company to continue to enjoy productive use of the properties by a sale and leaseback option

- III. To reduce gearing of the company, enhance earnings per share and other performance ratios of the company
- IV. To raise funds for working capital and expansion of the company's property development business at a lower cost.

Sunway City Berhad ABS exercise in 2001 is a landmark property deal as it involves the largest property and asset sale by a single corporation in Malaysia. In fact, Suncity was the first

ABS that is backed mainly by property assets. The company has securitised the portfolio of properties and asset of seven Suncity's subsidiaries commencing at 30 October 2002. The portfolio comprises Suncity's corporate headoffice building (Menara Sunway), three hotel buildings (Sunway Lagoon Resort Hotel, Sunway Hotel Penang, Sunway Hotel Seberang Jaya), college buildings (Sunway college), Sunway Lagoon Theme Park & Surf Pool and Sunway Pyramid Preference Shares.

FIGURE 2: THE TERM OF ABS NOTES BY SUNWAY CITY BERHAD

Terms	Sunway City Bhd
SPV/Issuer	ABS Real Estate Bhd (AREB)
Arranger/Lead manager	Deutsche Bank (Malaysia) Bhd
Mode of issue	Private placement
Date announcement	16 May 2002
Primary subscriber	Deutsche Bank (Malaysia) Bhd
Facility description	ABS notes issued via an asset backed securitization comprise: a) Senior Notes Class A, B, C1 and C2 b) Subordinated Class D Notes
Issue size	Senior Notes Class A RM 120 million Class B RM 75 million Class C1 RM 45 million Class C2 RM 210 million Subordinated Notes Class D RM 466.20 million
Legal maturity date	6 years from the date of issue of the ABS notes

Coupon rate	Senior Notes Class A 5.25% Class B 5.75% Class C1 8.00% Class C2 7.875% Subordinated Notes Class D 20.00%
Coupon frequency	Semi-annual based on actual / 365 days
Redemption	Senior ABS Notes Mandatory redemption on legal maturity date. Early redemption possible by Suncity. Subordinated Notes It can only redeemed after all outstanding principal and interests have been fully repaid.
Status of the ABS Notes	Secured against properties, shares, lease payments on the properties and redemption and dividends of the redeemable preference share.

FIGURE 3: THE FINANCIAL PERFORMANCE FOR FINANCIAL YEAR (FY) 1999 - 2003 ON SELECTED FINANCIAL RATIOS

RATIO	FY 1999 (RM'000)	FY 2000 (RM'000)	FY 2001 (RM'000)	FY 2002 (RM'000)	FY 2003 (RM'000)
a) ROA	$\frac{13626}{2060319}$ = 0.66%	$\frac{(280)}{2077288}$ = -0.013%	$\frac{6282}{2134442}$ = 0.29%	$\frac{118440}{2083844}$ = 5.68%	$\frac{25480}{2277724}$ = 1.1.9%
b) ROE	$\frac{13626}{429039}$ = 3.18%	$\frac{(280)}{600671}$ = 0.047%	$\frac{6282}{603607}$ = 1.04%	$\frac{118440}{735009}$ = 16.11%	$\frac{25480}{762858}$ = 3.34%
c) DTA	$\frac{1472917}{2060319}$ = 0.715 X	$\frac{1130052}{2077288}$ = 0.544 X	$\frac{1188682}{2134442}$ = 0.557 X	$\frac{1095622}{2083844}$ = 0.526 X	$\frac{1225476}{2277724}$ = 0.538 X
d) DTE	$\frac{1472917}{429039}$ = 3.43 X	$\frac{1130052}{600671}$ = 1.88 X	$\frac{1188682}{603607}$ = 1.97 X	$\frac{1095622}{735009}$ = 1.49 X	$\frac{1225476}{762858}$ = 1.61 X
e) NTA (Per Share)	RM 1.43	RM 1.42	RM 1.43	RM 1.77	RM 1.87

Key:

ROA = Return On Assets (Measure the ability of a firm to make net income for every ringgit invested in assets)

ROE = Return On Equity (Measure the ability of a firm to make net income for every ringgit provided by shareholders)

DTA = Total Debt to Total Assets (Measure the portion of capital funded by debt on its assets)

DTE = Total Debt to Total Equity (Measure the relationships between debt and equity capital)

NTA = Net Tangible Asset (Measure the net value of a firm per share basis)

8. Results and Discussion

Sunway City Berhad is the Malaysia first property backed securitisation. Suncity entered the asset-backed securitisation (ABS) as one of the sources of long term debt financing. The purpose is to manage their debts and to focus on its core business, property development. This company which represents as an originator in ABS transaction, has sold their assets and shares to the special-purpose vehicle (SPV), namely, ABS Real Estate Berhad (AREB) worth RM 892 million.

The portfolio of property and assets being securitised show very good performance in the Malaysian market. It consists of Sunway College building and land, Sunway Lagoon Resort Hotel building and land, Sunway Hotel Penang building and land, Sunway Hotel Seberang Jaya building and land, Menara Sunway Office building and land, plant and equipment in Sunway Lagoon Theme Park and Redeemable preference shares (PRS) in Sunway Pyramid Sdn Bhd. Suncity raises RM 450 million from the ABS issues by AREB.

Upon completion of its ABS in FY 2001, Sunway City has recorded a better financial performance since 2001 as demonstrated by FIGURE 3. The return on asset and equity indicating its ability to make better profits, have been improving. Likewise, its debt obligations have been declining, indicating its efficiency managing its debts. The net tangible asset per share also increases to RM 1.81 per share indicating the added value of its shareholders' fund. More importantly, Sunway City expects to repay approximately RM 348 million in bank borrowing hence reduce its gearing from 1.34 times to 0.78 times, as a result of ABS transactions.

As measured by financial ratios, Suncity demonstrates its ability to make its ABS as a new and innovative financing and risk management purposes. In other words, its' ABS can be viewed as the process by which pools of illiquid and relatively homogenous financial assets are converted into a tradable security in a secondary debt market.

From risk management perspective, Suncity ABS allows its loan originators to specialize in bearing only those risks in which they have a comparative advantage, while shifting other risks to third party. As such, Suncity has valuable time to focus its property developments as a core business, without fearing on the volatility of domestic interest rates and inflationary pressure.

In addition, with ABS, Suncity gives the opportunity to banks to sell off large fixed income portfolios and subsequently obtaining inexpensive financing as opposed to direct borrowings. As such, Suncity has an ability to improve its risk sharing and the potential to create the value of the firm, and hence, wealth of shareholders.

With the success stories of its first ABS, Sunway Group securitised further its quality assets. In mid-August 2003, its two subsidiaries, Sunway Holdings and Sunway Construction have undertaken another real estate backed securitisations. The securitisation will involve the disposal of properties and companies owned by Sunway Holdings and Sunway Construction worth RM 185 million and RM 55 million, respectively.

9. Concluding Remarks

Through the analysis that have been done, it can be said that despite securitisation being slow to take off in 2002, the

Malaysian market should brace itself for more exciting times ahead, to come, buoyed by strong investor-appetite for highly rated papers and growing confidence in heavily structured instrument. In the means time, the major challenges for the market will revolve around accounting and regulatory issues, concerns over which may have somewhat dampened activity to date. Though guidelines on issuing ABS are available, much of the market processes remain untested as they are still in the early stages of development. Transparency, long and lengthened approval process, and unclear standards of application are some of the more common issues in ABS transactions.

Further, the legal and tax implications for the various transaction parties in an asset securitisation arrangement still represent a grey area to the market participants. Asset securitisation is still a relatively new financing concept and it will take time for it to be fully developed in Malaysian market. Overall, it can be said that securitisation activities have increased significantly in several Asian countries that include Korea (1997) and Singapore (1998). In Malaysia, the trend for securitisation has been growing since 2001 with the introduction of the 2001-2010 Capital Market Masterplan by Securities Commission.

The fact that Islamic institutions have a growing participation in the global securitisation business is an affirmation of the success they have achieved during the last three decades. Interning Malaysia as a hub of Global Islamic Capital market, Malaysia also engaged in Islamic Securitisation in which the first issuance of the Islamic ABS is in year 2003.

With the ABS framework in place, the ABS provides significant benefits to the

parties involved in this securitisation exercise. From an originator's perspective, securitisation provides a vehicle for transforming relatively illiquid financial assets into liquid and tradable capital market instruments. Besides, cash strapped companies with weak credit ratings but having good cash flow generating assets will have access to a wider scope of corporate financing options and at cheaper funding costs.

Likewise, the variety and flexibility of credit, maturity and payment terms made possible through securitisation structures provide investors a much broader selection of fixed income products in the Malaysian market.

The establishment of liquid and efficient secondary securitisation markets would also have the effect of increasing the availability of financing options and also reduce the cost of financing in primary markets. It will encourage the efficient allocation of capital by subjecting credit-granting activities to the pricing and valuation discipline of the capital markets. As such it is in like with the aspiration of Malaysia to develop an active bond market.

Of equal importance is the fact that securitisation can serve as an effective risk management tool for corporate, particularly financial institutions, to minimize their interest rate and maturity mismatches. By securitising their loans and receivables, financial institutions would be able to offer long-term fixed-rate financing to their customers without significant exposure to the risk of interest rate and maturity mismatches. Hence, securitisation offers an ideal mechanism by which financial institutions can shift their concentrated credit, interest rate and market risks associated with their portfolio activities to the more diverse

capital market, thereby reducing risks of individual institutions and systemic risks within the financial system.

There are three biggest assets types of ABS transaction in Malaysia, which are Government Housing Loan, Infrastructure and Property Receivables, amounting 28%, 12%, and 11% respectively. Nevertheless, ABS in Malaysia seem to exhibit a great potential in securitisation of pool of SME loans, toll receivables, commodities receivables and future rights to entertainment royalty payments.

Therefore, it is expected that with the efforts put in to remove the tax and accounting impediments, more efficient and facilitative framework will be created to facilitate the development of securitisation in Malaysia. Given time, asset securitisation will emerge as a viable and significant source of competitive financing for the corporate sector in Malaysia. As such, private sector is set to increase their investments via cost-effective ABS financing as a creative way and strategic tool to meet a new-launched of Ninth Malaysian Plan.

10. References

- "Analysts Impressed by Strong Branding by Suncity," 7 March 2005, <http://www.suncity.com.my>
- "Suncity Finds Niche Market," 16 February 2005, <http://www.suncity.com.my>
- Sunway City Berhad Awarded the Superbrands Malaysia Award," 7 March 2005, <http://www.suncity.com.my>
- Baljeet Grewal, "Dynamics of Asset-Backed Securities," The Star, 2 August 2004.
- Chong Kwee Siong and Siew Suet Ming, "New Issue Company ABS Real Estate Berhad," RAM Structured Finance Ratings, October 2002.
- Eugene F. Brigham and Micheal C. Ehrhardt (2005), 11th Edition, Thomson South-Western
- Frank K. Reilly and Keith C. Brown(2003), "Investment Analysis and Portfolio Management", 7th Edition, Thomson South-Western
- Guidelines on the Offering of Islamic Securities, Securities Commission, 26 July 2004.
- Guidelines on the Offering of Private Debt Securities, Securities Commission, 26 July 2004.
- Saranpal Singh and Siew Suet Ming, "CREB Transactions: RAM's Approach to Liquidating Real Estate-Backed Portfolios," RAM Structured Finance Ratings, 17 February 2004.
- Saranpal Singh and Siew Suet Ming, "Rating Review ABS Real Estate Berhad," RAM Structured Finance Ratings, March 2005.
- Siew Suet Ming, "ABS Round-up 2003: set for strong Issuance of ABS and Structured finance Debt in 2004," RAM Structured Finance Ratings, 16 February 2004.
- Siew Suet Ming, "In the footsteps of CREB Transactions: RAM's Views on Asset-Backed Financing," RAM Structured Finance Ratings, 31 October 2003.
- Tan Yen Keng and Ting Kien Hwa, "The Development of Asset Securitization in Malaysia," in 10th Pacific RIM Real Estate Society Annual Conference, January 2004.
- W. Carl Kester, Richard S. Ruback and Peter Tufano (2005), "Case problems in Finance", 12th Edition, McGraw-Hill.

Speculation Or Rational Bases For Real Estate Pricing : Understanding Condominium Values In Penang Before The Financial Crisis Using A Hedonic Price Approach

Ching Tung Leong, Arthur Preston and John Rice

Abstract

This study investigated whether valuation of condominiums during the “value boom” prior to the Asian financial crisis was based absolutely on buyers’ speculation, or on the buyers’ evaluations of the housing attributes. To achieve this, the hedonic price model was used to investigate the effects of locational, structural, and neighbourhood attributes on the price of condominiums, and to examine whether buyers are willing or unwilling to pay for desired (or undesired) housing attributes. The sample comprised 177 actual condominium sales transacted in the year of 1996. The transaction records were randomly selected from six major estate development areas on Penang island. Using the semi-natural logarithmic functional form and the Ordinary Least Squares method, 10 independent variables were regressed onto the exchange price of the condominiums. Square terms were added for the continuous variables of distance to CBD, floor area and floor level to examine if the respective degree of change in these variables occur at an increasing or decreasing rate. The results revealed that buyers were rational and that the valuation of condominiums in Penang is attribute-driven. Cemetery view and distance to CBD registered negative coefficients, while all other attributes influenced the price positively. Proximity to shopping centres was statistically insignificant.

Key words: Hedonic price model; Asian financial crisis; condominium valuation; Penang.

Introduction

The financial crisis in Asia that began with the devaluation of the Thai bath in July 1997, had significant economic and social impacts throughout the region. In particular, many newly industrialised countries, particularly Indonesia, Taiwan, Hong Kong, Korea and Malaysia, suffered from currency devaluations that had a devastating effect on their economics. For example, the economy in Malaysia which on average had grown at 8.7% for the 10 years prior to the crisis, slumped to a negative growth of -4.8% (Usilappan, 2000).

The construction and property boom that took place in the 1980s came to an abrupt halt during the crisis. In Penang, Malaysia records showed that there was a massive increase of over 600% in the number of condominiums built between 1995 and 1996 (Geh, 2000). However, during the crisis many developers of these luxurious condominiums could not find buyers. According to records, Penang was the worst hit state during the crisis in 1998 (Usilappan, 2000), and there were thousands of unsold units of condominium in that year. Abandoned projects were also common. The situation became so serious by the first quarter of 1998 that the government made the unprecedented move of holding a "Home Ownership Campaign" nationwide to stimulate growth in the home ownership sector.

This scenario is in stark contrast to the situation before the Asian financial crisis. Prior to the crisis, prices of condominiums soared to such unprecedented levels as to give the impression that valuation of properties in Penang during that period was purely speculative, and property prices were insensitive to the housing attributes.

Literature on the hedonic price approach reviewed below indicated that it is generally understood that prices of properties are linked to the preference for particular housing

attributes. A review of extant literature also revealed that numerous empirical studies have been conducted to examine the relationship between attribute preference and the price of properties. However, to date, no empirical work specific to Penang has investigated attribute preference for properties with respect to locational, structural and neighbourhood attributes, whether before, during or after the financial crisis.

Hence, the aim of this study was to apply the hedonic price model to examine the relationship between the price of condominiums and the attributes of the condominium units prior to the property market crash during the Asian financial crisis. Implicit prices of the locational, structural and neighbourhood attributes of the condominiums in Penang were analysed to ascertain if the valuation of the condominiums were based purely on buyers' speculation or on their rational judgement of the housing attributes.

The Hedonic Price Model

The hedonic price model, developed from the works of several scholars, including Lancaster (1966), Rosen (1974) and Freeman (1979) has hitherto been extensively used to assess the attributes affecting the price of a product, as well as the marginal contribution of each attribute.

The hedonic price approach views individual properties as composite commodities, comprising a bundle of attributes. Typically, the housing attributes are classified into locational traits (L), structural traits (S), and neighbourhood traits (N). The market price (P) of the property is expressed as:

$$P = f(L, S, N) \quad (1)$$

The Partial derivative of the above hedonic function with respect to any attribute is the marginal change in the valuation of the

property, *ceteris paribus* (Rosen, 1974). This implicit price of the housing attribute is revealed in the regression coefficient, as the hedonic pricing approach employs the regression technique to measure the implicit prices of the property (Freeman, 1979; Rosen, 1974). Under the assumption that there is an equilibrium of demand and supply for the housing attributes, the implicit prices that are revealed indicate the buyers' valuation of each of the attributes. The price of the property, then, is the sum of the implicit prices for its attributes.

Locational Attributes

Locational attributes, such as distance to the central business district (CBD) and job accessibility, have been found to affect house prices. In most studies, accessibility to the CBD has been operationalised in terms of travelling time, cost of travel, convenience and availability of different transport modes (e.g., Chau, Ng & Hung, 2001; So, Tse & Ganesan, 1996). Savings in transportation cost and frequency of transport services appear to have a positive impact on house prices. However, Kain and Quigley (1970) found that higher income households with higher education tend to live farther away from the CBD, suggesting that house price is determined not only by accessibility or travel costs, but possibly also by air pollution and other environmental attributes of the location.

View is also associated with the location of a dwelling site (Benson, Hansen, Schwartz & Smersh, 1998; Mok, Chan & Cho, 1995). Properties endowed with a view usually command higher premiums. Mok *ital* year for example, found the coefficients positive for sea-view as buyers are willing to pay for a view of the sea. There were also studies that indicated a strong positive correlation between view and floor level (So *ital*., 1996). Besides, units located on higher levels are comparatively less noisy and cleaner.

Tse and Love (2000) found that cemetery view has a negative impact on house prices. It is plausible to surmise that many buyers would not favour such morbid views, particularly those who are superstitious and who prefer good feng shui (geomancy).

Structural Attributes

Structural attributes previously studied include floor area (Carroll, Clauretie & Jensen, 1996; Mok *ital*., 1995), number of rooms, bedrooms and bathrooms (Fletcher, Gallimore & Mangan, 2000; Garrod & Willis, 1992; Linneman, 1980; Mok, 1995; Rodriguez & Sirmans, 1994). Generally, buyers are willing to pay more for more space, thus bigger units in terms of actual floor area or number of rooms, usually fetch higher premiums.

Researchers also surmised that building age is negatively related to property prices. Kain and Quigley's (1970) study showed that a new structure sold for \$3,150 more than an identical unit that was 25 years old. They found that this was due to the fact that, *ceteris paribus*, older houses are worth less because they incur more costs in maintenance and repair, and also have decreased usefulness due to changes in design, electrical and mechanical systems (Clapp & Giaccotto, 1998).

Neighbourhood Attributes

Linneman (1980) found that about 15 to 50 percent of the standardised variation in site valuations is attributed to neighbourhood attributes and for structurally identical sites, as large as 100 percent of the difference in site valuations is induced by neighbourhood attributes. Goodman (1989) argued that neighbourhood attributes cannot be explicitly valued. They can only be implicitly valued through hedonic pricing by comparing properties with differing neighbourhood qualities. Factors that enhance neighbourhood

quality will have a positive impact on house prices whereas negative externalities will depress the value.

Mok *ital.* (1995) and Tse and Love (2000) found that the provision of facilities in large housing estates, such as private clubhouse, swimming pool, landscaped garden, gymnasium and various kinds of sports facilities would increase the prices of such properties.

Haurin and Brasington (1996) report that the quality of public schools, measured in terms of expenditures per pupil (Ketkar, 1992) and student achievement levels (Clauretie & Neill, 2000; Jud & Watts, 1981; Ketkar, 1992; Walden, 1990) has a significant influence on property prices. Clark and Herrin (2000) assert that attributes of schools have a greater impact than either crime or environmental quality.

Past studies also indicate that proximity to shopping complexes and the size of shopping centres affect the value of residential properties (Des Rosiers, Lagana, Theriault & Beaudoin, 1996; Sirpal, 1994). Proximity to shopping centres reduces travelling costs and makes shopping convenient. Des Rosiers *et al.*, however, commented that shopping centres could be associated with some negative externalities such as congestion and noise pollution.

In summary, there is a strong body of hedonic price literature that links housing attributes to property prices.

Method

Population and sample

In this study, data from private residential condominium sales were used due to the fact that the market prices for public housing are determined both by market factors and government housing policies, where the government subsidises the final price for social

reasons. Moreover, only low-income earners are qualified to purchase the properties.

The population was the total sales transacted for the condominiums from 1 January to 31 December in the year of 1996 (3221 records). The year 1996 was selected because it was the period prior to the crisis during which property sales were particularly brisk and the prices were relatively high but stable. These data were derived from the sales records randomly selected from six major estate development areas on the island. The areas were the Northern Coast, Georgetown, Air Itam/Paya Terubung/Farlim, Greenlane/Jelutong, Gelugor/Batu Uban/Sungai Nibung, and Bayan Baru/Bukit Jambul/Relau/Sungai Ara. Although the data were derived from the six major areas of development, the condominium units basically shared similar attributes and variations in building qualities were negligible. The homogeneous feature of the condominiums within similar price ranges complies with underpinning assumptions of the hedonic price model.

The 3221 transactions were scrutinised. Repeated records and records with incomplete information were not taken into consideration. The vital information required was the transaction price, transaction date, address of the unit, actual floor area (in square feet), and all the attributes that will be included in the regression analysis. After vetting through the transaction data, usable data were 776 records. The actual sample that was used in the hedonic price analysis, comprised 177 records that were randomly chosen from these 776 records.

Data Collection

The data for the study were sourced from Raine and Horne International Zaki & Partners Sdn. Bhd., one of the Professional real estate agents in Penang. Information on all property transactions is usually acquired from the government through the Valuation and

Property Services Department by the real estate agents, such as Raine and Horne International Zaki & Partners Sdn. Bhd. These official data are then made available to members of the public.

To verify the attributes of the units in the sample, two visits to the condominiums were carried out. The first time us distance visit was to measure the actual road distance from the sampled condominiums to the city centre of Georgetown (Penang's CBD). The second trip was undertaken so that on-site observations could be conducted to ensure there was homogeneity in the sample. Homogeneity in structural and neighbourhood quality is vital as it satisfies the basic assumptions of the hedonic price model, thus enabling the application of the model to the study of properties in Penang.

The dependent variable was the resale price of the condominiums as stipulated in the Sales and Purchase Agreement expressed in Ringgit Malaysia (Note: Since the Asian financial crisis, the government of Malaysia has pegged the exchange rate at US\$1 = RM3.80. To date, this rate remains). Only transaction prices in the resale market were used as these depict the true market prices. Developers frequently sell above or below the market prices, hence sale prices during the launching of new condominium units are often distorted.

The Variables

There were many potential attributes that could have influenced property prices. However, Butler (1982) contended that only attributes that are costly to produce and yield consumer utility should be considered. According to Butler, models that use a small number of key variables will suffice because, to some extent, all estimates of hedonic price models are mis-specified. Mok ital. (1995) also justified economizing on the number of variables because biases due to missing variables are small and have negligible prediction and explanatory power on the equation. Thus, only variables that had a major influence were used. Decision on the choice of these variables was based on the formal qualitative survey on housing attributes conducted by the real estate agent.

A total of 10 independent variables selected a priori were regressed against the exchange price of the condominium units. The variables were selected so as to capture a range of potential locational, structural, and neighborhood influences that are relevant to local conditions. These variables are listed in Table 1 while Table 2 summarises the descriptive statistics of the sample.

Table 1

Housing Attributes

Attributes	Definition	Variable	Expected sign
Locational (L)	Distance to Central Business District (in km)	DCBD	-ve
	Sea-view	SEA	+ve
	Cemetery view	CEM	-ve
	Tenure of land	TEN	+ve
Structural (S)	Actual floor area (in ft ²)	AFA	+ve
	Floor level	FLO	+ve
Neighbourhood (N)	Facilities	FAC	+ve
	Environmental quality	QUA	+ve
	Shopping centres	SHOP	+ve
	Premier school	SCH	+ve
Dependent variable	Selling Price (RM)	P	

Table 2**Descriptive Statistics (n = 177)**

Variable	Minimum	Maximum	Mean	Standard Deviation
Price (RM)	108 000.00	486 000.00	195 509.32	73 936.95
DCBD (km)	1.7	20.5	10.5	5.2
AFA (ft ²)	683	1737	924.4	221.8
FLO	1	27	7.5	5.8

Locational variables

Distance to Central Business District (DCBD) was operationalised as the actual distance in kilometres from the condominiums to the focal point of business activities in the city centre of Georgetown, Penang. Since distance to CBD is associated with accessibility and convenience, the coefficient was predicted to be negative. It was expected that the farther away the condominium units were from the CBD, the lower would be the price of the units.

Sea-view was treated as a dummy variable in this study. Any condominium unit that could view the sea (SEA) from any angle was assigned a value of 1, with a value of 0 assigned if this was not the case. Usually, condominiums with a panoramic view of the sea fetch a higher price. Hence, a positive regression coefficient was expected for the attribute of sea-view.

Views of the cemetery (CEM) were expected to connote a negative coefficient as cemeteries typically generate feelings of morbidity and gloom. Superstitious buyers and feng shui believers particularly would be unlikely to place a high value for units that view the cemetery. Thus, it was predicted that prices of condominiums that face cemeteries would not be as high because buyers would not favour such units. Any condominium unit that could view the cemetery from any angle was assigned a value of 1, and 0 otherwise.

Any building with freehold title (TEN) was assigned a value of 1 and with leasehold title, a value of 0. Generally, buyers are willing to pay more for properties that are built on freehold land compared to leasehold buildings because freehold is viewed to be more permanent whereas leasehold implies ownership for a stated period of time. Therefore, TEN was expected to be positively related to the price of the condominium units.

Structural variables

Buyers usually take the physical characteristics of the condominiums, such as size, floor level and number of bedrooms and age of the building into account. However, number of bedrooms was not included in the model. This was to avoid the overlapping effect of size and number of bedrooms. Age of the condominiums was also not included because the condominiums in the sample were relatively new. Even if there were variations in building age, the differences were not excessively large to create a significant effect on buyers' judgement.

The size of the condominium was measured by its actual floor area (AFA) in square feet. For this variable, a positive regression coefficient was expected because extra space, particularly functional space, adds value to the condominiums.

The floor level (FLO) included the car park level (if car parks provided were on the same block

of the condominium units). The coefficient for the floor level on which the unit is located was expected to be positive, implying that the higher the floor, the more expensive the unit. This is because higher levels usually get better views and are relatively quieter and cleaner.

Neighbourhood variables

Neighbourhood variables define the quality of the neighbourhood. As provision and availability of facilities (FAC) would enhance the value of condominiums, a positive coefficient was expected. Condominiums with a swimming pool and at least three other -types of facilities, such as gymnasium, tennis court, community hall, and security services were assigned a value of 1 and 0 otherwise.

The environment quality (QUA) was measured by on-site observation of the existence of or the provision of a garden, landscaping and children's playground. Any condominium with a garden, landscaping or children's playground was assigned a value of 1, and 0 otherwise. Since gardens, landscaping and children's playground are often viewed by buyers as attributes that enhance the quality of the environment, QUA would have a positive regression coefficient, which means that property prices will increase when these features are in the vicinity of the condominiums.

The availability of shopping centres (SHOP) was measured by on-site observation of the existence of big shopping centres within a radius of 2 kilometres. The big shopping centres selected a priori were KOMTAR (Tun Abdul Razak Complex), Penang Plaza and Sunshine Square. Any condominium unit

within the vicinity of any of these shopping centres was assigned a value of 1 and 0 otherwise. The sign of the coefficient for SHOP was expected to be positive because of shopping convenience.

Quality of public schools is inevitably an important aspect to consider, especially for buyers with school-going children. Proximity to elite or reputable schools was hypothesised to increase the value of residential properties, therefore the regression coefficient was expected to be positive. The attributes school (SCH) was measured by the distance within 2 kilometres from the premier schools, namely, Penang Chinese Girls' High School, Chung Ling High School, St. Xaviers' Institution, St. George's Girls' School, Convent Greenlane and the Methodist Girls' School. These are very established school and have over the years known to produce excellent results in the public examinations. Condominiums within 2 kilometres of any of the schools were assigned a value of 1 and 0 otherwise.

Functional Form

In this study, the semi-natural logarithmic model was employed. According to Mok et al. (1995), the adoption of this functional form in housing market analysis is not uncommon as theory is ambiguous about the appropriate functional form. The semi-natural logarithmic specification provides a reasonably close approximation to the best fitting non-linear model. Furthermore, the semi-log specification may remove the problem of heteroscedasticity (Fletcher et al., 2000). Thus, the condominium unit prices were expressed as a vector of continuous and dummy variables, as shown below:

$$\begin{aligned} \text{Log}(P) = & \beta_0 + \beta_1(\text{DCBD}) + \beta_2(\text{DCBD})^2 + \beta_3(\text{SEA}) + \beta_4(\text{CEM}) + \beta_5(\text{TEN}) \\ & + \beta_6(\text{AFA}) + \beta_7(\text{AFA})^2 + \beta_8(\text{FLO}) + \beta_9(\text{FLO})^2 + \beta_{10}(\text{FAC}) + \beta_{11}(\text{QUA}) \\ & + \beta_{12}(\text{SHOP}) + \beta_{13}(\text{SCH}) + \mu \end{aligned} \quad (2)$$

Where $\text{Log}(P)$ is the natural logarithm of the transacted price, β_0 is the constant, β_i (for $i = 1, 2, \dots, 13$) is the regression coefficients, and μ is a random element that indicates the unobserved variations in the condominium unit prices (P). The continuous variables are the price of the condominium (P), distance to the central business district (DCBD), actual floor area (AFA), and floor level (FLO). The remaining variables in the equation are dummy variables. The estimators of the continuous variables indicate the corresponding price elasticity.

The square terms were added for the continuous variables so as to capture any

potential non-linear effects that increase at an increasing or decreasing rate (Chau, Ma & Ho, 2001; Tse & Love, 2000).

Results and Discussion

Multicollinearity was not detected among the independent variables while White's (1980) test also revealed that the model did not have the problem of heteroscedasticity. The results of regressing the data by Ordinary Least Square method (Table 3) indicated an adjusted R^2 of 0.866 ($F = 88.416, p < 0.01$). Thus, the explanatory power of the model is quite satisfactory.

Table 3

Regression Results

Variable	Coefficient	Standard	t-statistic	Probability
(Constant)	10.573	0.181	58.388	0.000
DCBD	-4.388E-02	0.017	-2.530	0.012*
DCBD ²	1.462E-03	0.001	2.220	0.028*
SEA	6.177E-02	0.028	2.194	0.030*
CEM	-0.144	0.046	-3.133	0.002*
TEN	0.206	0.029	7.215	0.000**
AFA	1.876E-03	0.000	6.211	0.000**
AFA ²	-5.226E-07	0.000	-3.893	0.000**
FLO	1.622E-02	0.006	2.699	0.008*
FLO ²	3.051E-05	0.000	0.129	0.898
FAC	7.033E-02	0.034	2.053	0.042*
QUA	0.144	0.060	2.407	0.017*
SHOP	3.591E-02	0.036	0.997	0.320
SCH	0.121	0.051	2.373	0.019*

Dependent Variable: Log (Price)

$R^2 = 0.876$

Adjusted $R^2 = 0.866$

F-statistic = 88.416 ($p = 0.000$)

Standard error of the estimate = 0.1195

Number of observations = 177 * $p < 0.05$ ** $p < 0.01$

The signs of the regression coefficient for all the locational, structural, and neighbourhood attributes were as surmised. All the coefficients were also statistically significant at the $p < 0.05$ level, except for proximity to shopping centres. This could be attributed to the only occasional need for shopping as opposed to the everyday effect of other variables, or that the negative impacts associated with shopping centres, (noise, pollution, etc.) were strong.

It is apparent from this research that distance from the CBD is an important attribute that buyers look for when they invest in properties. The results revealed a 4.4% drop in the price of the condominiums for every 1 km increase in the distance from the CBD. This means that buyers were willing to pay a higher premium for condominiums located in the areas that are close to the city centre of Georgetown compared to areas that are in the outskirts of the city.

However, the negative impact of increasing distance from the CBD on the condominium prices decreases as the overall distance increases. It can be inferred that the disadvantages of living in condominiums farther from the city-centre tends to decrease due to a combination of alternative positive locational attributes (proximity to beaches, for example) tends to counterbalance the loss of utility from the distance from the CBD.

As hypothesised, the coefficient for sea-view (SEA) was positive. Condominiums with views of the sea are worth approximately 6% more in price than those condominiums that do not have a sea-view.

The coefficient for FLO reveals an increase of 1.62% for each floor level. This lends support to the notion that buyers prefer higher floors in order to get better views of the sea and other sites. Those seeking peace and quiet might also opt to stay at higher floors.

As expected, buyers did not favour a cemetery view, with results indicating that cemetery views cause a price reduction of as much as 14.4%. The coefficient for the dummy variable (CEM) generated was negative and statistically significant ($p = 0.002$).

Both freehold tenure of land and actual floor area, showed a positive relationship with price. It is likely that buyers prefer freehold land titles mostly because these units have better resale values. Buyers were also willing to pay 0.19% more premium for an increase of 1 ft in the floor area. However, an increase in AFA will raise the real price of condominiums at a decreasing rate. This may be because after a minimum required size has been attained, buyers tend not to emphasise size, unless the units are sold at a discounted price.

The provision of facilities such as swimming pool, gymnasium, tennis court, community hall and security services by the management increases the price by 7%. Condominiums with good environmental quality such as a garden, pleasant landscaping and a playground for children were also positively correlated with price ($p < 0.05$). The results revealed that environmental quality raised the prices by 14%. Proximity to premier schools appeared to be a desirable attribute, too, with price increases of 12% as indicated.

While the reasons for the relationship between price and individual variables is not always clear, it is reasonable to conclude that the valuation of condominiums in Penang prior to the Asian financial crisis was not based on sheer speculation. The buyers were rational and sensitive towards housing attributes, thus the prices were market-driven.

Implication and Limitations of the Study

The results of the investigation into whether the property market before the Asian financial crisis is purely speculative or market driven has some important implications.

Since the results empirically proved that the property market in Penang is not completely speculative, housing developers can harness information on the implicit prices for better planning and construction of private condominiums. Planning should take into consideration the desired housing attributes such as freehold land tenure, sea-view, proximity to CBD, and premier schools, as well as environmental quality, floor area and floor level, which are all valued by the prospective buyers.

Knowing which attributes that negatively affect the value of the condominiums will also help these developers launch feasible projects with attractive housing attributes that meet the customers' needs. For instance, developers should well take heed of the negative influence of cemetery view on the valuation of properties. This matching of housing attributes to buyers' preference will not only enhance customer satisfaction, but would help the developers in making better and informed pricing decisions.

Policy-makers and urban planners too should reevaluate their practice of formulating plans and decision-making. Specifically, decisions pertaining to where to locate cemeteries and schools should take into consideration the housing attributes that influence the valuation of the residential properties.

Although the research study generated some important and interesting findings, it has some limitations. This study was confined to residential properties, specifically condominium units. Industrial, retail and office as well as recreational properties were not considered. It is thus unknown whether buyers manifest the same rational behaviour in regard to commercial properties.

Also, only locational, structural and neighbourhood attributes that were thought to have a significant impact on the valuation of condominiums were examined. As well, the

study focused on distance to the city-centre of Georgetown alone. Proximity to other focal points was not considered. Variables such as quality of sea-view or actual distance from the cemetery and structural quality of the units were not included in the model. Hence, the generalisability of these findings may be somewhat limited.

Furthermore, this research only used sales transactions that occurred in the year of 1996 and the sample was restricted to the island side of Penang. It may therefore, be difficult to generalise the findings to other parts of Malaysia or South East Asia.

Conclusion and Suggestions for Future Research

The hedonic price analysis undertaken in this study clearly revealed that prices of condominiums in Penang are determined by the preference for certain locational, structural and neighbourhood attributes. Although, investment in condominiums may still entail the element of speculation, it is unlike investments in the share market. This is because in purchasing residential properties, buyers are rational and are unwilling to pay a high premium for undesired housing attributes. Thus, this study concludes that the valuation of condominiums in Penang is market-driven and that variations in the condominium prices even during good times, is not a result of pure speculation.

Further research is required to confirm that the same findings hold true for commercial properties. Studies investigating other focal centres are also recommended, as the employment centre is no longer confined to the city-centre of Georgetown. Other focal centres, for examples, the industrial park or industrial free trade zone may be equally attractive because many penangites work in the factories, thus proximity and easy access to the factories may be a pertinent attribute

that influences the price of condominiums near the industrial park.

Other housing attributes may also be added as the current study revealed that only 87% of the variance in the price were explained by the variables specified. Specifically, attributes such as the layout design, structural quality, different types and quality of views, actual distance of the condominiums from the cemetery, the size an range of merchandise of the shopping centres, and so forth could be investigated. Variables not related to locational, structural and neighbourhood attributes could also be examined to ascertain their influence on the valuation of properties.

Studies could also be designed to look at the different market segments. For examples, the attribute preference of buyers from various religious backgrounds might differ. Also, as there are variations in the stipulated duration of ownership for leasehold land, the significant influence of the differing duration of leasehold tenure on the valuation of condominiums merits investigation.

Perhaps, interested parties should replicate the study in the other less developed states in Malaysia, so that the results can be compared and a more concrete inference can be made about the valuation of properties in Penang.

References

- Benson, E. D., Hansen, J. L., Schwartz, A. L. & Smersh, G. T. (1998), "Pricing residential amenities: The value of a view", *Journal of Real Estate Finance and Economics*, vol. 16, no. 1, pp. 55-73.
- Butler, R. V. (1982), "The specification of hedonic indexes for urban housing", *Land Economics*, vol. 58, pp. 94-108.
- Carroll, T. M., Clauretie, T. M. & Jensen, J. (1996), "Living next to godliness: Residential property values and churches", *Journal of Real Estate Finance and Economics*, vol. 12, pp. 319-330.
- Chau, K. W. & Ma, V. S. M. & Ho, D. C. W. (2001), "The pricing of "luckiness" in the apartment market", *Journal of Real Estate Literature*, vol. 9, no. 1, pp. 31-40.
- Chau, K. W., Ng, F. F. & Hung, E. C. T. (2001), "Developer's good will as significant influence on apartment unit prices", *Appraisal Journal*, vol. 69, No. 1, pp. 26-31.
- Clapp, J. M. & Giaccotto, C. (1998), "Residential hedonic models: A rational expectations approach to age effects", *Journal of Urban Economics*, Vol. 44, pp. 415-437.
- Clark, D. E. & Herrin, W. E. (2000), "The Impact of public school attributes on home sale price in California", *Growth and Change*, vol. 31, pp. 385-407.
- Clauretie, T. M. & Neill, H. R. (2000), "Year-round school schedules and residential property values", *Journal of Real Estate Finance and Economics*, vol. 20, no. 3, pp. 311-322.
- Des Rosiers, F., Lagana, A., Theriault, M. & Beaudoin, M. (1996), "Shopping centres and house values: An empirical investigation", *Journal of Property Valuation & Investment*, vol. 14, no. 4, pp. 41-62.
- Fletcher, M., Gallimore, P. & Mangan, J. (2000), "Heteroscedasticity in hedonic house price models", *Journal of Property Research*, vol. 17, no. 2, pp. 93-108.
- Freeman, A. M. (1979), "Hedonic prices, property values and measuring environmental benefits: A survey of the issues", *Scandinavian Journal of Economics*, vol. 81, pp. 154-171.
- Garrod, G. & Willis, K. (1992), "Valuing the goods characteristics – an application of the hedonic price method to environmental attributes", *Journal of Environmental Management*, vol.34, no. 1, pp. 59-76.
- Geh, M. (2000), *Penang Condominiums & Apartments Guidebook*, Raine & Horne International Zaki and Partners Sdn. Bhd., Penang.
- Goodman, A. (1989), "Topics in empirical urban housing research", *The Economics of Housing Markets*, in R. Muth & A. Goodman, Harwood Academic, Chur, Switzerland, pp. 49-146.
- Haurin, D. R. & Brasington, D. (1996), "School quality and real house prices: Inter- and intrametropolitan effects", *Journal of Housing Economics*, vol.5, pp. 351-368.
- Jud, G. D. & Watts, J. M. (1981), "Schools and housing value", *Land Economics*, vol. 57, no. 3, pp. 459-470.

- Kain, J. F. & Quigley, J. M. (1970), "Measuring the value of housing quality", *Journal of the American Statistical Association*, vol. 65, pp. 532-548.
- Ketkar, K. (1992), "Hazardous waste sites and property values in the state of New Jersey", *Applied Economics*, vol. 24, pp. 647-659.
- Lancaster, K. J. (1966), "A new approach to consumer theory", *Journal of Political Economy*, vol. 74, pp. 132-157.
- Linneman, P. (1980), "Some empirical results on the nature of the hedonic price function for the urban housing market", *Journal of Urban Economics*, vol. 8, no.1, pp. 47 – 68.
- Mok, H. M. K. (1995), "A hedonic approach to pricing of residential properties in Hong Kong", *Hong Kong Journal of Business Management*, vol.8, pp. 1-15.
- Mok, H. M. K., Chan, P. P. K. & Cho, Y-S. (1995), "A hedonic price model for private properties in Hong Kong", *Journal of Real Estate Finance and Economics*, vol. 10, pp. 37-48.
- Rodriguez, M. & Sirmans, C. F. (1994), "Quantifying the value a view in single-family housing markets", *Appraisal Journal*, vol. 62, pp. 600-603.
- Rosen, S. (1974), "Hedonic prices and implicit markets: Product differentiation in pure competition", *Journal of Political Economy*, vol. 82, no.1, pp. 35-55.
- Sirpal, R. (1994), "Empirical modeling of the relative impacts of various sizes of shopping centres on the value of surrounding residential properties", *Journal of Real Estate Research*, vol.9, no.4, pp. 487-505.
- So, H. M., Tse, R. Y. C. & Ganesan, S. (1996), "Estimating the influence of transport on house prices: Evidence from Hong Kong", *Journal of Property Valuation & Investment*, vol. 15, no.1, pp. 40-47.
- Tse, R. Y. C. & Love, P. E. D. (2000), "Measuring residential property values in Hong Kong," *Property Management*, vol. 18, no. 5, pp. 366-374.
- Usilappan, M. (2000), "The property market today and in the future", Paper presented in Seminar on when will the Property Market Recover? Organized by Rahim & Co., April 12, 2000.
- Walden, M. L. (1990), "Magnet schools and the differential impact of quality on residential property values", *Journal of Real Estate Research*, vol. 5, pp. 221-230.

Acknowledgement

The authors thank Raine and Horne International Zaki & Partners Sdn. Bhd., Penang, for furnishing them with data on property transactions, maps and other relevant information on the housing market in Penang.

Authors:

- Chin Tung Leong (B. Comm, MBA). Chin Tung Leong is a Chartered Accountant who is pursuing his doctorate in Business Administration at the University of South Australia. He is a committee member of Malaysia Institute Of Accountants (Kedah/Perlis Centre), member of Malaysian Institute of Taxation and CPA Australia. He is also a manager of a property development company.
- Arthur Preston (BSc, M.Admin., PhD). Dr Preston is currently an Adjunct Fellow of the International Graduate School of Management at the University of South Australia. In this role, he delivers MBA and DBA programs throughout Asia and online. He has published in the areas of quality management and leadership especially in the health, red meat processing and higher education sectors.
- John Rice (B.Bus, MBA, Mbus). John Rice is local MBA Program Director within the International Graduate School of Management. He also teaches in the areas of knowledge and information management and strategic management. His research investigates knowledge management, technology strategy, the economics of innovation and strategic management.

Corporate Real Estate Activities of Listed Companies: The Process of Announcements and Related Listing Requirements

Ting Kien Hwa, Ph.D
Department of Estate Management
Faculty of Architecture, Planning & Surveying
University of Technology MARA
40450 Shah Alam, Selangor
Malaysia

Abstract

This paper examines the disclosure obligations, the requirements and procedures in making announcements made by listed companies as stipulated under the Listing Requirements of the Kuala Lumpur Stock Exchange. The focus will be on the disclosure requirements of corporate real estate proposals and transactions made by listed non-real estate companies of the stock exchange.

Corporate real estate activities are found to be closely related to the economic conditions. During the buoyant phase of the economy (1992-1996), the total number of property acquisitions, disposals, joint ventures and property revaluations are higher compared to the Asian financial crisis/recession period (1997-2001). The Kuala Lumpur Composite Index (KLCI), barometer of the Kuala Lumpur Stock Exchange, is also higher during the buoyant economic period. A buoyant stock market is more conducive for undertaking the various corporate real estate activities and transactions.

Due to the high number of corporate real estate announcements under the 1992-2001 period, it might be useful to examine the wealth effects of these activities in future research.

Keywords: disclosures, announcements, listing requirements, corporate real estate

Introduction

Corporate real estate refers to properties owned by non-real estate companies. To meet changing economic situations and business requirements, listed companies are frequently involved in property transactions. Some of the common corporate real estate activities are :

- (a) property disposals;
- (b) property acquisitions;
- (c) property sale and leasebacks;
- (d) property revaluations;
- (e) property joint ventures.

When a listed company or its subsidiary enters into such a transaction, the company is required to disclose the information so as to comply with the Listing Requirements of the Stock Exchange. The rationale behind disclosures is to reduce asymmetric information in the stock market so that all investors enjoy equal access to such information. Such disclosures could help in a fair and orderly market conduct as investors could make use of the available market information to make informed investment decisions.

Regulations governing disclosures in the Kuala Lumpur Stock Exchange

Provisions relating to disclosures are found in the revamp Kuala Lumpur Stock Exchange (KLSE) Listing Requirements issued on 22 January 2001. The objectives of the Listing Requirements are to enhance transparency and corporate governance, enhance capital market efficiency, improve investor protection and strengthen confidence of investors. The provisions in the Listing Requirements relate to disclosure, corporate governance, continuing listing obligations, financial reporting and procedural requirements. All companies listed on the Main and Second Boards of the KLSE are required to observe these requirements.

A comprehensive Listing Requirements will benefit investors and shareholder as it could:

- (a) enhance shareholders' value in the long term,
- (b) provide better protection of shareholders' interest,
- (c) reducing the risk faced by shareholders and investors,
- (d) enable investors to make better informed investment decisions.

The Listing Requirements is complemented by Practice Notes to aid interpretation and to clarify the operational procedures of the Listing Requirements.

The KLSE does not have power to enforce compliance to its listing requirements, but companies that do not comply with the Listing Requirements could be reprimanded, suspended or delisted from the stock exchange.

General Disclosure requirements on listed companies

Under the KLSE Listing Requirements, all listed companies are expected to observe continuing disclosure requirements.¹ Continuing disclosure refers to the timely and accurate disclosure by a listed company of all material information to the public.

Under the Corporate Disclosure Policy of the Listing Requirements, companies are required to maintain high standards of disclosure. This disclosure requirement ensures that all material information necessary for informed investing is disclosed to the market on a timely basis and by taking reasonable steps to ensure that the investors enjoy equal access to such information.

A listed company is required to make immediate public disclosure of any material information.² Material information is defined

as information reasonably expected to have a material effect on the price, value or market activity of any shares or on the decision of an investor that will affect the choice of action.

Corporate real estate events such as purchase or sale of property assets and entry into a joint venture agreement are examples of events which require immediate disclosure.³

Other material information include information concerning the company's business, property, financial condition or prospects; dealings with employees, suppliers, customers etc.; any event that may affect the rights or interests of the listed company; or any events that may affect the size of the public holdings of its securities.⁴

While the presumption is in favour of disclosure, there might be situations where a company may choose to refrain from disclosing information relating to its corporate activities. There are situations where a company may need to negotiate and conclude a deal for example to negotiate a real estate acquisition. Any information released during the negotiation stage may lead to an increase in the purchase price as the seller may then demand for a higher selling price. Similarly any sell-offs of any non-core properties of a company may require considerable time for negotiations.

When information is voluntarily withheld, the company must closely monitor the share price of the company during the period. A company must make immediate announcement to KLSE upon detecting unusual circumstances such as heavy share transaction volume, unusual market activity, surfacing rumours or news and signs that insider trading are happening.

The company under these situations must immediately publicly clarify, confirm or deny the rumour or report.

Announcement requirements relating to transactions

When a listed company has material information to be disclosed, it will make an announcement. The Listing Requirements requires that an announcement must be prepared and issued with reasonable care and due diligence. The content of an announcement made must be:⁵

- (a) factual, clear, unambiguous, accurate, succinct and contain all such information that allow investors to make an informed decision;
- (b) not false, misleading and/or deceptive;
- (c) balanced and fair; and
- (d) comprehensive to the laymen.

The level of requirements on announcements relating to corporate real estate transactions depends on:

- (a) the nature of the transaction⁶
i.e. whether the transaction is a non-related party transaction or a related party transaction;
- (b) the size of the transaction in terms of percentage ratio⁷
For real estate transactions, the ratio is the value of the assets compared with the net tangible assets of the purchasing company.

Related Party Transactions

A related party transaction occurs when a listed company or its subsidiaries enter into a transaction which involves the direct or indirect interest of a related party. A related party refers to a director, major shareholder, person connected with such director or major shareholder of a listed company or related companies within the group of companies of the listed company.⁸ Related party transactions may occur for transactions relating to

acquisition of properties, disposal of assets and the establishment of joint ventures.

The Size of the Transactions

For corporate real estate deals, the obligation to make disclosure is heavier if the transaction in terms of percentage ratio (i.e. value of assets/the purchasing company's net tangible assets) is high. Where a transaction is less than 5% ratio only an immediate announcement is required. But when the percentage ratio equals or exceed 5%, a circular must be sent to the shareholders and also to obtain shareholders approval in a general meeting.

The percentage ratio rule is applicable when the transaction involves equity shares as consideration and where the ratios produce anomalous results or are inapplicable.

For transactions involving the acquisitions or disposals of various parcels of land contiguous to each other, the KLSE may apply the rule of aggregation whereby the separate transactions are aggregated and treated as one transaction if such transactions are within a one year period and the total percentage ratio is equal or exceed 5%.⁹

The announcement requirements vary for transactions involving related and non-related parties. Table 1 combines the announcement requirements for percentage ratios with related/non-related party transactions.

Table 1: Announcement requirements on related party transactions.

Percentage ratios in respect of the transactions	Non-related party transactions	Related party transactions
< 5%	• no announcement if consideration is in cash or unquoted securities • immediate announcement if consideration is wholly or partly in securities for which listing is sought	• immediate announcement
5% to <15%	• immediate announcement as soon as terms of transaction have been agreed	• immediate announcement • circular to shareholders • approval of shareholders in general meeting • appoint independent adviser before terms of transaction are finalized
15% to < 25%	• immediate announcement as soon as terms of transaction have been agreed for information	• immediate announcement • circular to shareholders • appoint independent adviser before terms of transaction are finalized
25% and more	• immediate announcement as soon as terms of transaction have been agreed • circular to shareholders • approval of shareholders in general meeting	• immediate announcement • circular to shareholders • approval of shareholders in general meeting • appoint independent adviser before terms of transaction are finalized

Source : Kang (2001)

Procedures of disclosure in KLSE

A listed company may made public material information by making an announcement first to KLSE or at the same time to the press and news media.

A listed company may choose to make disclosure after the stock market has closed trading. A listed company may be temporary suspended in trading if it chose to make an announcement before or during trading hours. The period of temporary suspension will allow proper dissemination of information and the subsequent evaluation of information by the investors.

The process of making announcements

Corporate announcements are made by the public listed companies, merchant banks, external company secretaries or stock broking company which is acting as an advisor to the listed company.

Corporate announcements may involve corporate real estate which may include fund raising (e.g. public issue, rights issue, special issue etc.) to acquire or the refinancing of an acquisition of assets, acquisition/disposal, corporate real estate restructuring etc.

The issuers of corporate announcement i.e. the public listed companies, merchant banks or external company secretaries will first prepare the announcements. To send the prepared announcement to the KLSE, the issuer will establish a connection to the KLSE LINK through the internet.

The KLSE LINK is a network connecting issuers of corporate announcements to KLSE for the purpose of corporate disclosure and information exchange. Once connection is established, the announcement will be submitted electronically through the internet. Upon receipt of the announcement, the Exchange will verify it prior to dissemination. Upon verification, the announcement will be

posted on the KLSE web-site under the "*Listed Companies Announcements*" page which is available for public access. When an announcement relating to a transaction is not clear or having inadequate information, KLSE may send queries to the companies concerned to provide further details and information about the transaction.

The KLSE LINK enables the issuers of corporate announcements to submit their announcements in a secure, efficient and timely manner, thereby allowing users e.g. investors, stock-broking companies, market analysts and researchers to have easy and timely access to the announcements.

The KLSE LINK holds links to all types of corporate information for public disclosure which includes entitlements, financial results, shareholding information, share buy-backs, annual reports, prospectuses, circulars etc.

Announcements on corporate real estate activities by non-real estate companies of the KLSE (1992 to 2001)

Due to provisions in the Listing Requirements, announcements on corporate real estate activities to the Kuala Lumpur Stock Exchange are primarily focused on:

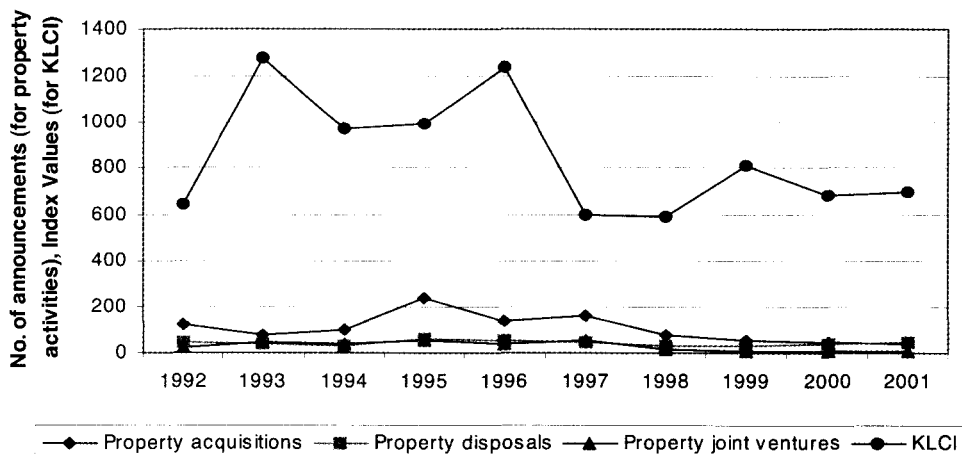
- (a) property acquisitions;
- (b) property disposals;
- (c) property joint ventures;
- (d) property revaluations,
- (e) property development;
- (f) acquisitions and disposals of plant and machineries.

Table 2 and Fig. 1 show the number of corporate real estate announcements made by non-real estate companies. A single transaction/activity may involve more than one announcement due to reply to query from KLSE or announcements made by the company to clarify on the transaction/activity concerned.

Table 2: Announcements on corporate real estate activities by non-real estate companies (1992 to 2001)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	TOTAL
Property acquisitions	124	76	103	237	135	158	73	50	46	36	1038
Property disposals	49	39	32	62	52	47	33	29	35	46	424
Property joint ventures	24	48	39	56	36	51	15	7	11	4	291
Property revaluations	1	3	4	3	6	2	1	0	4	9	33
Sub-total	198	166	178	358	229	258	122	86	96	95	1786
KLCI	644	1275	971	995	1238	594	586	812	680	696	

FIG. 1: Announcements on Corporate Real Estate Activities by Listed Non-Real Estate Companies (1992 - 2001)



In the case of property acquisitions, the two diagrams show that property acquisitions activities have been increasing steadily since 1993 and had increased more than threefold by 1995. These corporate acquisition activities indicate that companies are expanding their business. Maksimovic and Philips (2001) show that firms are likely to purchase additional assets when they are efficient and the industries in which they are in are growing. Companies would also acquire properties which are in line with the company strategy, particularly assets that provide immediate access to more markets, better strategic fit, broader distribution channels and better cost structure (Roulac, 2001).

Due to the house price asset inflation in the 1995-1996 period, some Second Board companies had begun to ventured into property development. Property acquisition activities had declined by more than 50% in 1998 after the commencement of the Asian financial crisis in mid-1997. The declining trend

has continued until 2001. With the onset of economic crisis, the acquisition of properties is a risky decision as properties become more illiquid with falling capital and rental markets, oversupply and higher borrowing rates. Also during the recessionary phase of the economic cycle, the decline in business profitability leads to a decrease in demand for property.

The Kuala Lumpur Composite Index (KLCI), a barometer of the Kuala Lumpur Stock Exchange, is also higher during the buoyant economic period. A buoyant stock market is more conducive for the various corporate real estate activities and transactions.

Table 3 shows that corporate real estate activities are closely related to the economic conditions. During the buoyant phase of the economy (1992-1996), the total number of property acquisitions, disposals, joint ventures and property revaluations are higher compared to the Asian financial crisis/recession period (1997-2001).

Table 3: Announcements on corporate real estate activities by non-real estate companies by economic conditions (1992 to 2001)

Types of corporate real estate activities	Buoyant period (1992 – 1996)	Crisis/recession period (1997 – 2001)
Property acquisitions	754	284
Property disposals	258	166
Property joint ventures	228	63
Property revaluations	18	15
Total	1258	528

Determination of Announcement date for event studies

Prior to the establishment of KLSE LINK, announcements are sent directly e.g. by hand or courier to the KLSE. These announcements are then published in the Daily Dairy the following day. In effect, the day the announcements are sent to the KLSE is day -1 and the following day when the announcement is published in the Daily Dairy is day 0.

Hence for event studies conducted on KLSE companies prior to the KLSE LINK, the announcement day window of three days around the announcement day (day -1, 0, +1) is more appropriate to capture the announcement date and its effect. This is in contrast with the announcement day window for event studies in developed countries which is usually two days i.e. day 0 and day +1.

However from 1999 onwards with the establishment of the KLSE LINK, the announcement day window would be (day 0, +1). The day +1 is to take into account announcements which are made after the close of the market whereby shares prices will only reflect the impact of the announcement on the following trading day.

Notes

¹ KLSE Listing Requirements, Chapter 9 covers Corporate Disclosure Policy, preparation of announcements, immediate and periodic disclosure requirements.

² KLSE Listing Requirements, para 9.02(2)

³ KLSE Listing Requirements, para 9.04

⁴ KLSE Listing Requirements, para 9.19 provide a list of events that require immediate announcements to KLSE.

Conclusions

Transactions of corporate real estate are common phenomena among listed companies. Timely disclosures of information through announcements will reduce information asymmetry and enable the public to have information necessary to make informed decisions. Market efficiency will improve with timely disclosures. A policy on good disclosure requirements will protect market integrity and promote investors confidence.

This paper found that corporate real estate activities are more active during the buoyant economic period compared to the crisis/recession period. Buoyant economic conditions are more conducive for corporate real estate activities to be undertaken.

This paper presents preliminary findings on corporate real estate activities and its relationship with economic conditions and provides a basis for future investigations of the wealth effects of corporate real estate activities of property acquisitions, disposals, joint ventures and revaluations made by non-property companies.

⁵ KLSE Listing Requirements, para 8.11(1) and 9.16(1)

⁶ KLSE Listing Requirements, para 10.02(j)(iii)

⁷ KLSE Listing Requirements, para 10.02(h) and 10.07(1)

⁸ KLSE Listing Requirements, para 1.01

⁹ KLSE Listing Requirements, para 10.11(2)

References

Abdul Murad Ahmad (1999), *Law and procedure of mergers and take-overs in Malaysia* Central Law Training (Asia) Sdn Bhd Kuala Lumpur.

Kang, Shew Meng (2001), *The Listing Requirements of Kuala Lumpur Stock Exchange* Butterworths.

Low, Chee Keong (1997), *Securities regulation in Malaysia* Malayan Law Journal Sdn Bhd, Kuala Lumpur

Maksimovic, V. And Phillips, G. (2001), Do conglomerates allocate resources efficiently across industries. *Journal of Finance*, 57, 1022-1035.

Roulac, S. E. (2001), Corporate property strategy is integral to corporate business strategy. *Journal of Real Estate Research*, 22, 1/2, 129-152.

_____ (2003), Update on the KLSE requirements on transactions & related party transactions entered into by a public listed company or its subsidiaries *The Malaysian Corporate & Commercial Law Review* Jan-Feb lvi-lxviii.

_____ (2003), *Kuala Lumpur Stock Exchange Information Book*, 13 ed.

Valuers' Perceptions On The Value Of The Properties Located Proximate To Transmission Lines

Anuar Alias & Melati Baharuddin
Department of Estate Management
Faculty of the Built Environment
Universiti of Malaya

Abstract

The perception regarding the value of property located proximate to transmission lines is believed to change dramatically due to public awareness and articles in daily press. It is agreed that transmission lines imposed a significant negative impact on the desirability, hence the value of the property adjacent to it. This paper highlights the results of a questionnaire surveys amongst valuers in Klang Valley. The survey was intended to explore the issues and attempts to prove it or otherwise. The types of properties covered in this paper are landed properties - commercial, industrial, and residential. The findings showed that features like visual unattractiveness, increases of public awareness, long-term health problem (stigma), unsafe, disturbing sound, and electrical equipment interference contribute to the loss of value. In-term of percentage, commercial properties are highly declined, while residential properties are the least. There is more awareness towards the relationship between transmission lines and property values, although there is not much local publication on the matter.

Keywords: Property, loss of value, transmission lines, proximate location

1.0 Introduction

The stigma associated with properties that are proximate to transmission lines might influence potential buyers into deciding whether to buy them or not. There seems to be some kind of fear among the society at large, of the danger living in these properties. As such, this could lead to a negative effect on the value of the properties. This negative implication was due to the numerous studies done regarding transmission lines which found little or negligible impact on the values of properties located proximate to them. The word transmission line which is used throughout this paper, includes the transmission lines, the distribution lines and the substations.

The transmission lines produce electromagnetic field (EMF). The EMF is found to cause miscarriages, leukemia, brain cancer, Lou Gehrig's disease, breast cancer, Alzheimer disease, suicide and heart problems. These are the findings of a recent \$7 million evaluation conducted by the California Department of Health Science¹. However, there is an ongoing debate among researchers in the valuation field, whether there have been any difficulties in selling properties proximate to these lines. Also, are there any difficulties to determine the value of properties proximate to high voltage lines? If there are, then there is, indeed, a cause for concern.

Besides being paranoid of unproven scientific study of health effect from EMF emitted by the transmission lines, the unsightly visual impact of such lines will also be considered by potential property buyers before actually buying them. This paper seeks to find out perception of valuers in Malaysia on properties which is proximate to a transmission lines. The paper also studies if there is any impact on the values of

these properties and the measurement approaches used by the valuers to reach into the conclusion of the loss of value of such properties.

2.0 Scope and Objectives of the Study

The objectives of this study are:

- i. To gain better understanding on issues of transmission lines and their effects on property values.
- ii. To seek the valuers' opinion about properties located near transmission lines and whether they have any impact on property values.
- iii. To find out the opinion of the valuers, the features that penalize the value of that property proximate to transmission lines.

This study focused on properties in the Klang Valley. Proximity to transmission lines means the property lying approximately 5 to 30 meters from the transmission lines (from the lowest, 132kV to the highest 500kV) and not directly under the transmission lines². This includes property with easement from Tenaga Nasional Berhad and in close proximity of the transmission lines. The study is limited to valuers in Klang Valley. The study will cover all landed properties including agricultural land.

3.0 Stigma that Creates an Impact on Property Values

Electromagnetic Field (EMF) has been identified as one type of "stigma" that can influence the value of the property negatively (Elliot and Wadley, 2001). The stigma is due to potential health problem.

¹ www.powerlinefacts.com

² Tenaga Nasional Berhad., 2003. *Annual Report Year 2003*. Copies Issued to Stakeholder., TNB, Kuala Lumpur.

However, using the expectation of future health problem as the basis of “fear” is new to our literature in Malaysian context. A correct definition and measurement of this new concept is critical as it can be a part of future evidence in any stigmatized property.

Although the tool to measure stigmatized income properties has been presented in the recent literature as the discounted loss of adjusted net operating income (Elliot and Wadley, 2001), little agreement exists on the best estimation technique for residential properties. This literature review examines the issues that have been covered in a number of current cases to estimate the loss in residential value from fear. This information is critical to property valuation in future appraisal assignment near transmission lines and to lenders who have loans on these properties. (Bryant, 1998)

The court has difficulties in dealing with EMF, the reason being, scientific research has not been conclusive. Many conflicting studies have been carried out. However, it has been established that low frequency magnetic field can produce changes in biological systems. The public controversy surrounding transmission lines began in the United State following the publication of an epidemiological study by Weitheimer and Leeper (1979)³ linking childhood cancer to the proximity of electric transmission lines to residences. While the Weitheimer and Leeper study has been criticized and was not conclusive, it raised public concern. Additional studies while not proving that EMFs cause cancer, certainly give enough credibility to a possible risk that a reasonable person could be concerned. (Bryant, 1998)

There are three basic rules applied by the courts with respect to severance damages in transmission lines condemnation cases. The first rule does not allow compensation for fear.

The second rule allows compensation if the fear is reasonable. The third either assumes, the fear is reasonable or that reasonableness is irrelevant. The only relevant issue is the final impact on market value. The first rule which is sometimes referred to as the majority rule is the least followed of the three. The second or intermediate rule has a fairly wide following and has some appeal until it is examined carefully. The third or erroneously named minority rule seems to be the most followed of the three rules (Bryant, 1998). The Charles and Douglas (1992) survey indicated an average decline of about 10% in the value of property located near transmission lines compared to property not so located. It would be logical to expect that some of this decline is related to increased public awareness of the potential adverse health consequences from exposure to EMF (Bryant, 1998).

Four studies used statistical models to determine if transmission lines had a measurable impact on proximate property. Three out of four reported little or no discernible impact (Mundy, 1992a; Brown, 1976; Kinnard et. al., 1984). The lone dissenting study reporting a significant negative impact on value is that of Colwell & Foley, (1979). More recently, another study by Colwell, (1990) finds a negative impact on residential properties in close proximity to transmission lines, declining as distance increases. Further, the negative impact diminishes with time. Colwell (1990), also determines that properties not adjacent to, but within sight of, a utility easement suffer an impact as a result of proximity to transmission lines.

Charles & Douglas (1992), reported that transmission lines can effect residential

³ __, *Cancer Rise Linked to Power Lines*, Available at: <http://www.powerlinefacts.com>

property value to varying degree under certain circumstances and that the market value of these properties is, on average, 10 % lower than the market value of comparable properties not subject to influence of transmission lines.

As a comparative study on stigma issue, Wilson (1994), Patchin (1988; 1991) and Mundy (1992a; 1992b; 1992c), however address this issue of stigma and its importance in the valuation of contaminated land. In terms of definition, Patchin (1991) describes it as a negative intangible, caused by:

- fear of hidden clean up costs
- the trouble factor associated with work involved in clean up
- the fear of public liability, and
- the lack of mortgageability (loan).

Colangelo and Miller (1995) describe stigma in two respects:

- (1) In terms of residual stigma (i.e. the negative impact that results from public perception that environmental contamination is permanent and represents a continuing risk even after environmental cleanup has been completed), and
- (2) As proximity stigma (i.e. the negative result on property values that occurs in properties in close proximity to contaminated sites).

It is suggested that this stigma element can be incorporated into valuations by making an upwards adjustment to the yield figure adopted or by making an end deduction or allowance to the valuation or calculation of worth.

Brown (2003) revealed that from the findings of researches, regardless of methodology, overwhelmingly support the conclusion that stigmatized properties and proximity to transmission lines adversely affects on market value or sale price.

4.0 Research Methodology

The method used in this research is referred to as normative survey research since it determined the status of something at a specific time. The selection of respondents is based on random sampling. Fifty respondents have taken part in this study. Ten respondents were interviewed personally by the author. Forty respondents gave their feedbacks through the post. Although the interviews were conducted with ten different respondents, the questions asked were the same as in the questionnaires.

5.0 Data Analysis

The parameter of data identified in this study is the practicing valuers in the Klang Valley. All data received are considered reliable as only six percent (6% - three respondents) of the total respondents have practiced less than 5 years. Weightings are given for questions that require respondents to rate the answer numerically. The weightage used are:

Weightage (x)	Equivalent to
1	Very Strongly Agree
2	Strongly Agree
3	Agree
4	Disagree
5	Strongly Disagree
6	Very Strongly Disagree

6.0 Background of the Respondents

6.1 Experiences of the valuers in the real estate

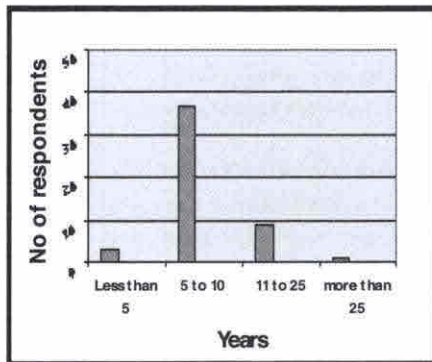


Chart 1: Valuers and their number of years practicing in real estate

The chart 1 above shows that among the respondents, 3 have practiced less than 5 years, 37 respondents practiced between 5 – 10 years, 9 respondents practised between 11 – 25 years and 1 respondent practised more than 25 years.

6.2 Properties Valued by Valuers for the past 5 years

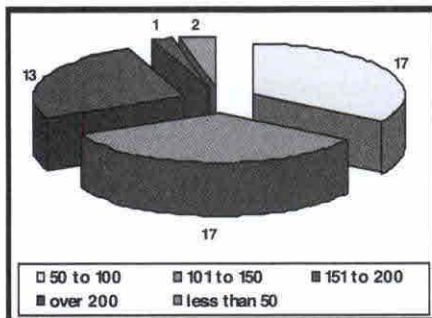


Chart 2: Numbers of properties valued by the respondents for the past 5 years.

In the past 5 years, all 50 respondents have declared how many properties they have valued. Seventy percent (70%) of the respondents have actually valued

properties proximate to transmission lines while the other 30% gave their opinion on other evidence rather than experience of valuing the property. Among the seventy percent (70%) of respondents, six (6) respondents have valued less than ten (10) properties proximate to transmission lines. Twenty six (26) respondents have valued between ten (10) to fifty (50) properties and two (2) respondents have valued between fifty (50) to one hundred fifty (150) properties and finally one (1), have valued similar property between one hundred fifty one (151) to three hundred (300) properties.

Fifty respondents had stated the area of the Klang Valley which they have valued for the past five (5) years as stated in Chart 3.

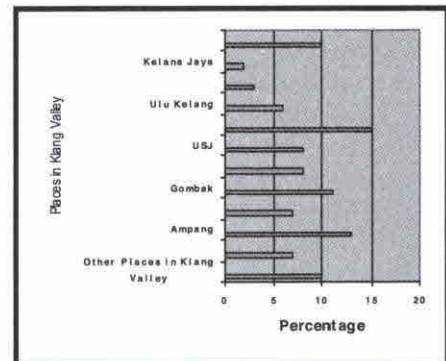


Chart 3: Percentages of respondents who have valued 3 recent places in Klang Valley area

7.0 Research Findings

7.1 Professional Opinion of the Valuers

Eighty percent (80%) of the respondents are of the opinion that property proximate to transmission lines is negatively affected. Twenty percent (20%) respondents opined that transmission lines do not have any effect on property values.

To those valuers opined that transmission lines have no impact on values of property located proximate to it, they were based on the following reasons:

- a. Some properties are located in such 'most wanted' areas that existence of transmission lines makes no difference to the value.
- b. The lower rental value might compensate for the existence of the transmission lines.
- c. The buyers are not aware that there is a relationship between transmission lines and property values and that they are willing to pay the price for these properties.

Whilst the valuers agreed that transmission lines have positive impact on property values due to the extra land given by the developers may increase the value of the property especially the residential properties.

7.2 The Features

The features that contribute to declining property values proximate to transmission lines are; electrical equipment, visual unattractiveness, unsafe, giving off disturbing sound, may cause long term health problem and increases in public awareness.

These features were discussed and the respondents were asked to answer based on a scale ranging from 1 to 6 as stated above. Table 1 explains the mode and mean of the study.

Table 1: Contribution Features

Features	Mode	Mean
i. Visual unattractiveness	1	2.48
ii. Increased Public Awareness	2	2.92
iii. Long Term Health Problem	3	3.56
iv. Unsafe	4	3.74
v. Giving off disturbing sound	5	3.98
vi. Electrical Equipment Interference	6	4.32

According to Table 1, the respondents are very strongly agree that visual unattractiveness of the transmission lines, which was proximate to the property, is the most important factor contributing to the decline of the property values. The mode of this answer is 1 (very strongly agree) with mean point of 2.48 (the minimum).

Furthermore, the respondents strongly agree that the increased public awareness is an important factor contributing to the decline of property values proximate to transmission lines. This is represented by the mode which is 2 (strongly agree)

Although the feature of long term health problem is considered to be the most important feature in the United Kingdom and United States, but in Malaysia, according to the opinion of the respondents, they represent the third most

important feature contributing to the decline in property values.

The mode of the feature of lack of safe/unsafe is 4, meaning that the respondents disagree that this feature contributes to the decline in property value.

This feature, giving off disturbing sounds, which affect the residential property, the respondents strongly disagree it will contributing to the decline in property values.

The respondent's are very strongly disagree that electrical equipment interference is the feature that contributes to the decline in value for property proximate to transmission lines.

7.3 Types of Properties Most Affected

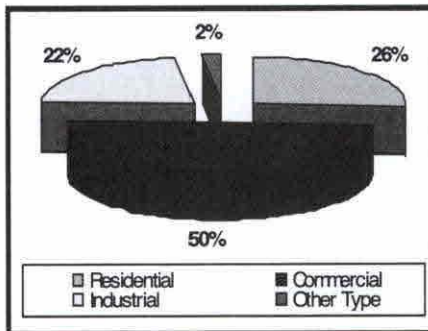


Chart 4: Types of Properties Most Affected

Fifty percent (50%) of the respondent's are of the opinion that commercial properties are highly affected by transmission lines compared to other types of properties. The next most affected is the residential properties with twenty six percent (26%) of respondents agreeing with it. In the opinion of the respondents, twenty two percent (22%) of the industrial types of properties are

thirdly affected by the transmission lines. Two percent (2%) of the respondents in the questionnaires stated that agricultural land could also be affected by transmission lines.

7.4 Declining in Value

Respondents were asked to give their opinion on how much of the property proximate to transmission lines would decline in value. The opinion given by the respondents is based on either one of these measurement methods; paired sales analysis; discussions with developers; market data analysis; or valuer's own judgment. The feedbacks (as average figures) are:

- i. Residential property : 1% - 2%
- ii. Industrial property: 1% - 3%
- iii. Commercial property: 2% - 8%
- iv. Agricultural land: 3% - 5%

7.5 Compensation due to Transmission Lines

In the opinion of the respondents, developers do give compensation towards properties proximate to transmission lines in the form of:

- i. Larger lots, this was reflected by fifty eight percent (58%) of the respondents.
- ii. Ten percent (10%) of the respondents stated that compensation come in the form of landscaping provided by the developers to cover up the vicinity of the transmission lines.
- iii. Some developers provide these properties with buffer zone, this represents twenty six percent (26%) of the respondents

- iv. Other six percent (6%) of respondents, states different form of compensation was given. The developers provide nets below the transmission lines so that buyers are convinced that they have taken safety measures to avoid accidents.

None of the respondent mentioned about any discounts given to the purchasing price of this type of properties as a compensation for proximity to transmission lines.

7.6 Problems in Valuation

When asked if there are any problems encountered when determining value of such properties, seventy four percent (74%) of the respondents respond to *no problem at all*⁴. Another twenty six percent (26%) of the respondents lined out few problems they encountered during the valuation of such properties. The main problem mentioned is, 'in determining how much decline in value for properties proximate to transmission lines. There must be substantial evidence as comparables properties made available, so that the value of such property can be established'.

Twenty six percent (26%) respondents stated that they tackled problems encountered during determination of property proximate to transmission lines value by finding more market evidence of declines in value. Most of the evidences were properties that have been transacted for the past 3 years. In the respondent's opinion, only properties transacted for the past 3 years showed that there is a decline in value for properties proximate to transmission lines.

⁴ *No problem at all* means just normal and routine technical problems normally faced by valuers.

7.6.1 Time As a Factor

When asked whether there are any time factor involved in selling such properties, ninety eight (98%) percent responded by stating that it was *not relevant*⁵ for all type of properties proximate to transmission lines. However, two percent (2%) of the respondents mentioned agricultural land takes 2 months longer to sell when it is located proximate to transmission lines. The sole reason given for this time factor is that, agricultural land use high voltage machinery, suddenly stops due to electromagnet field (EMF) emitted by the transmission lines. This situation lead to a certain portion of the land to be cultivated manually and caused financial burden to them.

7.6.2 Measuring the Effect

In measuring the effect of transmission lines on property values, none of the respondents give clear statement to answer this question. Those, who answered, simply stated that one must have adequate experience to differentiate the factors that are affecting the value contributed by proximity to transmission lines. The negative impact could be compensated by other factors such as the renovation done on the said property. There are no standard measurements for this effect; it is merely based on the experiences of the valuers themselves.

City or the urban area properties proximate to transmission lines are mostly affected in value compared to the sub-urban or village properties, according to ninety seven percent (97%) of the respondents.

Fifty percent (50%) of the respondent believed that only the higher priced properties⁶ are affected by the presence

of transmission lines. This statement, according to them is based on transaction evidences for the past 5 years. However, another fifty percent (50%), believed that all type of properties are effected regardless of the value.

⁵ Not relevant means not apply to all types of property. Only certain type of property is affected.

⁶ Commercial properties used as an office and residential properties which market value more than RM 300,000.

7.7 Suitable Development Near to Transmission Lines

The respondents opined that property which is suitable to be developed proximate to transmission lines is shown below:

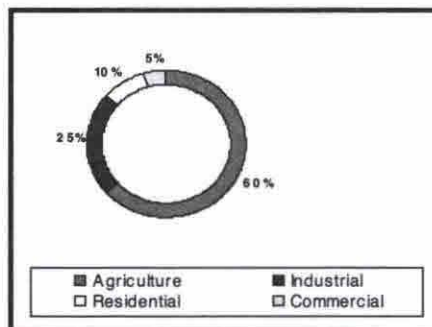


Chart 5: Suitable Property to be develop Proximate to Transmission Lines

Sixty percent (60%) of the respondents stated that suitable property that should be develop is agricultural land, as in their opinion, agricultural land has less human occupation on it.

7.8 Penalization in Value

Three respondents have given their added opinion on this topic, where they generally stated that:

- No conclusive evidence on effected value for property proximate to

transmission lines, so there are no worries for such property for any decline in values.

- Although in the United Kingdom and United States have moved into declining value of properties proximate to transmission lines, in Malaysia real estate market should be strongly established before such penalization can be made.
- Penalization on value of such property can be made if in the opinion of the valuers the property should be penalized for located proximate to transmission lines.

Respondents advise that a property owners and/or investors should be:

- Prudent in acquiring property proximate to transmission lines.
- Cautious in investing properties proximate to transmission lines so as to avoid future losses due to decline in value.

7.9 Suitable Use of Space

The suggested space usages that are suitable to use if a building is already built proximate to a transmission lines to avoid interference with EMF are as shown in the chart below:

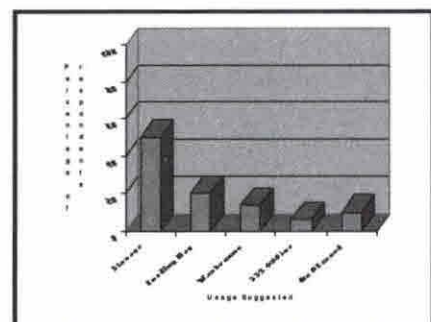


Chart 6: Space usage suggested by the respondent by percentage.

From the chart above, the space usage suggested by fifty percent (50%) respondents is storage. Second most suitable usage is loading / unloading bay followed by washrooms and small scale service office. Ten percent (10%) of respondents opined that there are no interference with the EMF emits by the transmission lines, so space can be used as per planned by the occupier of the building.

8.0 Conclusion

Based on the analysis of the perceptions presented, the researcher found that transmission lines do contribute to the decline of value for property proximate to it. Features like visual unattractiveness, increases of public awareness, and long term health problem (stigma), unsafe, disturbing sound and electrical interference resulting for loss of value. Valuers are also aware that transmission lines do have an effect on property values; hence there are indications that they penalize properties which are proximate to transmission lines, but this was done solely based on valuer's own experience and knowledge. The researcher believe that further study should be conducted on this matter, especially on the quantum being allowed in the process of valuation when valuing property in proximate location to transmission lines. Thorough market evidences need to be analysed in order to sustain credibility of the findings and conclusion.

Bibliography

- Anon, 1997. *Executive Summary - Possible Health Effects Of Exposure to Residential Electric and Magnetic Fields*. Available at: <http://www.nap.edu/edu/openbook/03090544787/html/1.html> [July 21, 2005].
- Anon., 2003. *Electric and Magnetic Fields Research and Public Information Dissemination*. Research on Power-Frequency Fields Completed Under the Energy Policy Act of 1992. Available at: <http://www.nap.edu/openbook/0309065437/html> [July 25, 2005]
- Anon, 2003. *Hot Topics: Psychological Effects of EMF - Depression and Proximity to High- Voltage Transmission Lines*. Information Ventures, Inc. Available at: <http://infoventures.com/emf/currjit/res10017.html> [August 2, 2005].
- Anon, 2000. *Property Values*. Final Environmental Impact Statement. Arrowhead-Weston Electric Transmission Line Project, Volume 1, Public Service Commission of Wisconsin Docket 05-Ce-113, Date Issued October 2000. Available at: <http://www.powerlinfacts.com/property%20values%20discussion%20from%20Wiscons.> [August 10, 2005]
- Anon., 2004. *Assessment and Mitigation of Magnetic Fields in A Commercial Building Adjacent to Transmission Lines*. FMS. Available at: <http://www.fms-corp.com/real-estate/applications.htm> [May 20, 2005]
- Brown D., (1976), *The Effect of Power Line Structures and Easements on Farm Land Value*, Right of Way (Dec 1975 – Jan 1976), pp 33-38.
- Brown L., 2003. *Realtors: High Voltage Lines Lower Property Values*. Roanoke Times. Available at: <http://www.apropertyrights.org/powerlinespropertyvalueshtml> [August 3, 2005].
- Bryant J A. and EPLEY D R., 1998. *Cancerphobia: Electromagnetic Fields and Their Impact in Residential Loan Values*. Journal of Real Estate Research, Volume 15, No. 1/2, 1998.
- Charles J., D. and Douglas T., 1992. *High Voltage Power Lines: Do They Affect Residential Property Value?* The Journal Of Real Estate Research. Volume 7, Number 3. Summer 1992. pp. 315- 326.
- Colangelo R.V. & Miller R.D. (1995), *Environmental Site Assessments and Their Impact on Property Value: The Appraisers' Role*, Appraisal Institute, Chicago, IL.
- Colwell P., Power Lines and Land Value, Journal of Real Estate Research 5:1 (Spring 1990), pp 177-27
- Colwell P. & Foley K, Electric Transmission Lines and Selling Price of Residential Property, Appraisal Journal 47:4 (October 1979), pp 490-99
- Elliot P and Wadley D., 2001. *The Impact of Transmission Lines on Property Values: Coming to Terms With Stigma*. August 2001. Available at: <http://www.emeraldinsight.comm/researchregisters> [August 10, 2005].

Freedman., Alix M. 2000. *Property Devaluation Near Power Lines*, Available at: <http://D:\documents%20and%20settings\User\My%20Documents\Thesis%20Finding> [July 25, 2005].

George B., 1995. *Defending against EMF Property Devaluation Cases*. Public Utilities Fortnightly (1994), Feb 1, 1995 133 n3 p43(2). Available at: [http://www.wave-guide.org/archives/emf-1/Apr1998/\(fwd\)-Defending-against-EMF-p](http://www.wave-guide.org/archives/emf-1/Apr1998/(fwd)-Defending-against-EMF-p) [August 1, 2005].

Hamilton S. W. and Schwann G M. , 1995. *Do High Voltage Electric Transmission Lines Affect Property Value*. Journal of Real Estate Research, Nov 1995 Vol. 71 No.4 pp. 436-9. Available at: <http://infotrac.apla.galegroup.com/itw/infomark/164/'327/33382946w6/purl=rc1-EAI> [September 12, 2005].

Hiles M. I., 2002. *Magnetic Fields 101 For Facility Managers. The power of planning: Mitigating Magnetic Field Problems*. Available at: <http://www.fms-corp.com/mag-fields-101.htm> [August 4, 2005].

Hsiang T.K. and Seagle C F., 1992. *Impact of Power Transmission Lines on Property Values: A Case Study*. The Appraisal Journal, July 1992.

Jaconetty T. A., 2001. *Do You Want Your Children Playing Under Those Things?: The Continuing Controversy About High Voltage Electromagnetic Fields, Human Health, and Real Property Values*. Assessment Journal, Chicago. Pp. 1-10. Available at: <http://www.powerlinefacts.com/Assessment%20Journal.htm> [September 12, 2005]

Kinnard W., Geckler M., Geckler J., Kinnard J. & Mitchell P., 1984, *An Analysis of the Impact of High Voltage Electric Transmission Lines on Residential Property Values in Orange County, New York*, Storrs, CT: Real Estate Counselling Group of Connecticut, Inc.

Mundy B., (1992a), *The Impact of Hazardous and Toxic Material on Property Value: Revisited*, Appraisal Journal, October 1992, pp.463-71.

Mundy B., (1992b), *The Impact of Hazardous Materials on Property Value*, Appraisal Journal, October 1992, pp.155-62.

Mundy B., (1992c), *Stigma and Value*, Appraisal Journal, January 1992, pp.7-13.

Patchin P., (1988), *Valuation of Contaminated Properties*, Appraisal Journal, January 1988, pp.7-16

Patchin P., (1991), *Contaminated Properties – Stigma Revisited*, Appraisal Journal, April 1991, pp.167-72

Patchin P., (1994), *Contaminated Properties and the Sales Comparison Approach*, Appraisal Journal, July 1994, pp. 402-9

Philip C.J., 2004. *Malaysian Property Market Remains Subdue*. Available at: <http://www.asiafeatures.com/business/0203.350.02a.html> [March 6, 2005].

Rosiers F. D., 2002. *Power Lines, Visual Encumbrance and House Values: A Micro-spatial Approach to Impact Measurement*. Journal of Real Estates Research Vol.23. No. 3- 2002.

Sims S., 2002. *The Effect of Public Perception on Residential Property Values in Close Proximity to Electricity Dissemination Equipment*. Pacific Rim Real Estate Society Conference, Jan 3-5, 2002.

Whetton D., 1999. *Land Use Planning and Electromagnetic Fields*. Report Writer, 25 February 1999. Available at: <http://www.rics.org/ricsms/bin/show?class=policy&template=/includes/showpolicy> [July 20, 2005]

Zeman G., 2003. *Health Risks Associated with Living Near High-Voltage Power Lines*. CHP. Available at: <http://hps.org/hpspublications/articles/powerlines.html> [August 1, 2005].

Strata Titles Act 1985 - Legal Needs, Implications and Impacts of the Recent Amendments: Part II

Azimuddin Bahari, PhD

Director,

Land Law and Land Management Development Section

Department of the Director General of Lands And Mines

Ministry of Land and Cooperative Development

Abstract

One of the present trends of the construction industry is on the construction of high-rise buildings which is to accommodate the growth in demand for property within the cities where land is a scarce resource. The requirement of ownership especially in the residential and commercial sub-sectors requires the sub-divisions of buildings which will give rise to demands for strata titles. In comparison to properties issued with land titles, properties issued with strata titles have three main stages instead of one. There are the pre-issuance, the issuance and post issuance stages. During the pre-issuance stage there are issues on meeting the requirements of the law for application of titles and the issues on building management by the developers. During the issuance stage there are issues of owners who pass away and companies that have wound up or are declared bankrupt and at the post-issuance stage, there are issues again on building management, this time under the management corporations. These issues have given rise to problems over the implementation of the Act and hence the Act was recently amended to meet the needs. One of the major amendments under the Act is the establishment of the Strata Titles Board. These amendments are not conclusive and are subject to further amendments in future.

Keywords: strata titles, sub-divided buildings, management corporations, strata titles board

- **The Strata Titles Board (STB)**

The new amendments made under the new provisions in Sections 67A to 67X are wholly on the establishment and on the powers conferred upon the STB.

New Section 67A - Strata Titles Board

1. Under the new provisions, there shall be a Strata Titles Board which shall consist of a President and such number of Deputy Presidents and other members as are appointed in accordance with this section. The President, Deputy Presidents and members of the Board shall be appointed by the State Authority.
2. No person shall be appointed as the President or a Deputy President of the Board unless he is a qualified person within the meaning of the Legal Profession Act 1976. At the same time, not more than twenty persons shall appointed by the State Authority to be members of the Board in addition to the President and Deputy Presidents of the Board.
3. The names the President, Deputy Presidents and members appointed under this section shall be notified in the State Gazette. Except where otherwise provided by this Act, the Board shall, for the purpose of hearing and determining a dispute of which the Board has cognizance or any other matter with respect to which the Board has jurisdiction under this Act, be constituted by a division of the Board consisting of
 - a. the President or a Deputy President of the Board as chairman; and

- b. two other persons to be selected by the chairman from amongst the member of the Board and fill any vacancy in its membership.

New Section 67B - Tenure of Office

1. A member of the Board shall be appointed for a term of two years but shall be eligible for reappointment. A member may also resign by letter addressed to the Director.
2. The State Authority may at any time revoke the appointment of any member of the Board and fill any vacancy in its membership.

New Section 67C - Continuation of Hearing

1. If after the Board has been constituted in relation to a dispute or matter has been determined a member of the Board is unable to hear or continue to hear or to determine the dispute or matter or ceases to be a member of the Board and in so hearing may have regard to the evidence given, the arguments adduced and any interim order made during the previous hearing.
2. Notwithstanding subsection (1) and section 67B, a member of the Board who resign or whose appointment expires during the course of any proceedings of the Board shall for the purpose of such proceedings of the Board shall for the purpose of such proceedings and until their determination be deemed to remain a member of the Board and shall continue to hear and determine the dispute or matter which is the subject matter of the proceedings.

New Section 67D - Bar To Actions

No action shall lie against any member of the Board in respect of anything done or omitted to be done by him in good faith in the execution or purported execution of his functions, powers and duties this Part.

New Section 67E - Allowances

1. A member of the Board may be paid allowances prescribed under this Act in respect of each day on which he is engaged in the hearing and determining of a dispute or matter.
2. In addition to the allowances provided for in subsection (1), the President and the Deputy Presidents of the Board may be paid such allowances as may be prescribed under this Act.

New Section 67F - Board to Carry Out Its Work Expeditiously

1. The Board shall carry out its work expeditiously and shall make a finding or determination within 6 months from the date it is constituted.
2. The period specified in subsection (1) may be extended by the President or a Deputy President of the Board where the dispute or matter involves complex issues.

New Section 67G - Proceedings of Board

1. The proceedings of the Board shall be open to the public and minutes of the Board including a note of any oral evidence given before the Board

shall be kept by the President of the Board.

2. The members of the Board shall be deemed to be public servants within the meaning of the Penal Code.

New Section 67H - Order revoking amendment of by-law

1. In response to an application by any person entitled to vote at a meeting of the management corporation (including a first charge and charge of a parcel), the Board considers that, having regard to the interest of all parcel proprietors in the use and enjoyment of their parcels or the common property, an amendment or revocation of an additional by-law or addition of a new additional by-law should not have been made or effected, that Board may order that the amendment be revoked, that the revoked additional by-law be revived or that the new additional by-law be revoked.
2. When making an order under subsection (1) in respect of an additional by-law referred to in subsection (2) of section 44, the Board may direct the management corporation to pay compensation to the proprietor of the parcel adversely affected by the additional by-law. The compensation ordered to be paid under subsection (2) is recoverable by the parcel proprietor as a debt in any court of competent jurisdiction.

New Section 67I - Order invalidating purported by-law

In considering an application by any person entitled to vote at a meeting of

a management corporation (including a first charge and a charger of a parcel), if the Board finds that the management corporation has made an additional by-law but that the management corporation did not have the power to make the additional by-law the Board may make an order declaring the additional by-law to be invalid.

New Section 67J - Power of Board to invalidate proceedings

1. Where, pursuant to an application by a parcel proprietor of first charge of parcel, the Board considers that the provisions of this Act have not been complied with relation to a meeting of the management corporation, the Board may by order-
 - a. invalidate any resolution of, or election held by, the persons present at the meeting; or
 - b. refuse to invalidate any such resolution or election.
2. The Board shall not make an order under subsection (1) refusing to invalidate a resolution or election unless it considers –
 - a. that the failure to comply with the provisions of this Act did not prejudicially affect any person; and
 - b. that compliance with the provisions of this Act would not have resulted in a failure to pass the resolution, or have affected the result of the election, as the case may be.

New Section 67K - Order varying certain rates of interest

Where, pursuant to an application by a parcel proprietor for an order under this section, the Board considers that the management corporation for the subdivided building to which the application relates has determined an unreasonable rate as the rate of interest payable for the late payment of a contribution levied under section 45, the Board may order that no interest be so payable or that the interest so payable be at a rate specified by the Board may order that no interest be so payable or that the interest so payable be at a rate specified or that the interest so payable be at a rate specified by the Board instead of the rate so determines.

New Section 67L - Order where voting rights denied or due notice of item of business not given

1. Where, pursuant to an application by a person under this section, the Board is satisfied that a particular resolution would not have been passed at a general meeting of a management corporation but for the fact that the applicant –

- a. was improperly denied a vote on the motion for the resolution; or
- b. was not given due notice of the item of business pursuant to which the resolution was passed,

the Board may order that the resolution be treated as a nullity on and from the date of the order.

2. Where -

- a. an order under subsection (1) is made in respect of a resolution making an additional by-law amending, adding to or revoking another additional by-law;
- b. the additional by-law made pursuant to that resolution is in force,

the additional by-law shall, subject to its having been or being amended, added to or revoked under subsection (2) of section 44, have force and effect on and from the date the order is so made to the same extent as it would have had if the resolution had not been passed.

3. An application for an order under subsection (1) may not be made after 21 days after the date of the meeting at which the resolution was passed.

New Section 67M - Order varying amount of insurance to be provided.

The Board may, pursuant to an application by a management corporation, a parcel proprietor or a chargee in possession of a parcel, make an order for the settlement of a dispute, or the rectification of a complaint with respect to any defects in a parcel, a subdivided building and its common property or the liability of a parcel proprietor to bear the costs of or any part thereof for any work carried out by a management corporation in the exercise or performance of its powers, duties or functions conferred or imposed by this Act and the by-laws in

connection with the subdivided building.

New section 67O - Order to make or pursue insurance claim.

Where , pursuant to an application by a parcel proprietor, the Board considers that the management corporation for the subdivided building to which the application relates has unreasonably refused to make or pursue an insurance claim in respect of damage to the building or any other property insured by the management corporation under this Act, the Board may order the management corporation to make or pursue the claim.

New Section 67P – Order to supply information or documents.

Where, pursuant to an application by a parcel proprietor, the Board considers that the management corporation for the subdivided building or any member of its council to which the application relates, or managing agent for the subdivided building, has wrongfully withheld from the applicant information to which he is entitled under this Act, the Board may order that management corporation, managing agent, or any member of the council to supply or make available the information to the applicant.

New section 67Q -Order with respect to certain consents affecting common property .

Where, pursuant to an application by a parcel proprietor, the Board considers that the management corporation for the subdivided building to which the

application for the subdivided building to which the application relates has unreasonably refused to consent to a proposal by that parcel proprietor to effect alterations to the common property, the Board may order that management corporation to consent to the proposal.

New Section 67R - General provisions relating to orders under this Part.

1. An order made by the Board may include such ancillary or consequential provisions as the Board thinks fit including costs to be paid by the applicant, a management corporation or any person against whom the order is made or costs to be paid by a party for making a frivolous application to the Board.
2. For the purpose of securing compliance with an order under this Part, the Board may order a management corporation or any member of its council, a managing agent or any other person having registered interest in a parcel or an occupier to do or refrain from doing a specified act with respect to a subdivided building and the common property.

Section 67S - Representation before the Board

1. An applicant for an order this Part may appear before the Board or may be represented by counsel who may examine witnesses and address the Board on behalf of the applicant.
2. A management corporation appearing before the Board may be represented by counsel or a member

of the council of the management corporation.

New Section 67T - Witness may be summoned

1. The Board may summon any person to attend before the Board at the time and place specified in the summons to given evidence and to produce books, documents or writings in his custody or control which he is required by the summons to produce.
2. A person served with a summons under subsection (1) who, without reasonable excuse, disobeys the summons shall be guilty of an offence and shall be liable on conviction to a fine not exceeding five thousand Ringgit or to imprisonment for a term not exceeding six month or to both.
3. A person shall not be bound to produce any books, documents or writings not specified or otherwise sufficiently described in the summons or which he would not be bound to produce upon a subpoena for production in a court.

New Section 67U - Board may administer oath

1. The Board may administer an oath affirmation to a person appearing as a witness before the Board whether or not he has appeared in answer to a summons, and may examine the witness upon oath or affirmation.
2. A person appearing as witness before a Board -
 - a. shall not refuse to be sworn or to make an affirmation;

- b. shall not refuse to answer any question relevant to any proceedings before the Board which are put to him by the Board or by any person entitled to appear before the Board in those proceedings; and
 - c. shall not knowingly give false testimony in any evidence given by him to the Board.
4. A witness before a Board shall have-
- a. the same protection; and
 - b. in addition to the penalties provided by this Act, the same liabilities,
- as he would have had if he had been a witness before a court.

New Section 67V - Penalty for contravention

- 1. A person who contravenes an order made by the Board to do or refrain from doing a specified act shall be guilty of an offence and shall be liable on conviction to a fine not exceeding ten thousand Ringgit or to imprisonment for a term not exceeding two years or to both.
- 2. A document purporting to be copy of an order made by the Board shall be admissible in evidence and shall, until the contrary is proved, be deemed to be an order made by the Board.

New Section 67X - Appeal on point of law

- 1. No appeal shall lie to the High Court against an order made by the Board under this Part except on a point of law.

2. Where an appeal is made to the High Court, the Court may confirm, vary or set aside the order or remit the order to the Board for reconsideration together with such directions as the Court thinks fit.

3. The filing of a notice of appeal shall not operate as a stay of execution of an order or suspend the effect of an order unless the Board or the High Court, as the case may be, otherwise orders and any stay or suspension of an order may be subject to such conditions as the Board or High Court thinks fit.

• **New Section 80A - Prosecution**

No prosecution shall be instituted for an offence under this Act or any rules made under this Act without the consent in writing of the Public Prosecutor.

The drafting of this 2001 amendment to the Strata Titles Act 1985 has undergone a grueling exercise in which the areas requiring amendments have been identified and worked upon. This amendment should be able to overcome problems over the delay in applying for strata titles, overcome disputes between parcel owners themselves and overcome disputes between parcel owners and the management corporations. However, the previous provisions plus the new amendments cannot be regarded as a conclusive attempt in addressing the problems faced by aggrieved parcel owners of sub-divided buildings.

CONCLUSION

This paper has highlighted the increasing need for strata titles currently and in the future. Evidently,

the number of applications has multiplied over the years. The challenges put upon the shoulders of the powers that be is for the act be implemented as an effective legal tool to address the public woes over subdivided buildings requiring the issuance of strata titles. The implementation of the act has to be backed up by a solid enforcement mechanism so as to be able to measure up to public expectations in processing and issuing strata titles expeditiously. However, apart from having an effective legal system to meet the challenges, the Land Administrators and the Directors of Lands And Mines also require the

corresponding cooperation and commitment from the developers, licensed land surveyors and the State Directors of Survey. It should be pointed out that although the processing of strata titles is a straightforward procedure, somehow, the technical nature of the strata title application makes it appear rather cumbersome and complicated. Hence despite of the extensive study carried out in formulating the amendments, we have to submit to the fact that there will definitely be further amendments to the act. The Strata Titles Act 1985 has not reached its maturity stage or in other words it has not reached the plateau.

2005 BUDGET: TAX EXEMPT, INCENTIVE AND REITs

Ting Kien Hwa
Department of Estate Management
Faculty of Architecture, Planning & Surveying
University of Technology MARA
40450 Shah Alam, Selangor
Malaysia

Introduction

The 2005 Budget has announced a tax exempt incentive for the real estate investment trust (REIT)/listed property trusts(LPT). Income distributed by REIT to its unitholders will now be exempted from company tax. For foreign investors, the 28% tax is still applicable and is withheld by the REIT.

Previously income distributions from the REITs are subject to the imputation system. Under the imputation tax system, the tax paid by a company is taken as advance tax paid by the shareholders in respect of the dividends received and the income received by the unitholders will be taxed at their respective tax rates.

For sometime in the property trust circle there has been an issue that the tax exempt status and the tax imputation system yield different after tax income to the REITs/LPTs investors. Tax exempt was the preferred tax treatment. The following example will illustrate whether there are any difference between the two tax treatments and how it impact on individuals, pensioners and tax-exempt bodies.

Example

A RM1 face value REIT/LPT has declared a dividend rate of 10%. What is the after tax income receivable by investors under the tax exempt incentive and the imputation tax system for:

- individuals with personal income tax rate of less than 28%;
- individuals with personal income tax rate of more than 28%;
- pensioners and tax exempt bodies.

Tax exempt system - Current tax scenario with tax exempt incentive for REITs

- individuals with personal income tax rate of less than 28%;

The income distribution to the unitholder will be RM100.00. (Previously the unitholder will receive only RM72.00 with RM28.00 being company tax at 28%.)

	RM
Income distribution say 10% of RM1 face value REIT/LPT	100.00
Tax exempt	<u>0</u>
Income received by unitholder	100.00
Income tax payable by unitholder (Say the income tax rate of the unitholder is 13%)	<u>13.00</u>
After tax income received by unitholder from REIT	87.00

The after tax income received by unitholders from the REIT would depend on each individuals income tax rate. Table 1 shows the after tax income according to tax band of

individuals if the income distribution is declared as income.

Table 1 : After tax income from a RM100 tax exempt income distribution of REIT/LPT

Taxable income (RM)	2003 Tax rate (%)	After tax income from dividend (RM)
Less than 5,000	1	99
Less than 20,000	3	97
Less than 35,000	7	93
Less than 50,000	13	87
Less than 70,000	19	81
Less than 100,000	24	76
Less than 250,000	27	73
More than 250,000	28	72

- individuals with personal income tax rate of more than 28%;

	RM
Income distribution say 10% of RM1 face value REIT/LPT	100.00
Tax exempt	<u>0</u>
Income received by unitholder	100.00
Income tax payable by unitholder (Say the tax rate of the unitholder is 28%)	<u>28.00</u>
After tax income received by unitholder from REIT	72.00

- pensioners and tax exempt bodies.

	RM
Income distribution say 10% of RM1 face value REIT/LPT	100.00
Tax exempt	<u>0</u>
Income received by unitholder	100.00
Income tax payable by unitholder (0% as tax exempt bodies)	<u>0.00</u>
After tax income received by unitholder from REIT	100.00

Imputation tax system - Previous tax scenario with 28% company income tax for REITs

- (a) individuals with personal income tax rate of less than 28%;

	RM
Income distribution 10%	100.00
Company tax at 28%	<u>28.00</u>
Income received by unitholder	72.00
Income tax payable by unitholder on the income distribution (Say the tax rate of the unitholder is 13% - refer Note 1)	<u>13.00</u>
Net income received by unitholder from REIT	59.00
Under the imputation tax system, unitholder is entitled to claim back RM 28.00 - refer Note 2	<u>28.00</u>
After tax income received by unitholder from REIT	87.00

Note

- 1 Say the annual income of an individual is less than RM50,000, after deducting all reliefs, rebates and expenses, the total taxable income will be taxed at a personal income tax rate of 13%. Thus the extra RM100 income distribution from the REIT will be tax at the amount of (13% x RM100) = RM13.00.
- 2 Under the imputation tax system, individuals with a lower tax rate than the corporate tax rate will be entitled to claim tax credits for the excess tax paid from the dividends.

The after tax income received by unitholders from the REIT would depend on each individuals income tax rate. Table 2 shows the after tax income for individual if the income distribution is declared as income.

Table 2 : After tax income from a RM100 income distribution of REIT/LPT under the imputation tax system.

Taxable income (RM)	2003 Tax rate (%)	After tax income from dividend (RM)
Less than 5,000	1	99
Less than 20,000	3	97
Less than 35,000	7	93
Less than 50,000	13	87
Less than 70,000	19	81
Less than 100,000	24	76
Less than 250,000	27	73
More than 250,000	28	72

- b) individuals with personal income tax rate of more than 28%;

	RM
Income distribution 10%	100.00
Company tax at 28%	<u>28.00</u>
Income received by unitholder	72.00
Income tax payable by unitholder on the income distribution (Say the tax rate of the unitholder is 28% - refer Note 1)	<u>28.00</u>
Net income received by unitholder from REIT	44.00
Under the imputation tax system, unitholder is entitled to claim back RM 28.00 - refer Note 2	<u>28.00</u>
After tax income received by unitholder from REIT	72.00

- c) pensioners and tax exempt bodies

	RM
Income distribution 10%	100.00
Company tax at 28%	<u>28.00</u>
Income received by unitholder	72.00
Income tax payable by unitholder on the income distribution (0% as tax exempt bodies)	<u>0.00</u>
Net income received by unitholder from REIT	72.00
Under the imputation tax system, unitholder is entitled to claim back RM 28.00 - refer Note 2	<u>28.00</u>
After tax income received by unitholder from REIT	100.00

The above illustration demonstrates that :

- the after tax income under imputation tax system and the tax-exempt benefit is the same for REIT investors;
- pensioners and tax exempt bodies enjoy the highest after tax income.

Comparison of tax benefits among REITs in various countries

The tax exempt incentive declared in the 2005 Budget is in line with the tax transparency benefits enjoyed by REITs in various countries. Table 3 makes comparison between Malaysia with other countries that have REITs. Table 3: Tax benefits of REITs/LPTs in Various Countries (May/June 2004).

Country	Tax Benefits	Minimum Distribution	Minimum Level of Property	Gearing
Malaysia	Yes	Unlimited	75%	<10% of total assets
Australia	Yes	100%	75%	Unlimited
USA	Yes	90%	75%	Unlimited
Europe				
Netherlands	Yes	100%	100%	<60% of total assets
Belgium	Yes	80%	80%	<50% of total assets
France	Yes	85%	80%	Unlimited
U.K.(proposed)	Yes	substantial	75%	Unlimited
Asia				
Japan	Yes	90%	75%	Unlimited
Korea	Yes	90%	70%	Unlimited
Singapore	Yes	100%	70%	<35% of total assets
Hong Kong	Yes	90%	90%	<35% of total assets

Source: Tan, Yen Keng (2004)

Conclusion

In conclusion, there is no difference in the after tax income between tax exempt incentive and the imputation tax system. REITs/LPTs remains an attractive income producing investment/asset for pensioners and entities that enjoy tax exempt status.

The tax imputation system is still applicable for other income yielding property securities such as listed property companies that declare dividends.

References

Boyle, Glenn W. (1996) *Corporate investment and dividend tax imputation*. The Financial Review, 31(1), 209-226

Veerinderjeet, Singh (1994) *Malaysian Taxation: Administrative and Technical aspects*. Longman Malaysia 2edition

APPENDIX

Personal Tax Rates in Malaysia

The rates of tax shown below are applicable to the taxable income of resident individuals:

	Chargeable income RM	Rate %	Tax RM
On the first	2,500	0	0
On the next	2,500	1	25
On the first	5,000		25
On the next	15,000	3	450
On the first	20,000		475
On the next	15,000	7	1,050
On the first	35,000		1,525
On the next	15,000	13	1,950
On the first	50,000		3,475
On the next	20,000	19	3,800
On the first	70,000		7,275
On the next	30,000	24	7,200
On the first	100,000		14,475
On the next	150,000	27	40,500
On the first	250,000		54,975
On the next	250,000	28	

Note: Non-resident individuals are taxed at a flat rate of 28% on all sources of income, except royalties, interest, rental of movable properties and technical or management service fees, which are subject to withholding tax. The withholding tax rates are similar to those imposed on companies.

Announcement

Do You Have A Paper You Would Like To Share With Other Real Estate Professionals?

The Journal of Valuation and Property Services (JVPS) is a major publication by the Valuation and Property Services Department, Ministry of Finance Malaysia. JVPS is an international journal that provides a forum for critical appraisals of fundamental issues affecting the real estate industry. It is specially intended for real estate professionals to keep abreast with developments in the real estate industry as well as in the real estate profession.

The Publication Board of this journal invites original papers from real estate professionals on any of the following areas:

- areas of major interest and practical relevance to the real estate profession;
- new techniques, applications, theories as well as related concepts relevant to the real estate profession;
- policy issues and regulations and their impact on the real estate market.

The journal focuses on Asia, with particular emphasis on Malaysia, but papers that promote cross-national learning on the real estate industry world wide are welcome. Each issue will also present practise notes relevant to the practice of valuation and property services written by senior professionals.

Further detail on the journal are available from:

The Editor
Journal of Valuation and Property Services
National Institute of Valuation (Inspen)
No. 5, Persiaran Institusi Bangi
43000 Kajang
Selangor Darul Ehsan
Malaysia
Telephone: 603-89259377
Telefax: 603-89258100
E-mail:
research@inspen.gov.my

Notes to Contributors

1. Submission

Contributors can submit their papers before the 31st July of each year to:

The Editor
Journal of Valuation and Property Services
National Institute of Valuation (Inspen)
N0. 5 Persiaran Institusi Bangi
43000 Kajang

Computer disk copies (IBM compatible 3.5") are encouraged. In preparing the disk, please use the Microsoft Word or Rich Text format.

A prospective contributor may submit a summary of a proposed paper to the editor for preliminary consideration as to its suitability for publication in the journal. The receipt of each paper submitted will be acknowledged. The Editor reserves the right to accept, modify or decline any article.

2. Reviewing Process

All contributions will be reviewed by one or more referees. Contributors will be informed about the acceptance (or otherwise) of their papers after the comments of referees have been received. The entire reviewing process will be conducted in complete confidentiality. For this purpose, the name, address and affiliation of the contributor should not be on the first page of the paper, but only on the accompanying letter.

3. Style

Papers should be the original, unpublished work of the contributors. They should not be under consideration for publication elsewhere. Submissions

can be in either Malay or English language. Papers should be written in a clear and simple style, and should have a carefully considered structure. Contributors are encouraged to adopt the most effective way of communicating their information to the reader. Illustrations may be used to elucidate the issues raised.

4. Contents

Papers should preferably be in the range of 4000 to 6000 words, including illustrations. A brief (max 60 words) profile of the contributor should accompany each article.

All manuscripts for publishing are to be typed in double-spacing on one side of A4 sized paper with 1.5 inch margin on the left-hand side. The pages should be numbered consecutively.

(a) First Page

The full title of the paper must be shown on the first page of the manuscript. Also to be included on the first page are an abstract of not more than 200 words and up to five keywords to facilitate indexing. The abstract should summarise the objectives, main finding and conclusions of the paper.

(b) References

Only references which are cited in the text should be included in the Reference List. The Harvard reference system is adopted in the Journal. References within the text will be shown in bracket, by quoting first, the author's name followed by a comma and year of publication all in round brackets, e.g. (Agus, 1994).

References should appear at the end of the article, arranged in alphabetical order by the first author's surname as follows:

For books: surname, initials, (year) *title*, publisher, place of publication.

For journals: surname, initials, (year) "title", *journal*, volume, number, pages.

Example

References:

Book

Lim, K. K. (1990), *Valuation Methods*, Pelandok, Kuala Lumpur.

Journal

Zahuruddin A. (1994), "The New Economic Policy and the Integrated Housing Model", *Ilmu Alam*, Vol. 2 No. 7, pp 23-35.

(c) Illustrations

Illustrations such as diagrams, tables, graphs and similar materials should not be part of the text but should be submitted separately with the text. Table of values used to generate graphs must be included to ensure accurate representation. All illustrations should be identified correctly in the order in which they are referred to in the text, e.g. "Figure 1 or Table 1., etc". The exact places where illustrations are to be inserted in the text should be clearly shown in the manuscript. Photographs should be black and white glossy prints. The contributor's name, figure number, caption, and an indication of which is top, should be written lightly on the back of each photograph.

Acknowledgements, Footnotes and Endnotes are to be listed at the end of the

article on a separate piece of paper in the following format:

Footnotes, Endnotes

- a. Comment
- b. Comment
- c. Comment

5. Editorial Scope

The Editor reserves the right to edit/format the manuscript to maintain a consistent style.

6. Copyright

Contributors shall undertake to ensure that articles submitted for publication do not infringe any copyright law. Relevant acknowledgements should be included in tables, figures, or wherever necessary.

All contributions become the legal copyright of the publisher unless otherwise agreed. This covers the exclusive rights to reproduce and distribute the article, including reprints, photographic reproductions, microfilm or any reproduction of a similar nature, and translation.

7. Disclaimer

Although the Valuation and Property Services Department (JPPH) is the publisher of the Journal of Valuation and Property Services, the views presented in the Journal are entirely those of the contributors' and do not reflect the official stand of the department. JPPH does not hold itself responsible for the accuracy of any article published. The role of the publisher is merely to provide a platform for discussion and exchange of ideas. □