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Guidelines to boost investment

GOVERNMENTS all over the world have been trying to prop up their failing economies in various ways, including injecting funds through stimulus packages that comprise increased government spending and income handouts.

The United States, for example, recently approved US$787bil for this purpose. China has announced a US$585bil package that will likely increase, and Japan has committed to spend in excess of 8% of its gross domestic product (GDP) in two separate packages. In Malaysia, too, the Government announced a RM7bil package last November 2008 – a large portion of which was allocated to the housing and construction sector.

This was followed by another stimulus package announced on March 10 amounting to RM60bil. Of course, it is not so much the amount of funding that matters but, rather, that the sum is spent as efficiently and effectively as possible.

In all these countries, the idea of the funds injection is to ensure that there is money circulating in their markets. While this cash flow is expected to lessen the severity of the effects of the recession as a whole, there is also a possibility that the excess funds may push up prices of goods, leading to inflationary pressures.

Our banks have lowered interest rates – a measure that is meant to encourage people to spend rather than keep their money stashed away. However, it also means that traditional savers, who would normally deposit their funds in fixed deposit accounts, would need to explore other options to generate good returns.

In times like this, property has a big role to play because fixed assets are safe havens. This is a good time for investors to seize the opportunity of low interest rates, and borrow to purchase properties which can generate decent returns in the medium to long term.

Just as with other businesses, the current economic situation is forcing property developers to re-visit current business practices in order to determine the best ways to proceed with future developments. As we do this internally, the Government, too, can help facilitate further investment.

One way is for the Government to ensure that all guidelines and regulations are definite and fixed, thereby reducing uncertainty for developers. Since the March 8, 2008 general elections last year, developers have, in their dealings with local city councils, often faced ambiguity when it comes to the implementation of development guidelines.

With the changes in several state governments, town councils find themselves in a quandary when it comes to making decisions.

Should they follow the guidelines already set down or should their decisions be held back in anticipation of the changes that the new governments may make?

As an example, while waiting for the latest density zoning to be finalised in some areas, decisions on development projects are sometimes not forthcoming.

This puts a brake on development plans. It is imperative that old guidelines continue to be enforced, until the new ones are introduced, so that there is continuity and that all parties can proceed with their business in the meantime.

When a developer buys a piece of land, it negotiates a price based on, among other things, the number of units that it is allowed to build there and the return on investment.

The developer would already have in mind what it plans to build, the cost that construction will entail, the number of units, the prices at which it plans to sell them, the target market, and so on. If the town council decides for whatever reason to change, for example, the number of units allowed, after the land has changed hands, then this decision will surely impact all areas of the business plans and developer who has bought the piece of land will likely face a possible loss.

Like all other businesses, property developers need to know from the beginning the return on investment. If guidelines are unclear or change half-way, it will put off investors from investing in the country.

In the worst case scenario, think of how detrimental it would be if works were ordered to stop mid-way, despite the investor having obtained and complied with all approvals. There must be certainty and less discretion from councils and authorities and it is even more important in these trying economic times.

While some market watchers predict that the current economic crisis may last for another year or so, the new cabinet line-up has created an eager anticipation that the Government will accord top priority to boosting the economy. This means that measures to encourage domestic spending as well as woo foreign funds into the country should be given equal emphasis.

Malaysia is viewed as a stable country in the Asian region, compared to some of our neighbours, such as Thailand. We should be thankful for the stability in our country, and step up efforts to promote it as an attractive market in which to invest, including property development and tourism.

To this end, initiatives by the Real Estate and Housing Developers Association (REHDA) to position Kuala Lumpur as a world-class city and efforts by the Malaysia Property Inc (MPI) to promote Malaysia as a preferred property investment destination, through exhibitions in various countries, are to be lauded.

While we appreciate that the task at hand is not an easy one, streamlining the efforts of all parties to create increased efficiency and effectiveness and having clear-cut, definitive guidelines will, without doubt, generate greater confidence all round and attract much needed investment into the country.

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