CHAPTER 4
CONSTRUCTION PROSPECTS 2015 - 2016

INTRODUCTION

A resolute construction sector is vital in ascertaining the tactical efficiency of other economic sectors.The average national growth for the years 2000-2010 was approximately 4.5% in contrast to a targeted 6.0% required to attaining a high income nation status in 2020. Construction activities have a widespread demand from backward and forward linkages. Furthermore, this sector has a capacity to generate vast employment opportunities, enhance asset value and encourage spending. Consequently the government had implemented construction projects worth RM7.3 billion in 2003 as an economic impetus package to counter impacts from a global economic downturn. Since then, economic growth resumed stability though still short of the targeted 6.0% average. Similar strategies had been implemented by most economies that had undergone economic downturns and slow growth. For instance, the United States and Japan were amongst countries that had intensified implementation of infrastructure and housing projects as economic stimulus packages to revive their weak economies during times of global financial crisis and the European Debt Crisis of 2007-2009.

In 2010, the government started to introduce an economy reformation initiative through a New Economic Model (NEM) policy. The Tenth Malaysia Plan, progressing through the period 2011-2015, brought about a focus on the Economic Transformation Programme (ETP) with the changing roles of the private sector as growth leaders and the public sector as facilitator. The ultimate objective of the ETP is to spearhead economic growth that would transform the country into high income nation by 2020. As a commitment towards attaining this aspiration, the government incorporated several projects into Tenth Malaysia Plan such as the peoples' economic development and economic model projects to enhance the quality of life and proffer a business-conducive environment. The proposed private sector investment in the National Key Economic Areas (NKEA) is valued at RM95.5 billion whilst projects outside the NKEA amount to RM140.4 billion. Entry Point Projects (EPP) under the NKEA programme, with supporting strategies from the Government Transformation Programme, were implemented to boost the economy. In a world of advanced inter-connectness and competition, it is imperatively necessary to develop a strong and resilient economy. Malaysia's open economy is susceptible to the influences of global changes that come from linear commerce networking and Foreign Direct Investments (FDI).

WORLD ECONOMY PROSPECTS 2015-2016

The 2015 world economy is predicted to be uncertain following the growing geopolitical tensions in West Asia. The trade embargoes imposed by countries in the west on Russia and Iran will give a direct impact on the export demand of the European countries. The readiness with which the European Central Bank (ECB) is continuing to implement quantitative measures as an effort of injecting liquidity into the economy and, the reduction of long-term commercial lending rates to encourage investment; are expected to promote positive growth in the Euro Zone. However, a persistently high unemployment rate could influence demand and domestic investment. The Euro Zone's economy is expected to experience slow growth of about 1.2% in 2015, due to low domestic demand and investment. Conditions in 2016 are estimated to be much better on a more stable economic base and higher external demand. 2016 growth is predicted to be approximately 1.4% (refer Table 4.1).

The US economy is expected to maintain a recovery momentum post financial crisis of 2008/09. There is an improvement in consumer and retailer confidence, subsequently decreasing unemployment rates, more investments and; monetary policies that are more accommodative alongside a moderate fiscal policy. Though industrial output and export are rising, there is prevalent anxiety that a strengthening dollar would dampen export. The fall in global oil price had created higher disposable income that helps domestic demand to expand. The US economy is projected to grow by 3.6% throughout 2015. The economy is expected to grow by 3.3% in 2016 with its extensive recovery momentum heading towards pre financial crisis 2008/09 levels. The Japanese economy has benefitted from an expenditure injection in the form of a 2015 stimulus fiscal package; a more lenient monetary policy, increase in disposable income, as well as production cost savings in the globally low oil price.

Rapidly developing economies are predicted to remain competitive with benefits derived from advanced economies growth. The Chinese economy is expected to undergo slow growth of about 6.8% in 2015 and 6.3% in 2016 following a shift in policy from an export oriented economy to a domestic consumer oriented economy. This move is expected to decelerate growth rate. The Asian regional market is one that is sustainable and rapidly growing in response to the post Asian Finacial Crisis 1997-98 economic restructuring measures. The Asian economy is projected to grow at around 6.4% in 2015 and 6.2% in 2016 (refer Table 4.1)

ASEAN has built a single ASEAN Economic Community with a population of 600 million that forms a competitive and dynamic market where each member country has its own, specialty industry. The ASEAN economy is predicted to grow at a rate of 5.2% and 5.3% for 2015 and 2016 respectively, through contributions from increased commercial and investment activities in the newly established ASEAN Economic Community. The world economic growth will be led by the positive growth in advanced countries and complemented by sustainable growths in rapidly growing countries. The world economy is forecasted to grow by 3.5% in 2015 and 3.7% in 2016 (refer Table 4.1)

Table 4.1 Estimated Economic Growth of Major World Countries from 2014 to 2016

Country	Growth Percentage (%)		
	2014	2015	2016
World	3.3	3.5	3.7
Advanced Countries	1.8	2.4	2.4
US	2.4	3.6	3.3
European Zone	0.8	1.2	1.4
Germany	1.5	1.3	1.5
France	0.4	0.9	1.3
Japan	0.1	2.0	1.8
United Kingdom	2.6	2.7	2.4
Rapidly Growing Countries	4.4	4.3	4.7
Europe	2.7	2.9	3.1
Asia	6.5	6.4	6.2
ASEAN	4.5	5.2	5.3
China	7.4	6.8	6.3
India	5.8	6.3	6.5

Source: *World Economic Outlook (WEO) Update*, April 2015 by *International Monetary Fund* (IMF)

World Trade 2015-2016

World trade grew by 2.8% in 2018, short of the September 2014 revised growth projection of 3.1%. The marginal growth was caused by slow growth in rapidly growing economies, disproportionate growth in advanced economies; and the geopolitical tensions in West Asia and Eastern Europe. The impact of economic restructuring, fiscal adjustments and trade protection by countries affected by the previous global economic downturn (as measures of strengthening their individual domestic economies) had impeded a higher growth in world trade. Public spending cuts in depressed economies had weakened domestic demand and economic growth. Public spending is one of the vital components in the stimulation of economic growth. The strengthening of the USD had raised import cost and the decline in world commodities prices especially oil, had led to a decrease in import demand by main producer countries. Trade embargoes on Russia and Iran, industrial dispute between China and Japan, and the overlapping territorial claims on the Spratly islands are potential risks to global trade.

World trade is estimated to grow by 3.3% in 2015 (2014 : 2.8%) following expectations of high income economies; such as the US, United Kingdom(UK) and some high income economies in the Euro Zone would continue to develop on an encouraging growth momentum (refer Table 4.2 and Table 4.3). The 2016 global environment is expected to stablize and market demand in advanced countries to improve in line with a continuously stable recovery momentum. It is anticipated that the situation will stimulate world trade growth onto a better scale to a probable rate of 4.0% in 2016.

Table 4.2 Main World Regional Markets for Merchandise Trade in 2013 and 2014

Country		2013 (USD billion)	2014 (USD billion)	% Share	(%) Change Over 2013
Exporter	**World**	18,395.0	18,427.0	100.0	1.0
	North America	2.417.0	2.495.0	13.0	3.0
	European Union (EU)	6,068.0	6,161.0	33.0	1.0
	Asia	5,769.0	5,916.0	32.0	2.0
	ASEAN	1,270.0	1,299.0	7.0	2.0
	Middle East	1,332.0	1,293.0	7.0	-4.0
Importer	**World**	18,395.0	18,574.0	100.0	1.0
	North America	3,198.0	3,297.0	18.0%	3.0
	European Union (EU)	6,000.0	6,129.0	33.0	2.0
	Asia	5,855.0	5,874.0	32.0	0.0
	ASEAN	1,245.0	1,236.0	7.0	-1.0
	Middle East	770.0	790.0	4.0	1.0

Source: Press Release 739 by World Trade Organisation (WTO) – April 2015
Press Release 721 by World Trade Organisation (WTO) – April 2014

Table 4.3 Main World Merchandise Trade Exporter and Importer Countries in 2013 and 2014

Country		2013 (USD billion)	2014 (USD billion)	% Share	(%) Change Over 2013
Exporter	**World**	18,270.0	18,427.0	100.0	1.0
	China	2,210.0	2,343.0	12.0	6.0
	United States	1,579.0	1,623.0	9.0	3.0
	Germany	1,453.0	1,511.0	8.0	4,0
	Japan	715.0	684.0	4.0	-4.0
	Nederlands	664.0	672.0	4.0	0.0
Importer	**World**	18,395.0	18,574.0	100.0	1.0
	United States	2,331.0	2,409.0	13.0	3.0
	China	1,950.0	1,960.0	10.0	1.0
	Germany	1,187.0	1,217.0	6.0	2.0
	Japan	833.0	822.0	4.0	-1.0
	United Kingdom	645.0	683.0	4.0	4.0

Source: Press Release 739 by World Trade Organisation (WTO) – April 2015
Press Release 721 by World Trade Organisation (WTO) – April 2014

World Foreign Direct Investment (FDI) 2015-2016

Foreign direct investment for 2014 is expected to decline by 8.0% to USD1.3 trillion (2013 : USD1.4 trillion). The slide in FDI projection is due to a shaky global economic growth, ambiguous internal policies, geopolitical tensions in Central Asia and Eastern Europe; as well as the Ebola outbreak. There is an apparent change in global FDI trend in 2014 whereby 4 out of 5 highest benefactor countries were in the developing countries league. China received the biggest FDI portion at USD128.0 billion, followed by Hong Kong at USD111.0 billion, and in third place the US received USD86.0 billion worth of FDI, Singapore at USD81.0billion and Brazil at USD62.0 billion. Developing countries received 56.0% of world FDI and the EU had benefitted from USD250.0 billion FDI, an increase of 0.6%. FDI flow into advanced countries observed a fall by 14.0% whilst transitory countries saw highest decline for up to 51.0% (refer Table 4.4 and Table 4.5).

Crossing over to 2015, the global economy remains uncertain with signs of prospective further slowdown. Prolonged sluggishness in domestic demand, together with deflation in several main advanced economies as well as the anxiety in mounting geopolitical tensions can adversely affect investments. Investments by advanced countries were seen to decline by 7.0% whilst high income advanced countries continued to increase their investment. However, the advanced economies will soon return as main destinations of FDIs where there is strong domestic demand and there exist knowledgeable and innovative workforce such as in the US and EU markets. Emerging economies such as China and India are forecast to maintain their places as main Asian FDI destinations because of their large markets and rapidly growing economies. Markets such as these offer potentially attractive returns on investments. The year 2014 saw developing countries in Asia as destinations for highest global investments at a value of USD440.0 billion or 40.0% increase, contributing 33.0% towards global FDI value.

Table 4.4 World FDI Flow in 2013 and 2014

Region		2013 (USD billion)	2014 (USD billion)	2014 share (%)	(%) Change over 2013
FDI Investor	**World**	1,263.0	1,341.0	100.0	6.2
	Advanced Countries	797.0	792.0	59.0	-0.7
	North America	379.0	390.0	29.0	3.0
	European Union	248.0	250.0	19.0	0.6
	Developing Countries	374.0	486.0	36.0	30.0
	Developing Asia	329.0	440.0	33.0	33.9
	Transitory Countries	91.0	63.0	5.0	-31.1
FDI Recepient	**World**	1,363.0	1,260.0	100.0	-8.0
	Advanced Countries	594.0	511.0	40.0	-14.0
	North America	302.0	139.0	11.0	-54.0
	European Union	235.0	267,0	21.0	13.0
	Developing Countries	677.0	704.0	56.0	4.0
	Developing Asia	427.0	492.0	39.0	15.0
	Transitory Countries	92.0	45.0	4.0	-51.0

Source: Global Investment Trend Monitor No.15,16,18 and 19 by United Nations Conference on Trade and Development (UNCTAD)

Table 4.5 World Largest Foreign Direct Investment (FDI) in 2014

Region		2013 (USD billion)	2014 (USD billion)	2014 share (%)	(%) Change over 2013
FDI Investor	**World**	1,263.0	1,341.0	100.0	6.2
	United States	338.0	337.0	25.0	-0.3
	Hong Kong	92.0	150.0	11.0	63.0
	China	101.0	116.0	9.0	15.0
	Japan	135.0	114.0	8.0	-15.0
	Germany	58.0	112.0	8.0	93.0
	Russia	95.0	56.0	4.0	-41.0
	France	2.0	56.0	4.0	-2,800.0
FDI Recepient	**World**	1,363.0	1,260.0	100.0	-8.0
	China	127.0	128.0	10.0	0.8.
	Hong Kong	72.0	111.0	9.0	54.0
	United States	159.0	86.0	7.0	-46.0
	Singapore	56.0	81.0	6.0	45.0
	Brazil	63.0	62.0	5.0	-2.0
	United Kingdom	53.0	61.0	5.0	15.0
	Canada	64.0	53.0	4.0	-17.0

Source: Global Investment Trend Monitor No.15,16,18 and 19 by United Nations Conference on Trade and Development (UNCTAD)

The global economy outlook for 2016 is prospectively brighter with a more stablized recovery. Low oil price is seen as a short term phenomenon. The Middle East conflict was observed as prolonged with the risk of spreading over a larger geographical area. There is concern that the persistent discord would interrupt oil supplies towards future shortages that would push oil prices up. Other commodities are forecasted to be on an upward price trend supported by wider and stronger demand. This situation will benefit main commodities producer countries. Meanwhile, several economic reformation initiatives, effective proactive financial policies, wider trade liberalisation and other investment promotions by countries like the EU, Japan, China, India and some developing countries such as ASEAN, Middle East and Eastern Europe will accelerate global FDI movement.

PROSPECTS OF THE MALAYSIAN ECONOMY 2015-2016

Early in 2015, sustainability of external demand became more inconsistent on the prospect of a global economic downturn. The unexpected plunge in oil prices at the end of 2014; drastic swings in the ups and downs of the global financial markets, low prices of main national commodities, and the anticipation of foreign capital outflow had increased risks initially sparked by the external environment. Realising our open economy would be subjected to impacts from changes in the global environment; the Malaysian government has taken a pro-active approach in the implementation of adjustments in administering the 2015 budget and fiscal coordination. The measure was implemented to strengthen the economy, following the change in the global economic landscape, by stimulating domestic demand especially consumer spending as well as the enhancement of exports.

Private Sector Expenditure

The private sector expenditure is expected to grow moderately on the back of a robust economy; sustainable domestic activities, rising wage rates, and; encouragement plus incentives from the government to ensure the private sector continues to lead economic growth. Household spending is expected to be affected by the anticipation of rising prices upon the implementation of the Goods and Services Tax (GST), and lower income in commodities related sectors due to low commodity prices. The government has taken several initiatives to counter the fall in spending by increasing the 1Malaysia Financial Assistance (BR1M) amount; paying out cash aid to students, by compensating flood victims, subsidising merchandise and basic service prices, reduction of income taxation, and paying out bonuses to civil servants and pensioners. Apart from these measures, the government has hastened the rebuilding of houses and infrastructure damaged during the massive flooding, with construction works to be allocated to local contractors.

The fall in the value of Ringgit had adversely affected the current balance of payments. In managing the adversity, the government has actively promoted local services in place of imports for shipping, seaports, education and professional services. To uphold this, the land and sea trading logistics platforms would be upgraded, the tourism industry shall receive a boost via a special incentive, and carry out promotions as well as mega sales campaigns for locally produced merchandise.Private spending is expected to grow moderately by 6.0% in 2015 and is targeted to grow by 6.4% in 2016.

Private Investment

Since the initiation of the Economic Transformation Programme (ETP) in 2010, private investments continued to exceed public investments in leading the economy. In 2014, the ratio of private investments against public investments was 64:36. The global FDI flow in 2015 is projected to be slow and competition for acquisition of global FDI to be great. Such being the case, the government has taken steps to promote domestic investment. Various assistances, incentives and funding were made available to encourage domestic investment especially in the Small and Medium Enterprise (SME) sector. Apart from that, Government Linked Companies (GLC) and Government Linked Investment Companies (GLIC) were given recommendations to invest internally and to increase local content in government procurement. To lower the cost of business operations, the government had postponed the increase in tariff rate on electricity, and, industrial gas price. Private investment is anticipated to be modest due to a much lower investment in the mining sector following the weak global crude oil price. Private sector investment is projected to grow by 0.9% in 2015, backed by a resilient domestic consumption and increase in competitive export demand especially in the manufacturing and services sectors. Approved investments in the manufacturing and services sectors for the first quarter in 2015 (1Q2015) increased by 58.5% and 3.8% respectively. New foreign investments in the manufacturing and services sector was encouraging and consisted of 17.4% of overall approved investments in 1Q2015. Growth for 2016 is estimated at 9.4%.

Government Expenditure

At the onset of January 2015, world crude oil prices plummeted from June 2014's price of USD115.00 per barrel to USD48.00 per barrel. This occurrence adversely affected national income and the government had to rationalise administration expenditure to adapt to the current uncertain situation so as to avoid a higher fiscal deficit. Administrative expenditure for 2015 was reduced by RM5.5 billion from RM223.4 billion to RM217.9 billion. The expenditure cut is expected to result in a budget deficit of 3.2%, a little higher than the initial projection of 3.0% but nonetheless lower than the fiscal deficit of 3.5% in 2014. Without the rationalisation exercise, the fiscal deficit would have been around 3.9%. The reduction in the allocation of administration expenditure as a prudent measure in spending involved the shelving of National Service Programme (PLKN); revision on the award of grants to statutory bodies, government agencies and welfare foundations; postponement on less important purchases; lessening of event and conferencing expenditure; and the optimisation of professional services.

The highest government consumption expenditure was still emoluments at approximately 24.1%, followed by subsidies and cash payments. Supplies and services expenditure is expected to increase upon the completion of most projects under the 10th Malaysia Plan, noteably schools, hospitals and social amenities infrastructure. Maintenance and restoration costs of available assets are also expected to increase in view of the large size, and extensive volume of government operations.

Numerous infrastructure facilities, public and residential buildings were damaged or devastated during the catastrophe of massive flooding in the east coast and northern Peninsular Malaysia. Damages in infrastructure were estimated to be RM2.9 billion whilst the number of flood victims numbered 400,000. The government had to disburse RM500.0 million in emergency expenditure to assist flood victims, so adding to the total amount of funds under the Flood Victims Welfare Programme to RM787.0 million. Government consumption expenditure for 2015 is expected to increase by 2.7%, and will continue to rise in 2016 by 3.7% in line with efforts to enhance the quality of life and well-being of the *rakyat*.

Government Investment

Public investment consists of government, and GLCs investment and joint-ventures with the private sector. A large portion of public investment is for the provision of infrastructure and public transport such as the construction of toll highways, modernization of rail transport and power generation plants. The role of government is as facilitator of business-friendly policies that create market liberalization and stimulate economic growth. The Government will ensure public investment would provide an environment as well as investment climate that are perpetually attractive and competitive. The bulk of the development expenditure is government investment. The government's investment will be focused on the people's economic projects such as community housing, electricity and water supply, flood mitigation, education, medical and, other basic and public infrastructure. The government's investment in 2015 will grow moderately by 2.7 %. Amongst major government investment in 2015 is the building of 138,000 residential units under various people's housing programmes; construction of hospitals and health clinics; upgrading of rural facilities and instrastructure and; building, upgrading of facilities and preservation of water and electricity supplies (see Appendix 4.1 and Appendix 4.2). Government investment is projected to grow moderately by 6.2% at the turn of 2016 and the final phase towards achieving Vision 2020.

External Demand

Malaysia's 2015 external trade is forecast to increase by 2.8% to RM1.5 trillion despite the sluggish economic environment, the sharp decline in oil prices and the low prices of national primary commodities. ETP implementation in 2010, had succeeded to reduce our dependency on oil exports, whilst diversifying export products. Gross exports are forecast to grow by 1.5 % . Gross imports are projected to decelerate to 6.0 % due to the weakening of the Ringgit and the strengthening of the US dollar which increased the cost of imports. Trade performance for 1Q2015 showed a decline by 1.2 % worth RM345.1 billion (2013 : RM349.4 billion), with exports dropping by 2.4 % (RM183.2 billion) (1Q2014 : RM187.8 billion) compared with imports rising to 0.2 % (RM161.9 billion) (1Q2014 : RM161.5 billion). However, this external trade has provided an external trade balance surplus of RM21.3 billion (1Q2014 : RM26.3 billion), a decrease by 20.0 % (refer Table 4.6 and Table 4.7)

Table 4.6 Malaysian Goods Export for 2014 and 1Q2015

Details	2013 (RM Billion)	2014		1Q2015	
		Value (RM Billion)	(%) Change	Value (RM Billion)	(%) Change
Export	719.0	766.1	6.4	183.2	-2.4
Main Markets					
Singapore		108.8	8.5	25.6	-2.4
China		92.4	-4.7	20.5	-12.6
Japan		82.7	-4.4	21.8	-2.5
United States		64.4	11.0	16.9	12.8
Thailand		40.3	1.0	10.4	4.5
Main Products					
E&E Goods		256.1	8.1	64.7	6.8
Petroleum Products		70.4	2.9	12.7	-66.2
LNG		64.3	7.9	16.5	-4.7
Chemicals & Chemical Components		51.5	8.4	12.9	2.9
Oil Palm		46.9	2.2	8.9	-21.4

Source: External Trade Performance for March 2015 and Year 2014 by Ministry of International Trade and industry MITI)

Table 4.7 Malaysian Imported Goods for 2014 and 1Q2015

Details	2013 (RM Billion)	2014		1Q2015	
		Value (RM Billion)	(%) Change	Value (RM Billion)	(%) Change
Import	648.7	683.0	5.3	161.9	0.2
Main Source					
China		115.5	8.6	28.5	13.5
Singapore		85.7	6.9	18.7	-11.3
Japan		54.7	-3.0	13.3	-3.1
United States		52.3	3.2	12.9	1.6
Thailand		39.6	2.6	9.6	0.9
Main Goods					
E&E Goods		190.8	6.2	46.2	8.1
Petroleum Products		80.0	8.7	14.8	-27.0
Chemicals & Chemical Products		62.1	11.1	15.5	6.4
Plant, Tools and Equipment		57.1	4.6	14.0	-0.7
Manufacturing Goods - metal		41.7	2.4	11.2	36.6

Source: External Trade Performance for March 2015 and the Year 2014 by Ministry of International Trade and Industry (MITI)

Regional trade becomes increasingly important when the establishment of the ASEAN Economic Community this year leads to an ASEAN regional market integration that forms a single regional market. The region has a potential of emerging as a rapidly growing economy and Malaysia, having implemented economic transformation with a shift towards advanced technology-oriented production, high value-added outputs and pioneering high growth industries; is expected to be capable of capturing the very competitive and dynamic market potential in the region. In 2014, the ASEAN market accounted for RM213.6 billion of exports, an increase by 3.9 % that represented 27.9 % of export earnings. In 1Q2015 , the ASEAN market contributed to 27.5 % (RM50.4 billion) towards national export value. Export promotion and expositions supported by government incentives will boost export performance in 2016 when the global economy is projected to stabilise further. External demand is projected to rise by 4.3 %.

With strong economic fundamentals, efficient macroeconomic management, effective financial industry and, firm foreign reserves positioning; Malaysia is on track; to cope with the risk of unpredictably large capital outflows and deal with a changing global environment. A positive, strong growth in a favorable environment for reviving trade and boosting investment in all economic sectors is predicted. Malaysia's economic outlook for 2015 and 2016, is forecasted to grow by 4.5 % - 5.5 % and 5.0 % - 6.0 % respectively, driven by growth of a resilient domestic demand and competitive export demand.

Table 4.8 Malaysia's Projected Economic Growth for 2015 and 2016

Sector	2013	2014	2015		2016 (f)
			1st Quarter (Actual)	Yearly (Budgeted)	
Agriculture	2.1%	2.6%	-4.7%	0.3%	3.5%
Mining	0.7%	3.1%	9.6%	3.0%	1.3%
Manufacturing	3.5%	6.2%	5.6%	4.9%	5.1%
Construction	10.9%	11.6%	9.7%	10.3%	10.3%
Services	5.9%	6.3%	6.4%	5.6%	6.9%
GDP Change	4.7%	6.0%	5.6%	4.5% - 5.5%	5.0% - 6.0%

Source: Bank Negara Malaysia, 2014 Annual Report
Quarterly Bulletin, Quarter 1 2014, Bank Negara Malaysia

This optimistic view was also shared by the world economy organisation, with a projection for a better growth of Malaysia's economy, as indicated in Table 4.9.

Table 4.9 Malaysia's Projected Economic Growth for 2015 and 2016

Organisation	2014 (Actual)	2015 (Projection)	2016 (Projection)
Malaysian Government	6.0%	4.5.%-5.5%	6.0%
Malaysian Institute of Economic Research (MIER)	–	5.0%	5.5% - 6.0%
Economic Intelligence Unit (EIU)	–	5.7%	5.7%
International Monetary Fund (IMF)	–	4.8%	4.9%
World Bank	–	4.7%	5.1%
Asian Development Bank (ADB)	–	4.7%	5.0%

PROSPECTS OF CONSTRUCTION DEMAND 2015-2016

Throughout the four years of the 10MP implementation, the construction sector output grew by an average of 11.3 %, a 4.9% increase over the 9MP period achievement. This was due to the intensity with which public and private construction projects were being carried out in preparation for attainment of the advancing Vision 2020. In 2014, the construction sector showed resilience with an 11.6 % growth, an optimistic rate in comparison with other economic sectors' growth performance. The improvement was contributed by an enhancement in construction projects value.

CIDB Malaysia's project data recorded a total of 7,180 projects valued at RM150.0 billion were awarded until the end of March 2015. Based on a comparison onto the same period in the previous year, there was a reduction of 10.0 % in terms of project volume (2013 : 8.040 projects); on the other hand value increased by 15.0 % (2013 : RM131.0 billion). The higher project value was partly contributed by large sized projects, particularly public transport infrastructure projects, provision of energy services and, oil and gas industries. In addition, there were also increases in the cost of construction materials, and wages following the extensive utilisation of of technology and modern practices in the construction sector (refer Table 2.1).

Prospects for the construction sector in 2015 and 2016 are expected to strengthen with the implementation of more EPP projects as promised; also incidence of fresh private investments and the realisation of public projects that were announced in Budget 2015. This will be followed by the commencement of an 11MP public project in 2016. The 11MP project implementation is expected to be accelerated and intensified since the 11MP duration is the final phase towards the achievement of Vision 2020. The construction sector is projected to grow by 10.3 % in 2015.

PROJECTION ON NEW CONSTRUCTION WORK DEMAND

Construction sector demand will be generated by public projects through the implementation of public private partnership (PPP), especially in the provision of infrastructure and the implementation of private investment in resources-based manufacturing sector such as the oil and gas sector. Of the 7,180 construction projects awarded in 2014, 36.5 % (2,621 projects) were non-residential building projects, with a value contribution of 46.0 % (RM70.0 billion); largely meant for construction of commercial and industrial property. Residential buildings accounted for 29.5% (2,119 projects) with a total project value of RM41.0 billion (28.0 %) . This was followed by infrastructure projects comprising 25.1 % (1,800 projects) valued at RM32.0 billion (21.0 %). All three projects categories showed a stable demand trend over the last decade and is expected to continue to generate strong demand for the construction sector in the final phase towards achieving a high–income, developed nation status by 2020.

PROSPECTS OF PROPERTY MARKET

The 2014 Property Market Report issued by the National Property Information Center (NAPIC) recorded a property market that was still buoyant despite a national economy amidst a weak global environment. Property market momentum showed little movement with the number of transactions on all property types rising by a marginal 0.8 % (384,060 transactions) (2013 : 381,130 transactions). On the other hand, transacted value increased by 7.0 % to RM163.0 billion (2013 : RM152.4 billion). The residential category was the largest contributor comprising 64.4 % in terms of volume (247,251 transactions) and 50.4 % in terms of value (RM82.1 billion). The remaining were non-residential properties that accounted for 24.2 % (93,144 transactions) in volume and corresponding value that accounted for 21.0 % (RM34.2 billion). Commercial and industrial property comprised 19.6 % and 8.9 % in terms of market value. The property market is expected to remain stable in 2015 backed by the government development program in a people's economy project as a commitment towards the welfare of the people; expansion in disposable income due to a favorable employment market; basic goods price control; accommodative financing policy; and the confidence in a moderate economic growth (refer Table 4.10).

Table 4.10 Number and Value of Property Transactions in 2013 and 2014

Type of Property	2014		2013		(%) Change over 2013		2014 (%) Market Share	
	Volume	Value (RM billion)	Volume	Nilai (RM billion)	Volume	Value (RM billion)	Volume	Value (RM billion)
Residential	247,251	82.1	246,225	72.1	0.4	13.9	64.4	50.4
Commercial	35,528	31.8	34,294	35.6	3.6	-10.7	9.2	19.6
Industrial	8,100	14.5	8,418	12.3	-3.8	17.9	2.1	8.9
Land	93,144	34.4	92,153	32.4	1.1	6.2	24.2	21.1
Others	37	0.02	36	0.14	2.8	-85.7	*	*
Total	384,060	162.8	381,130	152.5	0.8	6.7	100.0	100.0

Source : 2014 Property Market Report, National Property Information Center (NAPIC)

*Notes: *value is too small*

Residential Property Demand

Lately, the higher cost of home ownership, has caused consternation amongst middle-income earners. This group was caught between non-eligibilty to purchase low to medium-cost houses and ill- affording houses at high prices. There is a lack of provision of affordable housing to this group of middle income earners and especially for the newly employed. In 2014, residential property transactions recorded by NAPIC that were priced between RM200,000 and RM400,000 comprised 30.0%, while those priced between RM400,001 and RM500,000 made up 12.0% of total. The price range of these offers was increased by 6.0 % and 31.0 % respectively, while residential properties priced between RM500,001 and RM1.0 million saw an increase of 23.0 % and those priced over RM1.0 million, increased by 16.0%. This indicated that residences priced in the range of RM400,000 and RM500,000 and, RM500,001 and RM1.0 million were well demanded. Residences priced below RM200,000 which dominated 57.9 % of the market increased in demand by 14.0 %. Residences priced within these ranges are consistently in great demand. Private developers were seen to be more inclined in offering higher priced residential property so as to optimize profitability in line with the higher prices of major construction materials, the cost of compliance with statutory requirements and, the soaring cost for the acquisition of strategically located development land. These are factors that curtail the supply of moderately priced residences in strategic areas.

Diminishing speculations were observed following the government's implementation of "cooling" periods to contain rising prices. Measures such as the imposition of higher rates of Property Gains Tax; regulating financing for real estate; and the increase of price limits on properties that can be sold to foreigners have also shown positive results. The impact of the cooling off measures would be seen in the deceleration of residential property transactions growth trend to 0.4 %. Prices continued rising with indication of increases in the Malaysian House Price Index points from the last 4 years (2014: 10.7 % , 2013: 11.6 % , 2012: 11.8 % , 2011: 9.9 %). Numbers of unsold residential units were sliding, signaling an overall encouraging demand despite both developers and buyers being cautious in spending following the implementation of the GST and, the offers for sale of properties in newly developed residential areas.

A home is a very important basic need and status symbol for a family institution. Malaysia's population is expected to grow at a rate of 1.3 % to 30.5 million in 2015 and 30.9 million in 2016. Aware of the concerns of the middle-income earners for home onwership; the government shall develop several affordable, quality housing projects. The government has announced in the 2015 Budget for the provision of 143,000 housing units under the following programmes:

- 1 Malaysia Civil Servants Housing (PPA1M) : 80,000 units
- Peoples' Housing : 26,000 units
- Peoples' Aspiration Housing (Rumah Aspirasi Rakyat) : 20,000 units
- People's Ideal Housing (Rumah Idaman Rakyat) : 5,000 units

The government had targeted the construction of 223,000 of various types of new housing units in the 2014 Budget. A government agency will build a total of 133,000 units, including 3,000 units of Peoples' Ideal Housing (Rumah Idaman Rakyat) and 8,000 units of the People-friendly housing (Rumah Mesra Rakyat) and the remaining 90,000 units will be constructed by private developers. Peoples' Ideal Housing and People-friendly Housing categories excluded from the market, the required number of units to be built is 212,000. Based on NAPIC records, a total of 152,052 units had begun construction in 2014 (refer Table 4.11). This indicated a construction achievement rate of 72.0% with a shortage of 59,948 unbuilt units. The remaining discrepancy units were projected to continue construction in 2015.

Table 4.11 Residential Property Market Performance in 2013 1nd 2014

Supply Stage	Units Launched		(%) Change over 2013	Sales (%) Rate	
	2014	2013		2014	2013
New Launch	68,351	62,376	9.6	44.7	36.2
Completed	53,655	53,775	-0.2	78.0	74.8
Under Construction	152,052	134,103	13.4	63.7	61.2
Unbuilt	25,227	22,752	10.9	39.6	38.3

Source: 2014 Property Market Report by National Property Information Center (NAPIC)

The government aimed to construct 143,000 housing units in 2015. With the exception of People-aspiration Housing (Rumah Aspirasi Rakyat), People-friendly Housing (Rumah Mesra Rakyat), and People's Ideal Housing (Rumah Idaman Rakyat) projects of 37,000 units, the total number of units to be built in 2015 would be approximately 165,900 units. At the end of 2014 NAPIC reported that there were 646,049 housing units still in the pipeline. At a time of a strengthening economy and existence of an accommodative stimulus in residential property demand, the property market is expected to gain higher growth. Taking on a similar rate of implementation of start units as that of units under planning stage in 2014, i.e 24%, the total number of units to be constructed in 2015 can deduced as 155,000 units. Therefore, the number of residential units that will be built in 2015 is budgeted at 155,000 to 166,000 units.

The expectation for 2016 is new demand for homes will increase in tandem with Malaysia's population expansion. The estimated new housing requirement is approximately 67,000 units, while demand for starts housing on the latest 5-year average is 128,000 units per year and requirement for newly approved construction of housing stands at 135,000 units per year. This results in a planned, cumulative total supply for 2015 as 653,000 units. In an environment of slow growth economies, the projected rate of starts, under-construction housing units is estimated to be similar to 2015. Subsequently, the total number of units to be built in 2016 is estimated at 157,000 units. The development plan under the Greater KL / KV Programme sought to construct 1 million residential units in 10 years from the start of the 10MP (2010). This translates into a fact that the Federal Territory of Kuala Lumpur and the Klang Valley combined would need 100,000 housing units per year. Thus, the number of projected residential units totalling 157,000 to be built in 2016 is considered reasonable.

The government encourages private developers to build more affordable housing and, has granted various incentives to ease the financial constraints of first home ownership to stimulate continuous demand.

Among the available incentives and assistance for affordable housing projects are;

- Extension of validity period to December 31, 2016 for 50.0 % stamp duty exemption on instruments of ownership transfer and, loan agreement for first time purchasers.
- Raising the ceiling purchase price from RM400,000 to RM500,000 ;
- Raising the ceiling price in My First Home Scheme to RM500,000 ;
- Extension of the eligibility age for My First Home Scheme purchasers from 35 to 40 years ;
- The minimum qualifier for civil servants' housing loans increased from RM80,000 to RM120,000 and maximum eligibility from RM450,000 to RM600,000 ;
- The government has agreed to build more PPA1M in desirable locations;
- The minimum PPA1M price has been reduced from RM150,000 to RM90,000 with a minimum floor area of 850 square meters (sq.m.);
- Eligible household income for the purchase of PPA1M unit was increased from RM8,000 to RM10,000 a month;
- Government offers developer participants in the PPA1M scheme with funding facility of up to 25 % of the project cost;
- Provision of Youth Housing Scheme for those aged 25 to 40 years old with a household income not exceeding RM10,000;
- Monthly financial assistance of RM200.00 given to borrower purchaser of units under the Youth Housing Scheme for the first two years and, 50.0% stamp duty exemption on instruments of transfer of ownership and loan agreement to relieve installment payments.

The estimated 155,000 to 166,000 residential units to be built by 2015 and a further 157,000 units in 2016, is a realistic and achievable projection. This is in view of favourable consumer sentiment following a confidence in the prospects of a resilient national economy; availabilty of accomodative funding by financial institutions to both buyer and developer at low interest rates; higher wages; and incentives and assistance provided by the government for purchasers and private developers of affordable housing, that will stimulate demand and supply. Current house prices are generally in an uptrend. Malaysian House Price Index, which measures the prices of all types of houses for 2014 had increased by 20.6 points or 7.10 % to 213.5 points (2013: 192.9 points) and 1Q2015's index was higher by 4.1% at 211.1 points, over the corresponding period in 2014. The average price of all types of houses continuously increased from RM256,200 in 1Q2013 to RM280,900 in 1Q2014 and subsequently to RM292,600 in 1Q2015. With the active involvement of government agencies in constructing more residential projects in the various categories of affordable housing, these government agencies would have the capacity to act as a market counterweight in curbing runaway prices.

Non-Residential Property Demand

Non-residential properties consist of commercial and industrial properties such as retail buildings, commercial complexes, office buildings, hotels, factories and so forth. In 2014, properties in this category accounted for 11.3 % in terms of number of market transactions and 28.5 % in terms of value of market transactions. The number of these properties transactions rose by 2.1 % to 43,628 units (2013 : 42,714 units) but their transacted value fell by 3.2% to RM46.34 billion (2013 : RM47.89 billion). This situation was the result of the slow growth in the manufacturing sector following a weak export demand which had impacted on trade and production expansion. Basically, the demand for commercial and industrial properties is driven by momentum in trade and domestic investment as well as export demand.

Retail Property Demand

Demand for retail space/building is determined by neighborhood location or new residential development. Most of these buildings feature 3 storeys of retail space. Demand for retail buildings is expected to persevere on the basis of the sluggish market perfomance in 2014. Activities within the retail property sector declined marginally by 0.3% to 20,133 transactions valued at RM15.0 billion. Completed units dwindled by 1.5% to 9,529 units whilst new constructions grew by 1.7% to 17,429 units (refer Table 4.14).

The number of unsold units declined in the completed and unbuilt stages. Unsold completed units lessened by 7.5% to 4,324 units (2013 : 4,676 units) and unsold unbuilt units fell by 30.0 % to 1,257 units (2013 : 1,795 units). On the other hand, unsold under construction units increased by 32.2 % to 7,987 units (2013 : 6,042 units. The transacted value and value of sold completed retail buildings increased by 6.3 % and 7.9 % respectively, reflecting consistency in prices. New supply also rose by 24.7% to 9,142 units (2013 : 7.333 units). A reduced delivery of completed units into the market, over a situation of increased number of available unsold units, provides developers with an opportunity to sell the balance of unsold units in hand. An improved sales performance at all stages of construction will spur developers into intensifying construction and new development. This is indicative of a growing business confidence in a good outlook for future demand for retail buildings.

Table 4.12 Retail Property Market Performance

Supply Stage	Units Launched		(%) Change over 2013	(%) Sold	
	2014	2013		2014	2013
Completed	12,230	12,849	-4.8	64.6	63.6
Under Construction	21,460	15,135	41.8	62.8	60.0
Unbuilt	2,383	2,699	-11.7	47.2	33.5

Source: 2014 Property Market Report by National Property Information Center (NAPIC)

Industrial Property Demand

Industrial property market perfomance was rather inactive in 2014, with the number of transactions decreasing by 3.8% to 8,100 units compared to 8,418 units in the previous year. However, transacted value increased by 17.9 % to RM14.5 billion to indicate rising prices. Current supply rose by 1.8 % with the entry 920 newly completed units. Demand was observed as inspiring and sales performance for completed units rose to 73.4% from 48.4% in 2013 in line with a definite increase in realised investments (2014 : 13.0%, RM181.0 billion; 2013:RM160.0 billion). However, there was a decline in sales of units under construction by market records that sales slipped to 36.8% from 47.0% in 2013 due to an increase in new starts units under construction (refer Table 4.13).

Starts units rose by 37.9 % to 2,676 units, adding onto future supply to 10,645 units, an increase of 34.0 % (refer Table 4.14). Total upcoming supply to be absorbed by the current market is rather high at about 18.8 % more than in 2013 (8,960 units). Unsold units increased by 55.4 % to 1,335 units in comparison to 859 units in the previous year. The impending supply is largely made up of unsold completed units (61.1 % ; 138 units) and unsold under construction units (52.1 % ; 696 units), while the detached units dominated the unsold unbuilt category (51.4 % ; 76 units). Lack of demand was influenced by the prevalence of a less favorable business sentiment and the assumption of a cautious stance on the impact of a GST implementation, the slowdown in export demand and the volatility of the Ringgit on the foreign exchange. The Business Conditions Index maintained by the Institute of Economic Research (MIER) fell to 86.4 points in Q4 2014 and decreased further in 1Q2015 to 85.4 points. The increase in unsold under construction units signaled a market that is saturated in oversupply. Thus, in 2013, unbuilt units supply declined by 57.3 % to 236 units as compared to 412 units and the newly planned supply decreased by 3.8% to 3,040 units as compared to 3,015 units (refer Table 4.13).

The weakness of demand in the industrial property market is considered to be temporary corresponding to the current global economic cycle. Demand for industrial property was largely driven by the growth of Small and Medium Enterprises (SMEs). SMEs usually require factory buildings built in conformity with technical requirements and the technology to be applied in their production processes. According to an SMEs census of by the Department of Statistics, Malaysia (DOSM) in 2005, of 523,132 business entities responding to the census, a total of 518,996 were SME companies whereby 37,866 were engaged in the manufacturing sector. SMEs accounted for 99.2 % of total business entities in Malaysia, while the rest of 4,136 business entities are large manufacturing concerns. SMEs play a vital role in efforts of transforming the national economy. Generally, SMEs activities are domestic oriented and heavily dependent on domestic demand. SMEs act as providers and important complementaries in the national supply chain and production. Hence, SMEs are encouraged to adopt a role as one of the new sources of growth through the adaptation of innovation and technology to increase and improve production.

Table 4.13 Industrial Property Market Performance

Supply Stage	Units Launched		(%) Change over 2013	(%) Sold	
	2014	2013		2014	2013
Completed	563	982	-42.7	59.9	56.5
Under Construction	2,114	1,621	30.4	36.8	47.0
Unbuilt	236	412	42.7%	37.3	36.9

Source: 2014 Property Market Report by National Property Information Center (NAPIC)

The SME Master Plan 2012 - 2020 was formulated as a directional guide in SMEs development until 2020. Numerous incentives and assistance in areas of funding, technical and marketing have been provided by various government agencies to promote and stimulate the growth of SMEs. In 2014, MIDA recorded the approval of proposed new manufacturing projects investments for 811 projects to an investment value of RM72.0 billion. Compared to year 2013, this investment amount represents an increase of 30.5 %. Assuming 60.0 % of these projects are realized in 2015 and 2016, there will be a high demand for existing factory buildings and those under construction. This situation will also push for more factory buildings to begin construction to seize the opportunity to increase the implementation of new investments.

With incentives and assistance from various government agencies promoting the growth of SMEs to complement large industries the growth of the manufacturing sector, especially resilient SMEs is somewhat assured; thereby upholding demand for industrial properties to take up excess supply in the market.

Commercial Complex Property Demand

Commercial complex properties consist of shopping malls, retail arcades and hypermarkets. In 2014, there were 26 completed commercial complex units with an area of 689,982m^2, an increase of 53.0% (2013 : 451,743m^2). This sharp increase is propelled by a business confidence in the national economy outlook, expectations of more investment in EPPs being executed and the effectiveness of the government's business strategy especially in the tourism sector. Completed units consisted of 15 shopping centers with an area of 541,385m^2, 3 retail arcades with an area of 8,992m^2, and 8 hypermarkets with an area of 139,604m^2. Total completed complex floor area added 4.0% to available commercial space to 12,997,337m^2 (2013 : 12,446,900m^2). Retail space in shopping centers dominated the market with a total area of 9,414,503m^2 which translates to 72.0% of total, followed by a large market space of 2,204,628 m^2 (17.0 %) and 11.0 % retail arcade space of 1,378,202 m^2 (refer Table 4.14 and 4.15).

The commercial property market outlook for 2015 is prospectively bright. There were obvious signs for positive growth when market performance in 2014 posted a rise in tenancy rate from 80.1% in the previous year to 83.3%. The hike in tenancy rate was propelled by a 19.0 % increase in space consumption at 597,705m^2 (2013 : 480,905m^2). In addition, new supply under plan increased almost three-fold to 871,395m^2. (2013 : 298,452m^2). This has added another 93.0 % in planned supply to 0.93 million m2. Retail space starts also rose tremendously by 43.8 %, with an area of 378,269m^2. (2013 : 263,040m^2), bringing total impending supply to 1.26 million m^2. The remarkable increase in the volume of new supply and starts reflects a business confidence in the continuity of a robust market. The forthcoming emergence of 1.26 million m^2 new retail space is not expected to affect the occupancy rate as it only represents an additional 10.0 % of total existing supply and the volume is assured to be readily absorbed by the market.

Table 4.14 New Properties on Offer in 2014 (Changes in comparison to 2013)

Property Type	Completed	Forthcoming Supply	Construction Starts	Planned Supply	Newly Approved Supply
Residential (units)	96,879 (18.7%)	759,220 (9.6%)	155,667 (6.8%)	646,049 (8.8%)	186,174 (22.2%)
Retail Shoplots (units)	9,529 (-1.5%)	78,763 (12.1%)	17,429 (-2.9%)	68,649 (15.4%)	24,233 (43.2%)
Commercial Complex (m^2)	687,982 (52.7%)	1,260,352 (0.4%)	378,269 (43.8%)	932,776 (92.9%)	871,395 (292.0%)
Office Space (m^2)	423,739 (299.1%)	1,713,144 (-19.9%)	152,771 (-47.4%)	535,359 (0.3%)	265,574 (306.2%)
Industrial (units)	920 (11.2%)	10,645 (-8.6%)	2,676 (37.9%)	17,944 (3.8%)	3,040 (0.8%)
Hotel Rooms (units)	5,430 (4.5%)	22,110 (-8.6%)	3,817 (-52.0%)	15,245 (-6.1%)	6,172 (17.8%)

Source: 2014 Property Market Report by National Property Information Center (NAPIC)

The growth of the commercial complex market is to be driven by the rise in consumer spending. Initiatives that encourage private consumption such as intensifying mega sale campaigns, promotion of ' Buy Malaysia ' products and, boosting frequency and extension of shopping hours in complexes would improve sales, which in turn contribute towards growth of commercial complex properties. In addition, this will turn Malaysia into Asia's leading regional shopping destination. Based on Malaysia's strong economic fundamentals; increasing household income; low inflation rate; contemporary lifestyle; the commercial complex market had been forecasted to continue its growth momentum in 2015 and maintain growth stability in 2016.

Office Building Property Demand

Demand for office buildings is projected to remain afloat, fed by active private investments, especially in the services sector. The proposed, approved investment in the services sector in 2014 increased by 1.3% to RM149.6 billion, on a proposed implementation of 5,059 projects with a capacity of creating 98,540 job opportunities. This approved investment accounted for 63.0 % of total value of approved investments (RM235.9 billion) and 85 % in terms of number of projects (5,942 projects) for the year. This sector encompasses a wide range of services such as hosting of regional offices of foreign organisations, global hub operations, support services, Multimedia Super Coridor status companies (MSC), distribution, finance, healthcare, telecommunications, utilities, tourism, hotels, education, transportation services and real estate. Foreign investments contributed 12.0% of the value of investment in the services sector. A large portion of the investment went to activities involving the placement of regional operations offices which covered 227 regional organisation projects with investments of RM3.2 billion. Malaysia became a hub for global opertions in 7 projects with investments of RM2.4 billion. The global and regional operations will provide professional services related to supply chain management, financial and treasury management as well as data and information services to a global network of companies. Malaysia Investment Performance Report 2014 by the Malaysian Investment Development Authority (MIDA), posted a proposed establishment of 3,527 regional operations placements whereby the most number of approvals were for regional representative offices with the regional offices totalling 2,961, followed by 254 operational headquarters, and 243 international procurement centers. The establishment of more global and regional Multinational Corporation (MNC) operation centers in the country not only promotes more distribution activities but also create jobs and business opportunities that will heighten demand for work space.

Office space market growth momentum was on a positive course in 2014. A total of 423,739m^2 office space completions increased the total supply of existing office space by 3.0% to 19.5 million m^2. The amount of office space completed is an over two-fold increase compared to those in 2013 (135,838 m^2). The additional office space supply is readily absorbed by the current market, with total space taken up increased almost two-fold to 811,116m^2 than in 2013 (436,840m^2). The capacity of the market to absorb the additional office space is largely attributed by the strong growth in the services sector. This high volume of taken up space has improved overall occupancy rate of specialty office building space at 85.0% compared to 83.0% in 2013. Total office space construction starts posted a drop of 47.0% to 152,771m^2 from 290,553m^2 in 2013. This will cause a slight slow down in the supply of new office space in the coming year (refer Table 4.14).

One of the objectives under the Greater KL / KV Programme is to turn Kuala Lumpur into a world-class city that is an ideal habitat for the educated and high incomed workforce. To attain this objective, various endeavours have been made to attract more multinational company (MNC) such as Fortune 500 and Forbes Golbal 2000 to locate their regional operations office here. InvestKL Corporation has taken relentless initiatives to attract more MNC companies to Kuala Lumpur. In 2014, InvestKL had succeded in securing 14 MNCs to invest in Greater KL, surpassing their target of 13 MNCs. The main MNC fields of operation covers those of education, oil and gas, healthcare, information technology (IT), logistics, engineering services, business services, global trade and industrial products sectors. In 2015, InvestKL raised the target for the task in attracting MNCs to set up regional operation offices in Greater KL/KV, to 15 companies. This reflects the agency's confidence in the availability of investment infrastructure and national social infrastructure such as attractive investment incentives, reputable international school facilities, good health services and efficient air transport system that benefits the goal of transforming the Greater KL / KV into a highly appealing world-class city.

The establishment of more MNC regional operations offices especially in Kuala Lumpur will widen demand for office space. The decline in office space starts in 2014 will lessen future supply and slow down new development proposals, to allow the market to absorb the existing oversupply in office space and gradually accept new space entering the market. The value of investment proposals in 2013 and 2014 exceeded the annual target of RM148.0 billion (2014: RM235.9 billion; 2013: RM219.4 billion). In 2015 and 2016 expectations are, most of the proposed investment will begin to be realized, especially in the services sector. The growth in the services sector will give a positive outlook on the office space property market in 2015 and 2016.

Hotel Property Demand

Demand for hotel rooms is closely related to developments in the tourism industry. The government has placed the importance of the tourism sector as a promising sector with a great potential to become a new contributor towards national growth. The importance of the tourism sector is seen as the second largest contributor to foreign exchange earnings after exports. Despite a few tragic incidences that occured within the Malaysian airline industry in 2014, the tourism industry remained resilient with tourist arrivals increased by 6.7% to 27.4 million from 25.72 million and, tourism earnings of RM72.0billion compared with RM65.4 billion in 2013. This positive growth was partly the outcome of promotional activities and Visit Malaysia Year campaign through organization of various cultural events, international conferences, international sports events, the development of new and attractive tourism products, the availability of quality health services and shopping centers. The dynamic growth of the tourism sector saw the hotel industry's 1 to 5 star hotels impressing performance with an average national occupancy rate enhanced to 53.5% from 50.8% in 2013; inspite of the rise in new hotel rooms supply by 4.6% to 202,829 following the entry of 5,430 new rooms (2013: 5,197 rooms) (refer Table 4.14 and Table 4.15).

Investors' cautious sentiment on the uncertain short-term global outlook linked to geopolitical conflicts will impact the global tourism. This can be observed by the big drop in the number of hotel room construction starts at 52.0% (3,817 rooms) following a higher number of construction starts in 2013 (7,954 rooms). The decline in the number of rooms in construction starts has reduced the number of forthcoming supply by 8.6% to 22,119 rooms, compared to 24.211 rooms in 2013. However, the new rooms under plan increased by 17.8% (6,172 rooms), but fell short of increasing the number of planned rooms supply, which otherwise decreased (-61.0 %) compared to the number planned in 2013 (16,232 rooms) (refer Table 4.14).

Table 4.15 Commercial Market Performance in 2014

Property Type	Existing Space		(%) Change over 2013	Occupancy Rate (%)		(%) Sale Rate		Absorption Rate (%)	
	2014	2013		2014	2013	2014	2013	2014	2013
Office Space (m^2)	19,552,831	18,990,448	3.0	84.9	82.7	23.8	23.2	4.5	4.1
Commercial Complex (m^2)	12,997,333	12,446,900	4.4	81.3	80.1	18.8	13.9	4.6	3.4
Existing Hotel Room (units)	202,829	193,879	4.6	53.5	50.8	-	-	-	-

Source: 2014 Property Market Report by National Property Information Center (NAPIC)

The tourism sector has great potential of becoming an additional contributor towards the growth of a dynamic domestic economy; so much this sector has been included in the development program under the NKEA. Consistent efforts are being made to transform the country into a major global tourist destination in the provision of various incentives to tour operators, consisting of developers and operators of hospitality services and quality new tourism products that are safe and sustainable as national tourism infrastructure.

Meanwhile, ongoing promotional campaigns target densely populated countries such as Russia, China, India and the Middle East. Intensive promotional campaigns are currently underway to increase tourist arrivals from China. This move aims at reviving a confidence that was marred by the tragedy of the missing Malaysian (MAS) aircraft, involving mostly Chinese passengers flying home. Chinese tourists are also exempt from visa fees. Malaysia has basic tourism attractions such as wondrous natural landscaping; ethnic and cultural diversity; historical relics and heritage; an efficient telecommunication system; superior modern transportation; political stability and low cost tourism destinations. Many programs and initiatives have been undertaken by the government and private sector to enhance existing tourism infrastructure; and develop new, attractive and outstanding tourism products.

The 10MP has projected an increase in the tourism sector's contribution by 2.1-fold with a revenue of RM115.0 billion. This is an aspiration to position of Malaysia among the top 10 countries in terms of global tourism revenue by the end of the 10MP duration. The 2015 goal for foreign tourist arrivals had been set at 29.5 million people. Various eco-tourism promotions and campaigns had been implemented to capture benefits from the natural environment in health tourism, exhibitions, conferences / conventions, business and shopping promotions. The organisation of international sporting events are also being carried out in addition to visits to places of interest that have been developed such as the Langkawi Geopark, the Pulau Paya Marine Park, a world heritage site by UNESCO (The United Nations Educational, Scientific and Cultural Organization), Legoland in Johor, Gunung Mulu National Park in Sarawak and the many festivals / major events in arts and cultural entertainment.

To ensure high standards are adhered to in tourism services, tour operators are required to attend and complete an Adventure & Tour Management (Travel & Tour Management Course , TTMC) and an Improvement Course Adventure & Tours (Travel & Tour Enhancement Course, TTEC) respectively prior to renewal of an operating licence. The government has maintained the provision of existing incentives in investment tax allowance until the end of 2016 to promote an optimum development of quality hotels. By 2020, 37,000 4 and 5 star hotel rooms are targeted for completion as compared with 15,316 available rooms in 2016. Based on the promotional campaigns for various tourism categories during Visit Malaysia Year 2014, Malaysia was awarded as the Best Golf Destination in Asia and, the highest award for Best New Golf Courses in the World for 2014 for Els Club in Teluk Datai Langkawi, by the World Golf Awards 2014. The awards had publicised Malaysia as a must-visit tourist destination. The promotion of competitive air fares on the other hand, emphasises on domestic tourism. The government and the private sector will continue backing the tourism industry to flourish and thereby stimulate sustainable growth in the hotel industry until 2020.

Infrastructure Development

The implementation of the 10MP is in its final year and an 11MP will commence in 2016 as the last development phase for the nation to become a developed, high-income nation in 2020. Attaining an advanced nation with a high-income status requires consistent economic growth. To achieve this aspiration, the required growth rate is approximately 5.0 % - 6.0 % per annum over a period of 10 years. Malaysia is fortunate since expectations for predicted growth has been successfully achieved at an annual average of 5.3% until 2015, just a little short of the targeted 6.0%, despite having to encounter global economic challenges and shocks. Moving forward, an economic rebound requires a more sustainable growth and global competitiveness. To ensure a desired propulsion in growth, the nation needs more new knowledge-based and technology-intensive, quality investments in high impact value-added projects. Efficient, world-class infrastructure is a necessary foundation for quality investments. Hence continuous investment has been made to enhance existing important infrastructure such as highways and roads, airports, telecommunications systems, seaports, rail transport, fuel delivery system and, electricity supply as well as rural infrastructure.

The imposition of revisions on Budget 2015 saw operating expenditure allocation being reduced by RM5.5 billion, while development expenditure stayed at RM48.1 billion. Among the infrastructure projects to be implemented are:

- Construction of 5 highways in Peninsular Malaysia, Sarawak and Sabah
- Upgrading of the East Coast Railway line
- Modernisation of public transport
- Development of the Integrated Petroleum Complex in Penggerang, Johor
- Extension of the telecommunication system coverage
- Upgrading of rural roads in Sabah and Sarawak
- Water and electricity supply programme for Sabah and Sarawak village communities
- Construction of the Langat 2 water treatment plant in Selangor
- Upgrading of the Lahad Datu Airport in Sabah; and
- Development of flood mitigation structure/measure

Stepping across to the 11MP, more intensive strategies will be implemented to ensure the attainment of Vision 2020. The economy needs to be strengthened and emphasis will be given on growth drivers capable of propelling higher and sustainable growth. High economic growth requires excellent technology, innovation and knowledge based investments, to produce the necessary high-value-added chain in coping with global competition. Transport, communications, resources and policy infrastructure should support continuous growth. 11MP promises the implementation of a more efficient and effective capital economy by optimising available resources in the short term to 2020. In the duration of the plan, continued investments to improve infrastructure quality will be given priority to facilitate economic activity. The foundations of economic development will be strengthened and a growth enhancing environment will be implemented in the provision of a seamless transportation system. Institutional regulatory framework will be introduced in preparation for a new phase of infrastructure investments.

PROJECTION OF NEW CONSTRUCTION WORK DEMAND

The 10MP has come to a close. It is expected that the implementation of several development projects announced in Budget 2014 and 2015 will be more quickly realized so that successive projects can be initiated under the 11MP. Entry Point Projects (EPP) that were launched in 2010 were mostly private investments and it is anticipated that a growing number of committed investments shall be realized in 2015 and 2016. Similarly, the investments committed beyond the EPP such as that within an economic corridor shall also be realized in the same period. Government development projects were an input by the government in providing infrastructure to support investment as well as commercial activities and improving the peoples' quality of life. On the other hand, private investments especially in the EPP are the driving force that induces sustainable economic growth. The Government will continue to strengthen the resilience of the economy to address future economic challenges. This consolidation will be achieved by the stimulating an escalation in domestic demand, particularly private consumption. Private sector investment will be encouraged to modernize the sector to spearhead economic growth. Government sector investment will be directed towards investments in the economy's community projects. Investments by these two sectors complement the components of growth which will provide direct benefits to the construction sector as a provider for the operational needs of other economic sectors.

Residential Project

155,000 to 166,000 residential units will be built in 2015, and in 2016 a projected 157,000 units will be constructed. An NAPIC report stated that supply of landed residential and high rise residential units is balanced at 50:50. Based on observations of sales promotions campaigns by developers of new housing units, most terraced houses' size are between 1,000 square feet (sq ft) to 1,700 sq.ft and high-rise residential units are sized between 900 sq ft. up to 1,700 sq ft. For the purposes of projecting value on a resdiential property project, a standard area is set at only 1,000 sq ft or 95m2. Thus, the estimated residential unit construction costs of are shown in Table 4.16.

Table 4.16 Projected Value of Construction Residential Project in 2015 and 2016

Year	Type	Number of Units	Construction Cost (RM/unit)	Gross Development Value
2015	Terraced	77,500	133,000	10,307.5
	High-Rise	77,500	266,000	20,615.0
			Total	**30,922.5**
2016	Terraced	78,500	142,500	11,186.3
	High-Rise	78,500	275,500	21,626.8
			Total	**32,813.1**

Source: 2014 Property Market Annual Report by National Property Information Center (NAPIC) and Average Construction Cost published by JUBM Sdn Bhd

Government Construction Projects

Among the objectives of the 10MP is to build a more inclusive and progressive society. Subsequently, the government took steps to ensure that the people, especially those in rural areas have access to basic infrastructure and services such as roads, potable water and electricity, communication systems, health services, education and housing assistance. In Budget 2015, the government pledged to build a number of economy projects to improve the quality of life and well-being of the people. Community economic projects as pledged in Budget 2015 are shown in Appendices 4.1 and 4.2.

The 11MP report noted that in 2014, the implementation of the 10MP has reached 70.0 %; which means, there are 30.0% remaining projects to be implemented in 2015. The development budget for 2015 provided an allocation of RM48.5 billion which may not be sufficient to fund all of the new related projects. It is anticipated that there will be several projects that would be funded through the allocations for 11MP. In addition, not all projects may be initiated in 2015 in view of the usual procurement process and probability of an incurrence of technical problems and the issue of project site ownership. However, a few of the projects announced in 2014 will be awarded the start of construction work in 2015 in addition to a number of 2015 projects, which are successions to the 2014 projects such as supply of clean water and electricity, housing and home maintenance projects. It is expected that the value of public construction projects awarded by government beginning 2015 would be in the region of approximately 45.0 % to 50.0 % of **the 2015 development budget worth between RM22.0 billion to RM24.0 billion**.

At the initial stage, in addition to the funding of projects under construction, most of the physical 11MP projects are consequential to the 10MP projects which could not be implemented on time. 11MP development allocation for 2016 is RM52.0 billion. As usual, physical progress will be slow in the first year of implementation, due to waiting time for disbursement of allocated funds. Going by the 2015 scenario, most of the projects under the 11MP are extension projects of the 2015 projects whose administrative and technical aspects were already settled. It is expected that the value of construction work to be awarded during the year 2016 is likely to be comparable to the value for year 2015. The value of construction work in **2016 is projected to be approximately RM22.0 billion**.

Private Infrastructure Projects

In the 2015 budget, the government announced several mega infrastructure projects. The economic capital project is a public-private partnership project that is seen as a private project. Government infrastructure projects are focused on providing basic and public infrastructure which is categorized as the people's economy project. The capital economy project aims to strengthen the national economy, while people's economy project's objective is to improve the quality of life and well-being of people, especially those in rural areas. Through Budget 2015, the government pronounced several infrastructure projects to be implemented by the private sector or GLC worth nearly RM150.0 billion (refer Appendix 4.2). The listed projects are mostly mega projects which will be implemented in stages and sub-divided into a number of work packages. Included are some projects that would have to go through the usual time-consuming procurement process prior to commencement of construction work. Due to the process of solving land issues; technical as well as funding problems before award of construction work; it is expected that the implementation of some of these projects will prolong into 2016. Thus, it is projected that around 30.0 % of total budgeted expenditure allocated will only be awarded construction work commencement in **2015 at a value of RM45.0 billion**.

2016 will witness the initial construction of some 11MP projects. Most of these projects are extensions of the 2015 infrastructure projects such as highway construction, the expansion of telecommunications systems and development project of the Pengerang Integrated Petroleum Complex. In the first year, portions of the new 11MP infrastructure projects will be slow to start construction because of the time taken for usual procurement process besides the possibility of technical issues surfacing. Some of the construction of power plants, sewage treatment plants and sewerage systems, upgrading of airports and seaports will be proposed in the first year since they are part of the strategy in strengthening the economy and, also to ensure that they could be completed by 2020. However, these mega projects may probably be awarded construction work in early 2017. Hence, the private infrastructure projects in **2016 were estimated to be worth about RM45.0 billion**.

Private Industrial Projects

During the revision of the 2015 Budget, the government continues with its commitment to strengthen the economy by developing the necessary infrastructure in transportation, telecommunications, and utilities; with backing from attractive incentives and, pro-business and accommodative monetary policies. This measure is intended to boost higher private sector investment and enhance commerce in order to spearhead growth. The private sector has better resources and capacities to create great success in the realization of NKEA projects and projects beyond the NKEA. In 2014, private investments continued to supercede public investments in a ratio of 64:36. This shows that economic transformation procedures implemented since 2010 have led to a good deal of success. The proposed investments approved by MIDA in 2014 touched RM235.9 billion with a domestic to foreign investment ratio of 73:27. The value of this proposed investment surpassed the 10MP annual target of RM148.0 billion. Realized investments rose by 10.6% to RM146.0 billion as compared to an increase of 14.5 % in 2013 (RM132.0 billion). The government will continue to create an enabling, conducive environment for private sector to drive economic growth.

MIDA has predicted approval of the proposed investment projects in 2015, excluding the proposed investment in real estate, to be around RM120.5 billion. These projections show a decrease of 18.0 % from the previous year (RM147.4 billion, excluding provision for investment in real estate). Based on the observations of investment proposals submitted by investors to the MIDA, generally the cost of the investment proposals indicated the cost of office space or factory buildings to be around 30.0% of the proposed investment. Since the implementation of the 10MP, the value of realized investment has reached 80.0 % on average of approved investment proposals. Thus, the private investment to be realized in 2015 is forecast at RM96.0 billion and the value of work potentially created at approximately RM29.0 billion. MIDA projections on the proposed investment in the manufacturing sector in 2015 of RM120.5.0 billion is considered low by comparison to the high value investments approved in 2014 and 2013. The proposed investment in the manufacturing sector approved by MIDA for 1Q2015 increased by 58.5 % to RM33.6 billion over the corresponding previous period of 1Q2014. This signifies that the proposed investment in 2015 is expected to be higher than MIDA's projection.

Bank Negara Malaysia Annual Report 2014, predicted private investment in 2015 will reach RM159.0 billion. On the similar gorunds, the construction work created by this investment amount is estimated to be RM48.0 billion. If the 10MP target is considered, investment will grow by 10.8 % at a value of RM133.0 billion and is expected to create a total of RM40.0 billion of construction work. The Industrial Master Plan 3 (IMP3) Report, projected an average growth in the manufacturing sector at 5.6 %. This IMP3 target will provide an investment value of RM155.0 billion with realized investment estimated at RM124.0 billion and, would potentially create construction work **worth RM37.0 billion**.

Bank Negara Malaysia has projected investment growth in 2015 of 9.0%. Assuming a similar growth rate for the year 2016, the investment realization in 2016 will reach RM173.0 billion, providing construction work to a value of RM52.0 billion. On the other hand, the 11MP is targeting an investment of RM291.0 billion a year. The target provides for an expected construction works value of RM87.0 billion. This attainment of this targeted value is expected to be very challenging due to intense competition from other countries vying for FDI in a still lethargic global environment. On the contrary, if the 11MP targets for an annual growth of 9.4 %, it will give a total of RM146.0 billion in realized investment which is expected to create a total of RM44.0 billion in construction work. Assuming the annual growth target in IMP3 at 5.6%, it will result in an investment value of approximately RM131.0 billion that could create construction work worth RM39.0 billion. Taking into account the current economic situation which affects FDI flow, private industrial project is estimated to decrease by about 10 % to 12 %. Thus, the projection of RM34.0 billion is more realistic.

The country's investment climate is prospectively bright in which domestic and foreign investors are expected to benefit from the establishment of the single ASEAN economic community market beginning 2015. The ASEAN market is a dynamic market where each individual ASEAN country market has its own individual potential. Malaysia, which has many advantages in terms of provision of incentives, talent, world-class infrastructure, efficient financial system, pro - business regulatory policies, will obviously be a cost-competitive investment destination with good returns. ETP and GTP initiatives undertaken have improved global appreciation of the business environment in Malaysia. Various recognitions will give more confidence to potential investors to place or increase their investments in Malaysia. The following are some of the recognitions received by Malaysia :

- World Competitiveness Yearbook 2014 by IMD World Competitiveness Centre, Malaysia's ranking improved from 15th in 2013 to 12th place;
- Bloomberg reported that Malaysia was ranked third best over 22 countries in a Best Emerging Markets assessment;
- Malaysia is ranked 6th out of 189 countries in the the World Bank's Ease of Doing Business Report
- An E.T. Kearney Foreign Direct Investment Confidence Index Report ranked Malaysia as 15th most attractive country for investment.
- The Human Capital Index published by the World Economic Forum placed Malaysia at number 22 of 122 countries and 5th in the Asia Pacific region.

Malaysia's ETP, GTP and 11MP will develop strategies to enhance the domestic economic environment so as to reduce the cost of doing business and continue to generate higher economic growth. Backed by strong industrial growth forecast, projections for private industrial construction work at **RM37.0 billion in 2015 and RM39.0 billion in 2016** is likely achieveable (refer Table 4.18).

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Private Commercial Project

Commercial property in this context refers to shoplots, commercial complexes, office space and hotels. Commercial building construction is forecast to be vigorous, with the government backing by the provision of various incentives to boost commerce, especially the services sector. As the largest contributor to GDP, the 11MP will continue to strategise the services sector growth. The service sector's growth will be driven by financial and commercial services, wholesale and retail trades, hospitality and restaurant as well as transport and communication sub-sectors. Continuous specific approach and focus on high-impact and productive areas will go in line with movements in the global environment and national priorities. Strategies within the ETP and GTP are meant to eliminate structural barriers and outdated regulations in creating an efficient and flexible market environment for the private sector. The sector is projected to grow 7.2% annually during the 10MP and 6.9 % per annum in the 11MP duration. Due to the restrained domestic market that is incapable of isolating itself from effects of mainstream global developments and intensified competition, the government will step up efforts to provide a catalyst that would enhance an international trade network. All strategies and government backing will be focused on the making of Malaysia into an attractive investment and business destination. Commerce is forecast to expand more rapidly towards achieving Vision 2020.

According to the 2014 NAPIC Report, the estimated the number of units and size of commercial properties that will begin construction in 2015 and 2016 will be as shown in Table 4.17. Based on the 2013 average construction cost of buildings issued by JUBM Sdn. Bhd. and the average size of standard hotel rooms published by the Malaysian Association of Tour and Travel Agents (MATTA), the projected construction cost of commercial buildings for 2015 and 2016 is approximately RM9.0 billion (refer Table 4.17).

Table 4.17 Projected Commercial Property Construction Value in 2015 and 2016

Year	Property Type	Planned Units for Supply	Starts Units	Estimated Construction Cost (RM per unit/m2/ room)	Total Value (RM Million)
2015	Shoplots	68,326 units	16,750 unit	394,300	6,604.5
	Commercial Complexes	901,226 m^2	387,102 m^2	3,800	1,471.0
	Office Space	594,203 m^2	141,599 m^2	4,400	623.0
	Hotels	16,122 rooms	3,552 rooms	104,600	371.5
				Total	**9,070.0**
2016	Shoplots	68,082 units	16,671 unit	414,500	6,910.1
	Commercial Complexes	882,770 m^2	374,008 m^2	4,000	1,496.0
	Office Space	636,777 m^2	156,869 m^2	4,600	721.6
	Hotels	16,795 rooms	3,756 rooms	109,800	412.4
				Total	**9,540.1**

Source: 2014 Property Market Annual Report by National Property Information Center (NAPIC) and Average Construction Cost published by JUBM Sdn Bhd

Projected Value of New Construction Work

There are several projects still in various stages of construction; projects in the planning stage with un-determined costing; and new projects whose existence are unconfirmed at the time of writing this report. Based on projections of the implementation of identified projects, the total construction value for potential project awards in 2015 is approximately RM144.0 billion, a close estimate to the value for 2014. The reason for this is, there are still a number of remaining packages in MRT, LRT, River of Live and investment in the oil and gas industry that are pending awards, and addditional new projects being implemented (refer Table 4.18). The contribution of government projects in 2015 is forecast at 14.0 %.

In 2016, value of construction work contracts awarded rose by 9.0 % to RM157.0 billion (refer Table 4.18). The high increase in construction value was the result of the extensive implementation of EPP, 10MP and 11MP projects; projects beyond the EPP and investment in regional economic corridors which intensified while traversing into the final phase for achieving the goals of Vision 2020. The forecasted government projects contribution in 2016 stands at approximately 15.9%.

Table 4.18 Projected Value of New Construction Work for the Years 2015 and 2016

Construction Category	2015 (RM Billion)	2016 (RM Billion)
Government Projects	22.0	22.0
Private Residential Projects	31.0	33.0
Private Commercial Projects	9.0	9.0
Private Industrial Porjects	37.0	34.0
Private Infrastructure Projects	45.0	45.0
Total	**144.0**	**143.0**

The above projections are limited to gross projections that were guided by the observations and experience of CIDB Malaysia, based on information obtained from mainstream sources and economic reports by various parties. The assumptions on projections made are based on;

- A stable national political landscape
- No changes in macroeconomic and administration policies
- An improvement in global environment with continued growth momentum
- Identified projects are implemented according to usual conditions and,
- Inflation and interest rates remain low

The value of awarded projects in 2014 was higher by 18.0 % from the year 2013 and 28.0 % higher than forecast. This value is 36.0 % higher than the average value of contracts awarded over a period of the previous 4 years (RM113.0 billion) (refer Table 4.19). The increase in value of these contracts is attributed to the implementation of more large-scale projects, especially public transport projects and investments in the oil and gas industry. This can be seen when the number of projects awarded in 2014 were lower (-11.0 %) than the number of projects in 2013 (2014 : 7,180 projects, 2013 : 8.040 projects) despite an increase in its value. CIDB Malaysia records show that in 2014, awarded large-scale projects worth more than RM1.0 billion totalled 12 projects against 5 projects in 2013. A similar scenario was duplicated for awarded projects valued at between RM500.0 million up to RM1.0 billion, with a total of 21 projects against 10 projects awarded in 2013. Developers may have taken the opportunity to implement large-scale projects before the implementation of GST in April 2015 to avoid the incurrence of higher cost. Property developers have anticipated an increase in construction costs of approximately 15.0 % over costs in the year 2013.

Table 4.19 Comparison between Value of New Work Proposals by CIDB Malaysia and Actual Value of Work Awarded

Year	New Works Value (RM Billion)	
	Proposed	Actual*
2010	72	91
2011	85	102
2012	120	128
2013	110	131
2014	120	154

*Notes: *Data until May 2015*

ESTIMATED VALUE OF COMPLETED WORKS IN 2014 - 2015

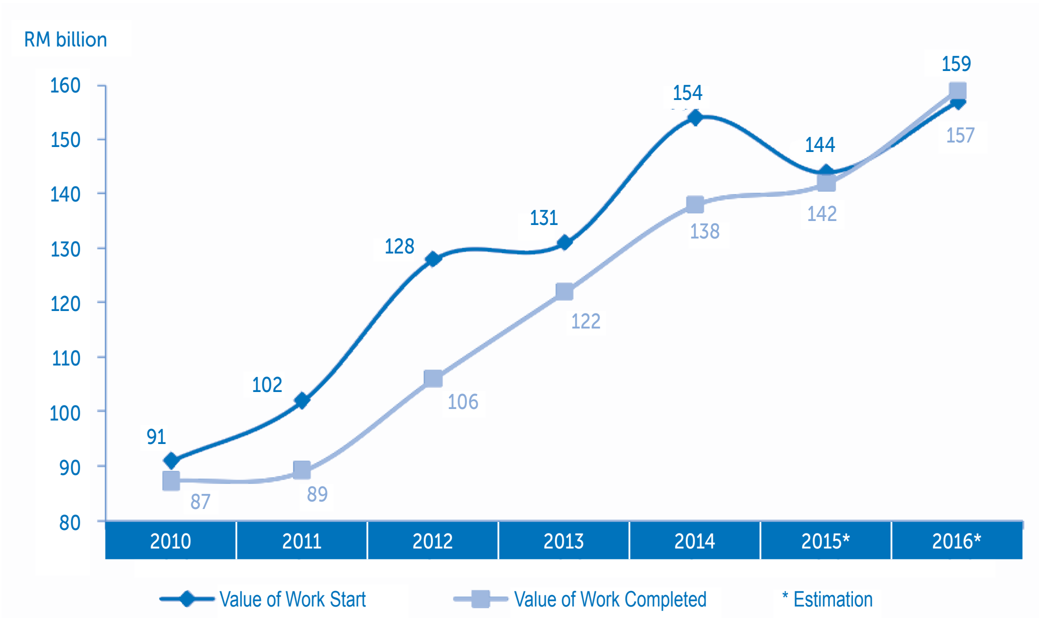
Having gone through a series of economic slowdowns, construction value is escalating following the implementation of more projects in the EPP, 10MP projects and the rapid development of regional economic corridors. The average value of construction work awarded over a period of four years of the implementation of the 10MP (RM128 billion) have exceeded the construction value in the 8MP (RM51.0 billion), and 9MP (RM 81.0 billion). The construction industry is an intensely competitive industry, susceptible to rising resource costs and to the shortage of skilled workers. Realizing the importance of this industry's contribution in the supply chain and to the domestic economic development; planned efforts has been included in the 11MP to transform the construction industry into one based on knowledge and productivity. The utilisation of efficient technology and innovation will boost the construction sector productivity in line with higher contract cost.

The property market is expected to remain robust in the presence of modern and efficient public transport coverage such as the LRT and MRT as well as the construction of new highways that will become increasingly important in the future. This transport infrastructure will be a catalyst for new urban development and the appreciation in market value of the other properties in the vicinity. Strategically located development land is very scarce and excessively priced that developers become more inclined towards offering lavish, high ended developments.

The imposition GST will raise the project cost or contract price of construction work. The construction sector is forecast to grow by 10.3 % in 2015 and 10.3 % in 2016. To achieve the targeted 10.3 % growth in 2015 and 2016, the construction sector requires an estimated value of new projects of approximately RM152.0 billion for 2015 and around RM166.0 billion for 2016. The projected construction work value is expected to be come from a number of mega infrastructure projects that are still under construction such as new highway construction, investment in RAPID as well as oil and gas storage services in Penggerang. Residential projects which have been constantly resilient and providing high-value construction works would also contribute to increasing demand in the construction sector. With available financial assistance schemes and attractive incentives for purchasers and developers, the residential property market is expected to continue to grow briskly.

The value of completed work (work done) or construction output is the progress of construction work completed over any one year during a project's duration. Using CIDB Malaysia's constant output, the completed work value for the remainder of project work from previous years or, that which are still under construction with project work in progress during the current year (2015),is estimated to be worth approximately RM142.0 billion, an increase of 2.9 % compared to the work completed in 2014. The increase was due to the implementation of the remaining projects from the previous year that is still contributing to the higher work value at elementary, middle and at the final stages and, higher productivity in 2015 following the implementation of mega projects as well as the utilisation of more advanced technology. In 2016, the value of completions is estimated to increase by 12.0% to RM159.0 billion due to growing implementation of new works in 2016 (refer Chart 4.1).

Chart 4.1 Estimated Completions Value



Notes: New Works Data for the years 2010 to 2014, until May 2015.

ESTIMATED VALUE OF HOUSE RENOVATION WORK

It is common practice for a new homeowner, whether a purchaser from a developer or another individual, to carry out renovations to upgrade or expand space, improve design according to personal preference and, for security purposes. The value of the renovation works differ depending on residential category and the owner's social status. A rough estimate of the cost of home renovations completed can reach to 20.0 % to 50.0 % of the purchase price and sometimes equaling the initial purchase price if the house has been bought over long period. This report attempts to estimate the renovation cost of newly purchased homes at minimum rate of 20.0% in times of rising material prices and wages rates. Based on the number of residential units completed and will be completed as described in 2014 NAPIC Property Market Report, expenditure on newly purchased home renovations is estimated at RM4.0 billion in 2015 and 2016 (refer Table 4.20) . Estimates for the renovation of old housing units that had the ownerships transferred, shops, shopping complexes, industrial units and office space cannot be estimated due to lack of data and information.

Table 4.20 Estimated Residential Renovation Works Value for 2015 and 2016

No	Housing	*Units	*Value (RM Billion)	20% Appropriation of Value (RM Billion)	
				2015	2016
1.	50% sold units of unsold completed project in 2014	5,908	2.0	0.4	
2.	Units under construction in 2013 sold	41,037	14.6	2.9	
3.	Unbuilt units in 2013 sold	10,000	3.3	0.7	
4.	Balance of 50% unsold completed units for 2014 project	5,908	2.0		0.4
5.	Under construction units sold in 2014	41,839	14.3		2.9
6	Unbuilt units sold for projects in 2013	8,716	3.1		0.6
			Estimated Renovation Works Value	4.0	3.9

*Source: *2013 and 2014 Property Market Reports by National Property Information Center (NAPIC)*

At the 2014 Budget presentation, the Government made allocations for improvement and maintenance works of government buildings, PPR residential buildings and public servants' quarters. At the 2015 revision budget announcement in January 2015, the government pledged to restore public infrastructure such as hospitals, schools, clinics, bridges and houses that were damaged by the massive flooding at the end of 2014. The amount announced was approximately RM1.4 billion. The total budget for repairs and maintenance is estimated at approximately RM3.8 billion for the year 2015 with a small portion of this provision will be used on miscellaneous purposes (refer Table 4.21). For 2016, it is expected that the allocation will be increased further in view of the escalation in the number of, and useful lives of buildings.

Bank Rakyat also provides loans for Retail Outlets Transformation (TUKAR) and Automotive Workshop Modernisation (ATOM) programmes for the the purpose of renovating and upgrading business premises to improvise and modernize operations towards enhancing the image of retail outlet and automobile workshop, small businesses. Maximum funding for the TUKAR program is RM60,000 and ATOM, RM 100,000. In 2014, a total of 305 retail outlets and 208 automotive workshops were renovated. 300 retail stores and 180 workshops are targeted for renovation in this programme for 2015. A similar target is expected for 2016. Assuming that every retail outlet renovation cost is RM30,000 and RM50,000 is spent on every automobile workshop, total premises renovation expenditure can be anticipated to be RM18.0 million for year 2015 and similarly for 2016. Overall, the value of renovation works segment is estimated to add up to more than RM7.0 billion a year.

Table 4.21 Building Upgrading and Maintenance Works

	Task Description	Value (RM Million)
1	School facilties maintenance	800.0
2	Repairs of living quarters of armed forces, teachers and healthcare staff	500.0
3	1Malaysia Maintenance Fund	100.0
4	Public housing maintenance	40.0
5	Construction and restoration of buildings	671.0
6	MyBeautiful Malaysia Programme	105.0
7	Special Fisherman Housing Project	*250.0
8	Repair works on public infrastructure damaged by massive flooding	800.0
9	Repair works on houses damaged by massive flooding	500.0
10	Retail Outlets Transformation Programme (TUKAR)	9.0
11	Automotive Workshops Modernisation (ATOM)	9.0
Total		**3,784.0**

Source: 2015 Budget

Notes: * A potion of amount announced.

CONCLUSION

The uncertain global economy in 2015 is predicted to make recoveries in 2016. The improvements are to be driven by economic growth of high-income countries and complemented by the growth in resilient, emerging economies. Low world oil prices have given excess revenues in the domestic economies of these countries. Consumer spending will be increased and business confidence renewed. Growing domestic investments will boost job markets to eradicate unemployment. Structural revisions and institutional changes effected through fiscal consolidation and economic stimulus by developed countries will also contribute towards the strengthening process for the global economic growth. A continuous global growth momentum will be accompanied by the expansion of trade and increased FDI flows. The global economy and trade is projected to grow positively at the growth rates of 3.5 % and 3.3 % respectively in 2015 and by 3.7 % and 4.0% in 2016, along with an increase in FDI flows to robustly developing economies.

The national economy will continue to be driven by strong domestic demand as well as benefit from the recovery in external demand. Reforms and initiatives introduced in the ETP and GTP managed to provide benefits in the provision of a conducive environment for private investment; in the face of big challenges following the low prices of primary commodities; the depreciation of the Ringgit; escalation of costs and prices of goods and services due to the rationalization of subsidies and the imposition of GST. This is a passing phenomenon, with stabilization returning soonest as the market re-adjusts and coordinates its components to increase productivity and efficiency in the effort towards curtailing the transfer of higher costs to consumers.

The construction sector will continue to reap the benefits of high physical project implementation under the EPP, 10MP and 11MP and an increase in committed investments realized in regional economic corridors. The Malaysian economy will continue on a strong footing. All sectors of the economy is forecast to grow positively and the construction sector is projected to sustain demand of approximately RM144.0 billion in 2015 and RM143.0 billion in 2016. The economy is forecast to grow by at least 5.0 % in 2015 and 2016.