BUILDERS OF THE FUTURE

Smart Investor sits down with Rehda Youth Treasurer Ra Adrina Muztaza to discuss the interplay between finances and property development.

By **Aliff Yusri**

Property assets and construction-related counters form the cornerstone of many an investment portfolio in Malaysia, but few are aware of the extent to which financing, cash flow and development support and drive each other within an operational context. Judicious management of both is required for property and construction players to thrive, and an appreciation of their interrelationship can facilitate investors in selecting projects as well as equities with growth prospects in the segment.

Who better to give an overview of their interplay within the industry than a second-generation developer, groomed for the role and trained in the twin disciplines of accounting and finance? Currently the Finance Director for the Fairview Group of Companies, a Kajang-based developer with interests in construction, engineering and manufacturing, Ra Adrina Muztaza also serves as Treasurer for Rehda (Real Estate and Housing Developers' Association) Youth, the largest group for future property leaders in Malaysia, and her passion for the industry knows no bounds.

Established in 2010 with CSR (corporate social responsibility) and knowledge-sharing as its core activities, Rehda Youth currently has a roster of about 190 members. Property developers in Malaysia can nominate two people from their companies as Rehda Youth representatives.

Smart Investor (SI): What are your responsibilities and long-term goals for Rehda Youth, under your capacity as the association's treasurer?

Ra Adrina Muztaza (RAM): With regard to the treasurer role, it's about managing membership funds as well as events and study tour revenue. Coming from management accounting, I'm using the opportunity to make the numbers here more relevant and understandable to our stakeholders, because even within the organisation and industry, not many are aware of how much goes into our CSR funding and so on. It's not that the information isn't available, but even if it's provided as required, it can always be enhanced to be more usable and memorable.

SI: In your words, how does Rehda Youth educate and enrich the next generation of developers in Malaysia?

RAM: The beauty of the organisation is that it's so open to sharing, with members pooling resources to learn about industry regulations and so on, and showing other members around their projects. Even though we're in the same business, the way I see it is that it's a diverse market, and a given plot of land is very different from the next, so there's few issues in the way of direct competition.

In terms of CSR, aside from EPIC (Extraordinary People Impacting Communities) housing collaborations, we're also working with the Women's Aid Organisation and industry players such as Veritas to rebuild a home accommodating single mothers and others in need in Petaling Jaya. We're also undertaking the construction of a school hall for SK Mak Mandin in Butterworth, with a total outlay of RM600,000. Our consultants are working pro bono, and we're currently writing in to Jabatan Pendidikan Negara for approval.

SI: From your perspective, how have changes in the sociopolitical landscape and government policy post-GE14 impacted property development and developers in the country?

RAM: I think it's still too early to tell, on the ground, what effect these changes will have on the industry. There's a lot of noise out there, topics being discussed and initiatives that people want to push ahead with, but there's been little concrete confirmation as to what is going to happen.

The tabling of Budget 2019 in November will definitely solidify a lot of things moving forward, but for now industry stakeholders and government players are still gathering perspectives amid larger uncertainty. Everyone is trying their best to make sure their opinions are being taken into account, so there's a lot of push for face time with decision-makers. However, we're already seeing some mindset changes; for instance, some planning authorities now are more amenable to new ideas from unconventional sources.

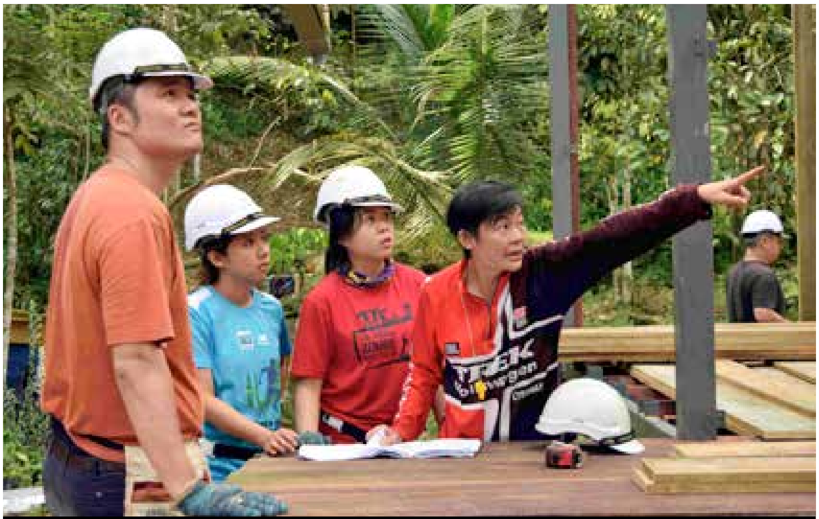
Ra Adrina Muztaza

RA ADRINA MUZTAZA ON TRANSITIONING INTO PROPERTY

I've always found the theory and thought processes which underpin business operations interesting, which is why I pursued a Bachelor of Arts in Economics at Manchester University in the UK, with an Honours in Accounting and Finance, from 2003 to 2006. I subsequently studied for my CIMA Certificate in Business Accounting in London up to 2008. This opened a lot of doors in terms of employment, and I eventually chose to go with Deloitte in London, where I worked up till 2013.

Returning to Malaysia in 2014, I joined the family business with Fairview, putting the analytics experience I'd gotten at Deloitte to work in our manufacturing operations, particularly in terms of productivity, output and logistics. From there, I moved into the finance side of operations, first for our factory then for the Group as a whole in 2015.

The learning curve was actually really difficult at first, because if you're in Deloitte or if you're a consultant, you're used to getting information straight from the client. From the other side of operations, you're constantly chasing that information and refining processes to enhance data sourcing and integrity. This is important because analytics are only as good as the data available.



Rehda Youth serves to bridge and upskill the next generation of property developers in Malaysia.

SI: Financing and cash flow are the lifeblood of property development. How can developers better manage these aspects of their businesses?

RAM: Property development has a particular structure which is cash-intensive in the beginning, with land purchases, development charges and piling, and you have to go through a cycle before you can cash out. So in terms of financing, you'd see a U-shaped curve, with overall costs high at the beginning, tapering down to zero with an eventual revenue stream as sales start coming in.

Extrapolating from this, if you don't have overlapping projects, you'll have prolonged periods of negative cash flow for your business, which is what we try to avoid as property developers. So ideally, what we do is we try to stagger projects so that cash flow is at an optimal level throughout.

With regard to financial reporting, it's essential to understand exactly what the person or organisation who wants the report or data needs it for, whether it's management or financial institutions or even authorities. If data collection is tailored with these needs in mind, you'll have fewer issues down the road. This is why certain things are tracked and why certain analyses are performed.

SI: What are some current challenges facing developers in Malaysia with regard to financing?

RAM: Bridge loans are short-term cash flow instruments to assist developers during the initial stages of the project cycle. However, as the situation currently stands in the industry, such loans are deeply tied to sales, so for example, a developer would only receive the first tranche of a bridge loan if 30% of the units in a project are sold.

However, such injections are primarily needed at the early stages of project development, before the building and selling starts, as those stages are the most capital-intensive. Additionally the repayment period process may be too quick and therefore not favourable for developers to use the injection of funds for the development instead. So there's a fundamental mismatch there.

While developers can leverage on other types of loans, this does mean that the industry is geared towards asset-rich players, not just because of the sales thresholds for bridging loans, but because other assets, as well as the land being developed, are also used by banks as collateral to mitigate their risks for such arrangements.

SI: What would you change about the property development and financing landscape in Malaysia, if you could?

RAM: One of the concerns developers across the industry have faced is the issue of compliance costs. Many don't realise that these costs can make up to 20% of total development costs for a project, and this is why it's difficult for us to price houses which are perceived as affordable for the people. If these costs could be subsidised or such projects could be incentivised for purchasers, it would make more sense for developers to play at that end of the market, particularly with the incoming supply from public housing initiatives.

Other than that, I do wish that we could foster a more collaborative and less risk-averse relationship between developers and banks. Looking at it from their perspective, even if the worst comes to pass and a project is abandoned, they still get the land, and if it's even partially developed, its value has already increased.

In addition, there should be a push for SME property developers, because a lot of projects are already controlled by larger companies, which have a lot of landbank and even townships. But if you look at SME players, they mostly focus on small plots of land and boutique projects. There should be incentives given to SME developers to be competitive with larger players. SI