

PROPERTY SURVEYOR BULLETIN

ISSUE 4 – APRIL 2020



PROPERTY SURVEYING DIVISION
ROYAL INSTITUTION OF SURVEYORS MALAYSIA



**KAPA AND KAS COURTESY VISIT
AND DIALOGUE SESSION**

**NAPIC – INFORMATION POWERHOUSE
AN INTERVIEW WITH Sr AINA EDAYU BIN AHMAD**

**NEW TURF
VALUATION OF UNDERGROUND LAND PART 2**

Organised by



29TH NATIONAL REAL ESTATE CONVENTION

The Royale Chulan Hotel, Kuala Lumpur

POSTPONED TO 2nd March 2021

~~10TH March 2020~~

“RE-ENGINEERING THE PROPERTY: THINKING OUTSIDE THE BOX”

WHO SHOULD ATTEND?

This event targets, but not limited to:

- Valuers
- Real Estate Professionals
- Real Estate Agents
- Developers
- Land Administrators
- Economists
- Academicians
- Bankers
- Researchers
- Local Authorities
- Students

HIGHLIGHTS:

- > Meeting The Land Shortage Challenge
- > Re-strategising Investment In Meeting Challenges Of Current Times
- > Re-engineering Property Data And Information Services



★ + 3 CPD
HOURS for
Technical Visit



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EDITOR'S NOTE

NEW NORMAL

The Covid-19 pandemic has certainly triggered unprecedented crisis throughout the world within the looming onset of the economic uncertainty that was felt prior to the pandemic. It has brought upon apprehensions on how our lives are to be managed within the norms that have been practiced for many decades.

While we are still not free from the risk of the infections, the pandemic has certainly caused many casualties within the spectrum of the activities of any nation – causing loss of income due to the inability to conduct business right up to the inability to have face to face interactions for any dealings. In exploring the alternative ways to do things, the online mode of communication and transactions have certainly increased, accelerating the need to have proper infrastructure for the Industrial 4.0 revolution. However, we may still very much be in this state of surprise, many remain trapped in the former mindset of a world that may no longer exist.

In the attempt to accelerate the recovery phase for Malaysia, the government has introduced a six phased approach in the attempt to elevate the country out of the challenges faced due to the pandemic. In June, a RM35bil stimulus package known as Pelan Jana Semula Ekonomi Negara (Penjana) was introduced to assist businesses recovery.

To stimulate the domestic property market, the government will reintroduce the Home Ownership Campaign (HOC). The HOC was designed to encourage more home ownership in the country. The instruments of transfer and loan agreements for the purchase of a residential property valued between RM300,000 to RM2.5 million will be exempted from stamp duty. Under this incentive, any gains arising from the disposal of residential property from June 1, 2020, to December 31, 2021, will be exempted from real property gains tax. Moreover, during the HOC period, the 70 percent margin on housing loan for a third residential property valued at RM600,000 and above will be lifted.

While we have yet to see the outcomes of the introduced measures, hopefully, we will emerge from the current crisis eventually. Envisioning the post-crisis “new normal” is not easy at this juncture, perhaps, we, the property surveyors have to strengthen our efforts to uplift the profession in challenging the state of carrying out our professional tasks.

The Property Surveyor

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COVER STORY



Courtesy Visit from KAPA and KAS together with the Dialogue Session titled “Recent Challenges in Valuation Profession in Malaysia and South Korea”



On the 10th January 2020, Property Surveying (PS) Division has made another step ahead in organising a Dialogue Session between Korea Association of Property Appraisers (KAPA), Korea Appraisal Society (KAS) and the PS Division. This Dialogue is one of the objectives of Memorandum of Understanding signed between RISM and KAPA on 15th April 2019 in Seoul, South Korea.

This Courtesy Visit and Dialogue Session was held at the RISM Resource Centre in Petaling Jaya, Selangor with 50 attendees comprising 23 delegates from South Korea and 27 RISM members.

The half-day courtesy visit started with a get-together session and followed by a presentation on “Major Issues in Appraisal System in South Korea” by Prof. Tae-ug Rho of Korea Appraisal Society.

The Dialogue Session was very useful for both Malaysia and South Korea. The session is moderated by both Sr Huan Cheng Kee (FRISM) and Prof. Tae-ug Rho of Korea Appraisal Society with the panellists representing the public sector and private sector namely:

Representative from the Public Sector

Tuan Haji Sr Mohd Khairudin Abd Halim, FRISM
Director General of Valuation and Property Services Department Malaysia
Deputy President, The Royal Institution of Surveyors Malaysia

Representative from the Private Sector

Sr Prem Kumar, FRISM, FRICS

Prof. Su-Youn Jyoung of Department of Economics in Jeju National University and KAS and Mr Kil-Soo Yang of (KAPA) were additional panellists, assisting Prof Tae-ug Rho.

Sr Mohd Khairudin started the session with his paper on Challenges in Valuation Profession from the perspective of Valuation and Property Services Department (VPSD) and listed a few issues relating to problems in assessing market value of various properties:

- Manipulation of purchase price as stated in the Sales and Purchase Agreement where buyers over declared prices (or artificially inflated prices), presence of incentives and rebates in the primary market thereby inflated sales price have misconstrued the true value of the properties.
- Difficulty in obtaining information due to confidentiality nature of the transaction resulting in possible incorrect assessment of the values as relevant information is not available for whatever methods of valuation being adopted.
- Our valuation relies heavily on historical evidence; this reduces accuracies of valuation especially in an uncertain market situation. Hence there is a need to have recent sales evidence.
- In land acquisition of stratum properties, the problem is compounded by virtue of non-existence sales evidence, uncertainties in the actual area to be acquired as well as the rights of land owners. The valuation approach to determine the compensation amount is based on the determination of total volume but there are no proper guidelines for development of land under the ground and its effect to the land surface.
- VPSD also encounters various problems in valuation for taxation purposes. One of the problems cited is in determining market value for stamp duty purposes. For Ad Valorem Duties, it is calculated using the property price of the contract of sale OR the market value as assessed by the government valuer. If the contract price is higher than the market value then stamp duty is charged according to that higher figure.

From the private valuers' perspective, Sr Prem highlighted that even in a stable market, transactional evidence may not really reflect the actual market position. There are also problems in ascertaining the appropriate yields to adopt in Investment method of valuation. Additionally, the multi-disciplinary roles of a registered valuer, having to oversee property management and estate agency matters on top of valuation assignments, may overlook certain pertinent factors and ascribed wrong values. This is also the case where clients are more demanding in terms of deliverables and time line! With automated valuation models, the role of valuers may diminish if certain standards are being sidelined.

To make the matters worse, private valuers also face interference from other professionals such as accountants who require additional disclosures in the way valuers are to report market value as in ascribing values to biological assets. Even judges who preside in land court matters are known to overrule and, in fact, ignore the recommendations made by their appointed assessors. Sr Prem also highlighted even within the profession, there are fees cutting in their bid to secure instructions resulting in compromising the quality of valuation reports. This has led to adverse publicity relating to the profession where accusations of large discrepancies in the valuation of the same property have tainted the profession as clients failed to understand that the difference in the valuation may be due to different basis adopted by the valuers.

Recapping the presentation made prior to the dialogue session, Prof Rho then explained that the appraisal system in South Korea is making very slow progress as he felt the role and functions of the appraisers are being overly regulated by government departments. Property prices are determined by the Officially Assessed Land Price (OALP) which differs region by region. This OALP was created in the late 1980s to curb speculations in the property market that caused social issues and wide disparity in the market value of a single property. OALP is adjusted to reflect characteristics of a comparable Reference Lot to each Individual Lot and comprise Price Ratio Table of 18 different types of land characteristics (such as land use zones and regulation, road adjacency, land shapes, distances to desirable or undesirable infrastructures, etc for each classified price level zones of each administrative district. Land Price Assessment Models are drawn and formed into Land Price Comparison Tables. Aim to aid land price assessment of local government officials lacking specialised knowledge in land price assessment models and in operating computers. This approach has posed many problems such as:

- There is increasing disparity between market value and OALP; whilst appraisers assess the market value of the reference lot, the Ministry of Land, Infrastructure and Transportation (MOLIT) announces adjusted price of it. Additionally, the adjustment ratio that differs in each region results in distortions which accumulated annually, resulting in imbalance regional land price.
- The accumulation of the real transaction price data and technological development can replace the OALP and also Officially Assessed House Price (OAHP) and this may mean that non professionals can substitute appraisers.
- Confusion of appraisal related legal words as arbitrary interpretation and application could cause serious social conflicts and problems.
- Shortage of academic researchers due to limited interest in the appraisal subject that incentives to attract scholars are required.

Subsequent to the presentations by Tuan Haji Sr Khairuddin and Sr Prem Kumar, the Prof. Su-Youn Jyoung and Mr Kil-Soo Yang opine that perhaps the Korean appraisers should really be regulated by a single ministry instead of presently four ministries. Prof Rho also stated his pleasure that both public and private valuers have commonality under a single umbrella of RISM, and working closely to bridge the gaps that exist in facing various challenges in valuation.

Sr Huan who moderated the session, concluded that to overcome some of these challenges, the profession must embrace technology by joining forces with technology disruptors to make the valuation process and thinking seamless and effortless. Certain valuation works may be automated such as mortgage valuation of standard properties whilst other valuations must comply the manual of valuation standards as prepared by the BOVAEP. Unlike in South Korean appraisals, having a single regulatory body like BOVAEP does knit both professions from private and public sector in unifying valuation inputs and methodology.



INTERNATIONAL NEWS

MAJOR ISSUES OF THE KOREA APPRAISAL SYSTEM

Taeug Rho

(President, The Korea Appraisal Society)

I. INTRODUCTION

Ever since the introduction of the Officially Assessed Land Price(OALP) in 1989, Korea's appraisal system is upgrading very slowly responding to the environmental changes. Even though the appraisers are certificates, their role and function in the system are heavily regulated by a government department.

Recently the sharp rise of the price of real property, especially that of Seoul, is becoming socially hot potatoes. In the meantime, general people give suspicious eyes to the appraisers who is undertaking responsibilities on the OALP and the Officially Assessed House Price(OAHP).

This mismatch between people's expectation and OALP is the root of appraisal issues in Korea. Many problems were resulted from trying to fix it. Here I will introduce the appraisal system of Korea, and then enumerate and interpret several issues Korea is facing in the context of Korea.

II. OVERVIEW OF THE KOREA APPRAISAL SYSTEM

The Korea appraisal system started in 1989 with the announcement of the OALP as a measure to realize the public concept of land ownership by regulating speculation, restricting land ownership and restituting development gains. Till that time, there existed different prices in a same parcel, because every institution charged different fees or taxes according to the purpose of valuation. For example, a parcel located in Myungil-Dong(Seoul) had four prices depending on the institutions; the Ministry of Home Affairs(113,000 won/m²), the Ministry of Construction(816,750 won/m²), National Tax Service(385,330 won/m²), Appraisal Institution(756,000 won/m²). To control this confusion, the appraiser certificate was born by integrating two certificates; the Land Appraiser the Public Assessor.



The OALP is the basis of appraisal system, and composed of three steps; the Officially Assessed Land Price of Reference Lots, the Land Price Comparison Table, the Officially Assessed Land Price of Individual Lot. In 2018, the number of total parcel was 3.353mil, and the number of reference lot was 0.5mil. The number of house was 4.18mil, and reference house were 0.22mil.

The supervision structure is very simple. The act is composed of three acts; The Korea Appraisal Board Act, The Officially Assessed Real Estate Price Act, The Appraisal and Appraiser Act. The department of real estate appraisal of the Ministry of Land, Infrastructure, and Transport(MOLIT) is regulating total system and appraisers.

The number of appraiser is consistently increasing. In 2018, the numbers were 5007, and nearly half of them were affiliate to large scale companies. Total sales increased from \$193 million dollars in 2000 to \$723 million dollars in 2017. Accordingly the number of case is also increasing. Between public and private sector, the portion of private sector took 60% in 2017. In case of type, collateral appraisal was 42%, general transaction appraisal was 27% and compensation appraisal was 12%.

III. MAJOR ISSUES

In policy and practice level, all the issues have the same roots; the gap between the market value and the OALP and OAHP. Several Issues could be separated as follows.

First is the meager supervision structure. Only one department of MOLIT is supervising total system. So the appraisal framework is not so solid to overcome unexpected difficulties. The officers are not professionals in appraisal, and general people affected by OALP do not properly understand the appraisal procedure and its results. Through 30 years of history, all the amendments were incremental without considering fundamentals.

Second is the division of roles between public sector and private sector. As the appraisers are treated as quasi-officers, they have no stimuli to develop advanced and scientific appraisal methods prerequisite to persuade people for their appraisal results.

Third is the reliability of the OALP and OAHP. In this connection, many questions are raised; the appraisers are experts who enjoy the confidence of people?; the appraisers are ethical?; the people are friendly to the appraisal system and the results of it?; the appraisal is science or arts?; the procedure obtaining the OALP is persuasive to taxpayers; the number of reference lots are proper enough?

Fourth is the possibility of accumulating statistical errors by using mathematical models. To calculate OALP step by step, many mathematical models are used, but there is no device to filtering out statistical errors, and so if some errors exist at the precedent step, that can be expanded and distort the accuracy of appraisal results.

Fifth is the gap between the market value and the Officially Assessed Land Price. This is a hurdle in implementing political means. The appraisers assess the market value of the reference lots, But the Minister of MOLIT announces adjusted price. The adjustment ratio is different from region to region, and this distortion could be accumulated year by year. Market value of reference lots multiply the realization rate is the announced OALP.

Sixth is the accumulation of the real transaction price data and technological development. As the data of the real transaction price are accumulated, many raise questions which can threaten the framework of appraisal system; the accumulated real transaction data can replace the OALP and OAHP?; non-professionals can substitute appraisers?

Seventh is about academic society. There is a shortage of research power. The social interest is confined to examination applicants. These are also a hurdle in developing academic society. In addition, many legal provisions important to appraisal practice are polysemic, so arbitrary interpretation and application could cause more social conflicts and frictions

IV. CONCLUSION

As I pointed out, Korea is facing several issues with reference to the appraisal system, and it does not look simple to solve. The most important thing is that the OALP and OAHP which affect economic life do not gain the trust of people, although it is acting as a traffic signal in the property market,

To remedy this, it is needed to improve the transparency of the procedure and steps in determining the OALP and OAHP, and the relevance of the number of reference lots, Land Price Comparison table and the characteristics of surveying lots should be examined.

The most important concern is how to prepare for the future. A new qualifying examination system which can test the ability of examinees in theory and practical experience simultaneously is consistently offered. An institutional preparations and more open mind to accept the change of technical environment are really needed. The development of IT, AI, big data and proptech could assist appraisal more scientific.

FOCUS

NATIONAL PROPERTY INFORMATION CENTRE(NAPIC)

- INFORMATION POWERHOUSE

AN INTERVIEW WITH SR AINA EDAYU BINTI AHMAD

1. Firstly, could you enlighten us on the formation of NAPIC and the objectives of its existence?

Asian Financial Crisis had hit the region back in 1997/1998 and property sector was one of its casualties. As there was no central agency that monitored property sector, it was difficult to assess the market. The National Economic Action Council (NEAC) saw the importance and necessity of establishing a property centre to monitor the growth of the property market in the country.

After much deliberation, this task and responsibility was placed with Valuation and Property Services Department (JPPH). To enable JPPH to set up and manage a property information centre under the supervision and responsibility of the Director General of Valuation and Property Services, the Parliament approved the amendments to the Valuers, Appraisers and Estate Agents Act 1981 in May 1999. Pursuant to the amendments, the Valuation and Property Services Rules 1999 were amended and gazetted on 9 September 1999. NAPIC begun its operations nationwide on 1 October 1999.

The objective of NAPIC is to provide accurate, comprehensive and timely information on demand and supply of property in the country to government agencies, property developers and other parties involved in the property industry.

2. What are the main activities of NAPIC?

NAPIC is mainly focused in property data collection, collation, analysis and publish these data dan reports on a periodical basis. NAPIC also plays an advisory role at federal and state level.

3. As the Director, what is your main role within NAPIC?

Director of NAPIC is responsible to drive and steer the organisation towards achieving NAPIC's vision, that is to be the leading source of quality data and authority on property market information in the country.

4. How many staff does NAPIC has?


Presently, we have strength of 34 personnel in HQ, comprising 26 technical officers and eight administrative & finance assistants while we have about 120 technical personnel spread across 38 branch offices.

5. Does NAPIC have offices in other states in Malaysia and what are the services provided at these offices?

We do have our NAPIC officers at the District and State level throughout the country. These are our important frontliners who would need to keep their ears to the ground and ensure that data are collected according to the time frame and coverage. In addition, they would also conduct session with data providers to strengthen rapport as well to encourage them to utilise PRISM for data submission.

6. What are the main publications that NAPIC have and how are they made available?

Our main publications are Property Market Report, Property Stock Report, Property Market Status Report, Commercial Buildings: Occupancy and Space Availability Report, Malaysian House Price Index, Purpose-Built Office Rental Index, Residential Prices Quarterly/Yearly Update, RM10 Million Property Deals, and Estate Land Sales. These reports are available for free on NAPIC's portal and mostly are on quarterly release.

- 
7. Besides these publications, are there any other services that NAPIC offer?

We do provide other data on the portal such as Property Sales Data, property snapshots and time series data. On top of that, we provide periodical data to Ministry of Finance, Bank Negara Malaysia, Department of Statistics Malaysia, Economic Planning Unit, Jabatan Perumahan Negara, JKPTG among others as well as attend to ad-hoc data request from government agencies, private practice, researchers and students.

8. How has NAPIC evolve over the years?

NAPIC has gone from strength to strength since its establishment in 1999. We began to unfold under the stewardship of the first Director of NAPIC, YBhg Dato' Abdullah Thalith bin Md Thani, who steered NAPIC towards transformational journey.

The development of Property Information System Malaysia (PRISM) in 2004/2005 was the breakthrough of the journey, though I must say that it was challenging one in the early years of its development. We could label PRISM as the disruptive technology as we (HQ and state-level) as well as the data providers were used to having the operations of data collection on manual-basis.

But as time goes by, we managed to gradually embrace and adapt to the system. There have been several exercises of enhancements on PRISM, which we carried out from time to time to ensure that NAPIC delivers timely, quality and comprehensive data for the industry.

In terms of reports, NAPIC has expanded its publication listing i.e. PBO-RI and Residential Prices Quarterly/Yearly Update. We have also improved in terms of data presentations to include fast-facts figures in market snapshots. Of recent, we have decided to go for user-friendly data format.

9. Would NAPIC be utilising technology in churning and analysing data & information that are collected?

We are using technology in our day-to-day operations including churning and analysing data and information but machines can only do so much. The understanding and appreciation of the data and information require human touch, a combination of art and science. Technology allows us to display data and information fast but humans would know how to read and understand the data, and interpret the market and market signals.

10. What is your opinion on the emergence of other information providers such as BRICZ that offer property intelligence services to the market?

We are fully aware of the emergence of these portals over the past years. In my view, we see this development as healthy for the real estate because indirectly it shows the importance of real estate data to the industry and nation at large. Apart from that, the portals promote data sharing (though at a cost!) and data transparency. It is a free market economy and users have the freedom to choose the portals including NAPIC's to the best of their necessity. However, these portals need to ensure that they provide market data and not indicative values of the property.

11. What would be the future aspiration of NAPIC? Where would you like to see NAPIC go after this?

The pioneers of NAPIC did a wonderful job in successfully developing a strong foundation for us, the successors to stand upon and continue to grow. I would certainly like to see NAPIC soar up high as a renowned and respectable body not only in Malaysia and the Asian region, but also in the world as the leading centre of property database and property market indicators in the country.

12. What is your opinion towards the statement that NAPIC is the information power house for properties in Malaysia?

I would certainly concur with the statement. We have millions of data in the database that are truly invaluable for those who understand and know the worth of these data. I believe we need to push towards developing expertise on the fields of data science and data forensics to fully polish the potential that NAPIC has so that it can be in its own league.

FUTURE PROOFING THE PROFESSION

WHAT COMMERCIAL REAL ESTATE AGENT SHOULD EXPECT AFTER MCO

By Sr Allan Sim Song Len, FRISM
Executive Director, Knight Frank
Past Chair, Property Surveying Division 2018/2019



INTRODUCTION

The impact of Covid-19 on the economy is affecting many individuals and businesses in numerous ways. This unprecedented global pandemic has brought uncertainty to the world economy. No one will dispute the statement of thousands of commercial tenants are going to be severely impacted by this crisis. What should real estate agents do after the MCO has been lifted while other countries are still combating the pandemic?

The aim of this topic is for real estate agents to understand how should they look for opportunities and grab those potential businesses in real estate transactions particularly in commercial sector during this period.

In any circumstances, whether good or bad times, there are certainly jobs for everyone especially real estate agents. The main differentiators are real estate agents' capabilities and understand processes to choose the valuable job, willingness to go extra miles for the job, or merely wait for the job opportunity to come by.

What are the real estate agent food for thoughts after the lift of MCO? Several key considerations are understanding of global supply chain and taking into account that others countries may be still in a lockdown situation. There are numerous uncertainties in the market and businesses will be in a volatile and adaptive situation.

WHAT LIKELY WILL HAPPEN AFTER MCO

The commercial real estate industry never faced any hurdles as challenging as Covid-19. There will definitely many new changes after the lift of MCO to adapt to the new norm. A global disaster will affect businesses in the usual ways in conducting businesses, needless to mention that others country's situation will impact logistic industry.

The global economy being largely out of action for several months, has caused many multinational companies with limited contingency plans to response to the supply chain disruptions. These companies are usually heavily dependent on just-in-time manufacturing processes, one of the examples will be automotive business with has lean inventory levels.

Restriction in global logistic activities will certainly impact the decision making of the businesses. No major decision will likely be made and perhaps many of us will take the 'wait-and-see' attitude in searching for potential solutions. Business and property owners could not escape from this phenomenon too.

In order to be well prepared, any real estate agent should start reviewing terms and clauses in the legal documents, i.e. Sale & Purchase (SPA) and Tenancy Agreement (TA). Real estate agent should understand the practicality of clauses, such as abortive clauses, termination clauses, rent deduction clauses if these were to take into effect.

Real estate agent has to expand market knowledge, including understanding market sentiment in various sectors and choose specialization in selected sector. Business continuity planning will be the top priority for business owners in combating the pandemic. Hence, real estate agent is expected to assist business owners in their business survival planning through property re-engineering and reposition processes.

HOW TO GET OURSELVES READY?

Over the past decades, supply chain management has evolved to meet customers' needs. There has been increasing customer demands for cheaper products. This has led companies to pursue business strategies like offshore, outsource and lean supply chain with minimal inventory in their premises to keep costs low and agility in supply. However, with Covid-19 pandemic, we are seeing these strategies being tested like never before. It is important for real estate agents to understand their business model and the way of business being conducted. Knowing how the supply chain model in different countries and industries will certainly help to develop an advance strategy to response to the current situation.

How TO OVERCOME THE CURRENT SCENARIO?

Real estate agents could not escape the need for think out of the box ideas, particularly being fore-front in new marketing strategy to overcome this market uncertainty. They should continuously find creative answers to questions, such as 'What is the new-normal?' and 'What will be the new standard?'. In whatever circumstances, no one can deny that technology plays a bigger role in property transaction. Tech-savvy real estate negotiators will continue to stay relevant over this uncertain market.

In order to success in the volatile market and differentiate from others, real estate agent should explore niche market and acquire knowledge in the selected niche market. In addition, real estate agent should increase marketing efforts and identify location that commercial activities are still active. Having said so, the top priority should be continuous learning. The next wave of business focus will be technology related businesses, especially e-commerce.

WHAT SHOULD WE DO NEXT?

Three key differences among commercial real estate agents are their degree of services, quality and uniqueness. Agents should distinguish themselves from their peers. One of the main differentiators is the ability of negotiator to convince clients to continue the deal with them. Providing client with value added services and take extra mile to impress clients would make a real estate agent more prominent from their peers in this competitive economy.

At any given time, real estate agent must be ready to educate owners on their properties and the market sentiment. Having said so, market knowledge with supported factual data is paramount important for real estate agent. The capability to convince clients with knowledge of market shift is an important success factor to secure their trust.

CONCLUSION

This Covid-19 pandemic will bring permanent change of habits and attitudes that may affect the demand for commercial real estate. This may also bring in many changes to the property market, such as lesser commitment from the tenants, not limited to lease term. While this pandemic is the first crisis to the worldwide society at the same time, there are many economic issues that cause uncertain impact on the commercial real estate values. If the rental demand for commercial real estate reduces, commercial real estate may not have supporting basis in sustaining the values, including foundation for future appreciation mechanism. Real estate agent must understand the economic situation and appreciate data analytics. The analysis of data must not limit to drivers of commercial real estate values and its associated impacts. Real estate agent should observe the market in the current climate, including cashflows in businesses and an adverse shift in market liquidity. A successful real estate agent in the uncertain market situation depends on own creativity and capability to response to the adverse market condition.

Sr Allan Sim Song Len, FRISM, is Past Chair, Property Surveying Division 2018/2019 and RISM's representative in the Estate Agency Practice Committee (EAPC) in the Board of the Valuers, Appraiser, Estate Agents and Property Managers (BOVEAP).

NEW TURF

GETTING THE GRIP OF VALUATION OF UNDERGROUND LAND

PART 2



By Haji Salleh Mat Ali

Former Director, Department of Valuation and Property Services, Federal Territory of Kuala Lumpur.

CONCEPT OF LAND ACQUISITION OF UNDERGROUND LAND

Main legislation: Land acquisition Act 1960 (amendment 2016)

On 1st December 2017, the Land Acquisition Act (Amendment) 2016 [Act A1517] came into force. The amendment aimed to improve land acquisition procedures in Malaysia due to the scarcity of land for underground development such as building of tunnels, drainage systems and underground infrastructure i.e. the MRT

Where the acquisition involves an underground land, the Land Administrator is required to prepare a plan that describes the extent and depth of the area of the underground land to be acquired.

Example 1: Underground land acquisition



Source: Sr Chan Keat Lim (JUPEM), Seminar Pbgn Strata dan Stratum 2017

Example 2: Depth of portion not acquired after land acquisition



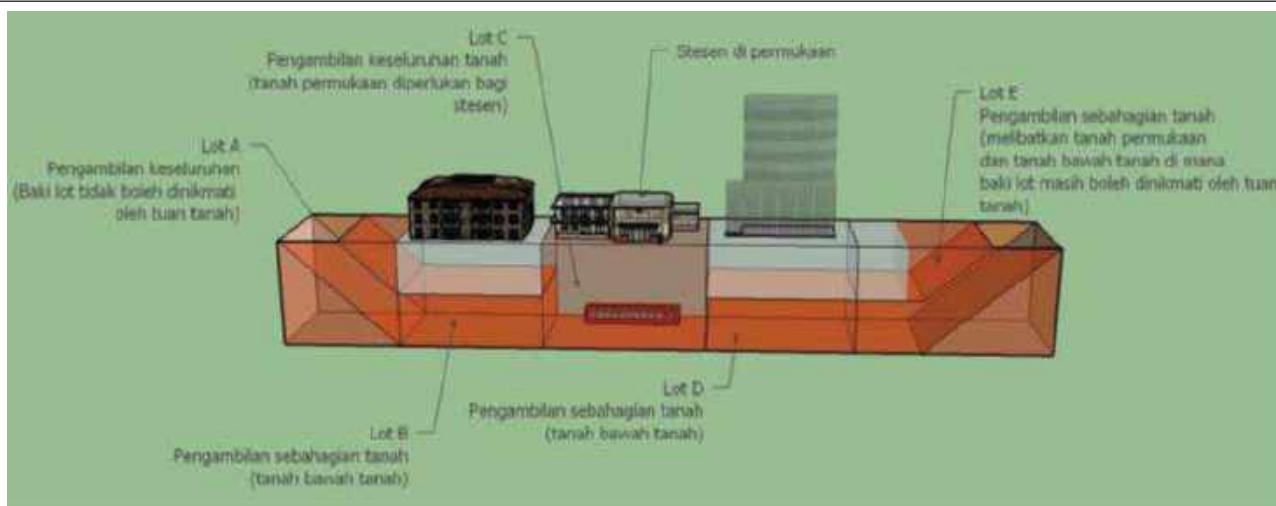
Source: Sr Chan Keat Lim (JUPEM), Seminar Pbgn Strata dan Stratum 2017

PENGAMBILAN TANAH BAWAH TANAH

APT 2016
S. 7(2) Where the acquisition of the part of the land refers to underground land, the plan referred to in paragraph (1)(a) shall also describe the extent and area of the underground land to be acquired

KTN 2016
CHAPTER 3
FINAL TITLE IN CONTINUATION OF FINAL TITLE

S. 166(4) For the purpose of paragraph (1)(h), if the part acquired refers wholly or in part to underground land, the title in continuation to be issued for the part left unacquired shall be endorsed in accordance with the provision of subsection 92B(2)



Title in continuation for Lot B, D, E will be issued based on the NLC amendment 2017

In order to ensure the minimum depth is adhered to, the land acquisition plan must take into consideration of the lowest point of the surface land. To enable the determination of absolute depth after land acquisition of underground land, the depth of portion not acquired (his other land) must refer to a suitable datum such as the Mean Sea Level (MSL). MSL is the mean level that is reached by the sea for a long period and can be considered as a permanent surface plane.

Example 3: Determination of depth boundary after land acquisition



Example 4: Determination of depth boundary after land acquisition



Preparation Of Land Acquisition Plan

Where the acquisition involves an underground land, the Land Administrator is required to prepare a plan that describes the extent and depth of the area of the underground land to be acquired. Based on the paper presented by Sr Chan Keat Lim (JUPEM) at a seminar in 2017 and Pekeliling KPTG Bil 1/2018, there are 3 plans to be prepared and a table of coordinates of scheduled land i.e.:

- Site plan of surface land with a projection of area of underground land to be acquired.
- Isometric diagram of surface land with depth limit of land use after acquisition (3 dimensional plan showing acquired land and portion not acquired).
- Cross sectional plan showing depth limit of surface land.

CONCEPT OF UNDERGROUND LAND VALUE

Underground land is a form of property which encompasses the interest, rights and benefit of ownership. Interest and rights are guaranteed because underground land can be owned and registered in legal document of title. It can be sold, leased and other transactions allowed by the National Land Code. However it is insufficient to have interests and rights but did not generate any benefit to the owner. The benefit is in term of economic benefit to the owner and related to the level of usage. Since it is related to interests and rights and the owner could benefit from it, underground land should have some value

Factors Affecting Value

The normal factors affecting value of surface land does have an effect on underground land value such as:-

1. Location
2. Land use category
3. Land tenure (Freehold /leasehold)
4. Physical characteristics (terrain, shape, size and soil profile)
5. Market condition (demand and supply)
6. Development potential/zoning

Additional factors that should be considered in determining the underground land value are:-

Depth and Layer of Underground Land

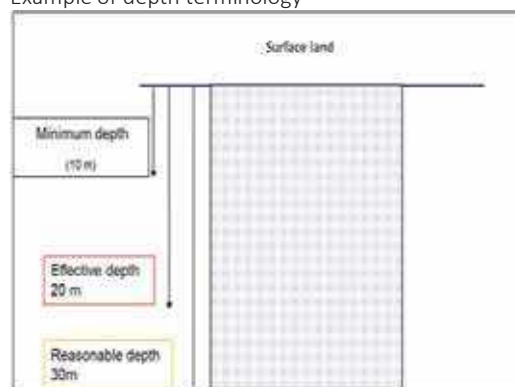
The depth here refers to the depth measured from the surface provided by the NLC and Underground Land Regulation 2017. For land acquisition, it is important to identify the level of depth that should be valued and depth level which is given a nominal value. This is because the depth of underground land could reach the earth crust but the right to utilize is limited to a fair and reasonable level. In England, when underground land was acquired for tunnel at the depth of 35 to 65 metre, the compensation offered was at a fixed rate of £50 (perceived value).

Source: Tideway, Guide to the acquisition of subsoil

There are three (3) terminologies in relation to the depth of underground land:

Type of depth	Explanation
I. Minimum depth	Depth of stratum that can be enjoyed by the surface land owner as determined by the State Authority subject to National Land Code (Underground Land) (Minimum Depth) Regulations 2017.
II. Effective depth	Based on a study conducted by JPPH on the normal usage of underground land in Malaysia. Effective depth refers to the depth measured from the surface to a maximum of 20 metres deep.
III. Reasonable Depth	<i>No fixed definition regarding the reasonable depth. It depends on the following factors:-</i> <i>Land use</i> <i>Size and shape</i> <i>Zoning, plot ratio/density</i> <i>Planning Approval</i> <i>Type of soil /geology</i> <i>Construction method</i>

Example of depth terminology



For land acquisition, the depth of underground land that should be valued is up to the effective depth based on JPPH research. Under certain circumstances, reasonable depth that can be enjoyed by surface land owner could be deeper than the effective depth. However, since the usage of underground land after the effective depth are more likely for foundation and piling, the value should be nominal. If the loss of reasonable depth would probably have a negative impact on the surface land, compensation on injurious affection should be considered.

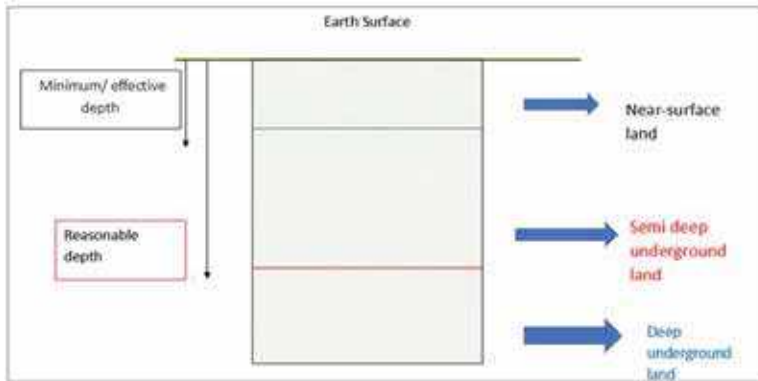
Type of building and Number of underground levels.

Nama Bangunan	Bil. Tingkat Basemen	Kegunaan
Bangunan Pejabat		
Menara Exxon Mobile	3	Tempat Letak Kereta
Wisma KFC	3.5	Tempat Letak Kereta
Bangunan Bank Negara	4	Tempat Letak Kereta
Menara IGB	3	Tempat Letak Kereta
The Icon	4	Tempat Letak Kereta
Menara Darussalam/ Grand Hyatt Hotel	2	Tempat Letak Kereta
One Sentral	3	Tempat Letak Kereta
Meanra Kembar Bank Rakyat	1	Tempat Letak Kereta
Menara Kembar Petronas	4	Tempat Letak Kereta
Berjaya Central Park	3	Tempat Letak Kereta
Menara Tokio Marine	4	Tempat Letak Kereta
Menara Prestige	4	Tempat Letak Kereta
Etika Twins	5	Tempat Letak Kereta
Central Plaza	1	Ruang Perniagaan
Pusat Membeli Belah		
Quill City Mall	2	TLK + Ruang Perniagaan
Publika	2	Tempat Letak Kereta
Midvalley Mega Mall	3	TLK + Ruang Perniagaan
The Gardens	5	TLK + Ruang Perniagaan

Determination of Effective Depth

Based on site inspection, the height of basement ranged from 2.9 metre to 3.89 metre. Therefore, average height 3.66 metre. Generally, the maximum depth for a functional space in commercial building is 20 metres (3.66 metres x 5 basement level = 18.3 metres)

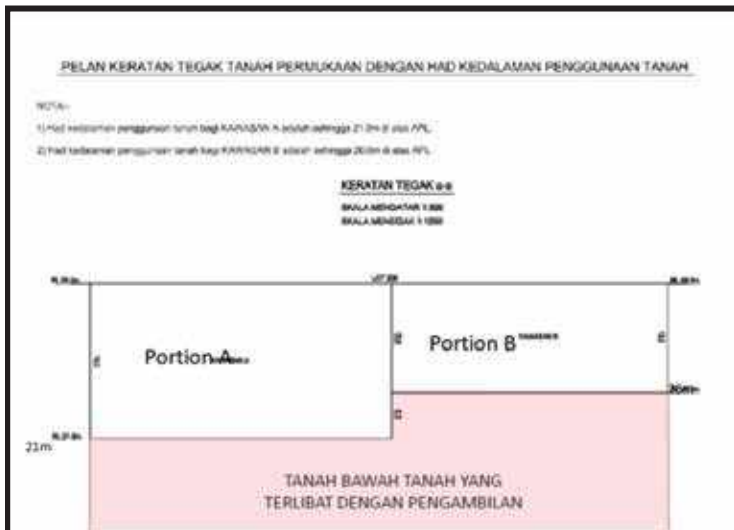
Classification of Underground Land for Valuation Purposes:



Volume of Underground Land

The valuation for underground land is based on 3-dimensional calculation – length, breadth and depth measured in cubic volume i.e. cubic metre or cubic feet. After the acquisition, the title in continuation for the remaining land will be subjected to depth limit. The proprietor will not only lose his rights on the acquired portion, those land below will revert back to the State Authority.

Portion A –depth 21m from sea level,
Portion B –depth 26m from sea level



Pro-Rata Method

This approach is based on the concept that the total market value of land can be divided into 3 components that is air rights, surface land and underground land. It is difficult to determine the ratio of value using quantitative method due to lack of data and suitable transactions. Therefore, the ratio is determined using qualitative method adopted by practitioner and researcher in other countries. Sourced from US, there are 3 approaches: -

- Schmutz Formula
- Easement Valuation Matrix
- Practiced by Valuer in western countries

i. Schmutz Formula

This was introduced by George Schmutz, one of the founders of US Appraisal Institute. He is an expert in the valuation for easement. His proposal is as follows:

Component	Height/Depth	Percentage
Air space	44 feet and above	17%
	20 – 44 feet	20%
Surface Land	0 – 20 feet	45%
Basement	<	8%
Sub-basement	<	3%
Below Sub-basement	<	2%
Total		95%*

Subsurface Alienation Factor

The use of a subsurface alienation factor is based on the principle that a land value can be allocated to various horizontal slices of the land in question. This principle is used in the real estate industry in valuating easement rights over fee simple land.

There is an analysis known as the Schmutz formula which arrives at an allocation of values for a fee simple parcel. This allocation was derived from his data and other professional's opinions more than fifty years ago. It apportions the fee value across a building as follows:

Air space	> 44 G	17%
	20- 44 G	20%
Surface land	0 - 20 G	45%
Basement		8%
Sub basement		3%
After sub basement		2%
Total		95%

The allocation totals less than 100% as it assumes a 5% severance loss because the land rights have been subdivided to two or more ownership. Therefore, total value of underground land would be around 13% of surface land value.

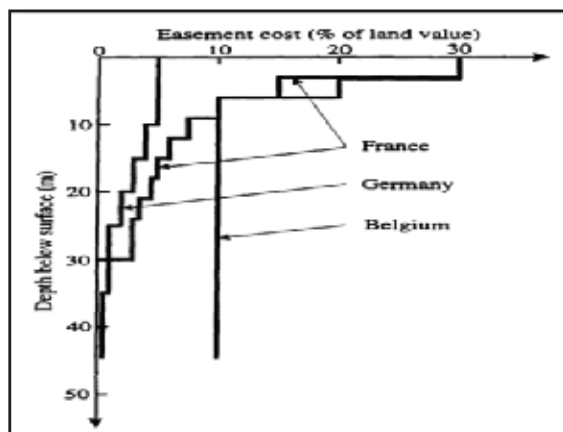
ii. Easement Valuation Matrix

This approach was proposed by Sherwood from International Right of Way Association. His approach is that the valuer should consider a percentage of land value as in easement valuation.

Percentage of land value	Scenario
0% -10%	Easement has nominal effect on the land use
11% -25%	Easement has minimum effect on the land use

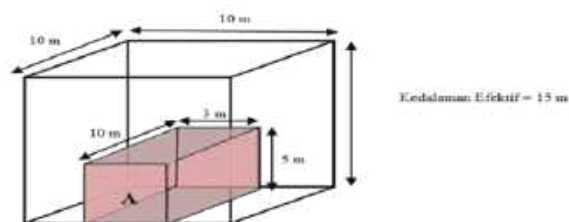
i. Practiced by Valuer

According to Raymond(1994), the valuation for easement of underground land ranged from 0% to 30%. The deeper an easement is located underground, the value decreased.



Example 1 (Based on MV surface land)

Contoh Senario:-



Senario :

A = Bahagian TBT terlibat dengan pengambilan TBT
 Nilai tanah = RM10,000 smp

Pengiraan:-

Isipadu A = $3 \text{ m} \times 10 \text{ m} \times 5 \text{ m} = 150 \text{ m}^3$
 Isipadu Efektif = $10 \text{ m} \times 10 \text{ m} \times 15 \text{ m} = 1,500 \text{ m}^3$
 Nilai Tanah Keseluruhan = $10 \text{ m} \times 10 \text{ m} \times \text{RM}10,000 \text{ smp} = \text{RM}1,000,000$

$$\text{Nilai TBT} = \text{RM}1,000,000 \times 30\% \times \frac{150 \text{ m}^3}{1,500 \text{ m}^3} = \text{RM}30,000$$

Example 2 (Remaining land within effective depth)

Kategori Harta Tanah	Pengiraan
Nilai Pasaran	RM1,000 smp
Kedalaman Tanah	1,000 mm
Kedalaman Efektif	0 meter
Isipadu Efektif	30,000 m ³
Isipadu A (diwarta)	1,000 m ³
Isipadu A1 (di luar Kedalaman Efektif)	300 m ³

Senario A:-
 Walaupun pengambilan hanya melibatkan TBT "A" tetapi akibat pengambilan ini TBT "A1" perlu tanah baki sebagai tanah kosong, maka pengiraan nilai TBT adalah seperti berikut:-

Pengiraan:-
 Nilai TBT = Isipadu Diwarta = Isipadu A1 X Nilai Pasaran X 30%
 Isipadu Efektif Keseluruhan
 $= 1,000 \text{ m}^3 + 300 \text{ m}^3 \times \text{RM}1,000,000 \times 30\%$
 $= \text{RM}33,000$

Lain-Lain Perkara Dipertimbangkan (Jika Ada):-
 i. Pampasan atas tindakan struktur di tanah permukaan sekiranya terjejas
 ii. Kosan Mudarat ke atas tanah permukaan sekiranya pengambilan TBT menyebabkan ia tidak sesuai untuk aktiviti pertanian.

Example 3 (Remaining land outside effective depth)

Kategori Harta Tanah	Pengiraan (Kedalaman)
Nilai Pasaran Tanah	RM1,000 smp
Kedalaman Tanah	2,000 mm
Kedalaman Efektif	15 meter
Isipadu B (diwarta)	75,000 m ³
Isipadu B1 (di luar Kedalaman Efektif)	4,000 m ³

Senario B:-
 Pengambilan melibatkan TBT "B" dan "B1". Walaupun pengambilan TBT "B1" adalah di luar kedalaman efektif, maka pengiraan nilai TBT adalah seperti berikut:-

Pengiraan:-
 Nilai TBT = Isipadu Diwarta = Isipadu B1 X Nilai Pasaran X 30%
 Isipadu Efektif Keseluruhan
 $= 75,000 \text{ m}^3 + 4,000 \text{ m}^3 \times \text{RM}1,000,000 \times 30\%$
 $= \text{RM}200,000.00$

Lain-Lain Perkara Dipertimbangkan (Jika Ada):-
 i. Pampasan atas struktur aktiviti di tanah permukaan sekiranya terjejas
 ii. Kosan Mudarat ke atas tanah permukaan sekiranya pengambilan TBT menyebabkan potensi pengebangan terjejas (Apakah di Atas Muka?)
 iii. Sekiranya kosan mudarat boleh di mitigasi, kos mitigasi patut dipertimbangkan, dengan syarat kos tersebut lebih rendah daripada pampasan kosan mudarat (walaupun tidak).

TECHNICAL UPDATES

FAQ FROM KEMENTERIAN PERUMAHAN DAN KERAJAAN TEMPATAN (KPKT)

By Sr Siew Yee Hoong

Committee Member

Property Surveying Division



In light of the Conditional MCO ("CMCO"), KPKT has again taken the initiative to revise the FAQs to correspond with a more lenient approach in a stratified development area. This is the 3rd FAQ to date up to 9th May, 2020

A. STRATA MANAGEMENT SECTOR

Q1. Can the planned AGM/EGM be convened in a strata scheme during the MCO?

A1. No. All meetings are to be postponed.

Q2. Can the community with a stratified area move within the stratified area during the CMCO?

A2. Yes. But the Community should limit its movement within a stratified scheme and practise social distancing.

Q3. Are the commercial premises within a stratified scheme allowed to open and operate like usual during the CMCO period?

A3. Yes. In general, all business premises within a strata scheme can operate subject to the SOP issued by the National Security Council. Premises which carry out prohibited activities are not allowed and should be shut. *(Prohibited activities as set out in the schedule dated 3rd May, 2020 are:*

1. Entertainment, leisure and recreational activities which may cause a crowd to gather
2. Activities relating to religious, cultural and art festivities which may cause a crowd to gather
3. Business activities which may cause a crowd to gather
4. Activities at a centralized labour quarters, employees' hostel and dormitory which may cause a crowd to gather
5. Fitting of clothes, using fitting rooms in clothes stores, trying on fashion accessories in stores and providing cosmetic testers in stores
6. Services in barbershops and beauty salons
7. Filming movies, dramas, documentaries and advertisements
8. Cruise ship activities, tourism services and services at accommodation premises under the Tourism Industry Act 1992
9. Installation and maintenance of machinery activities [lift, escalator, boiler and others] and tower crane at construction sites in groups which may cause a gathering
10. Theory and Practical Examinations for Shot-fires (blasting) for mining and quarrying industry
11. Certification for agri commodities
12. Activities of financial services industry and banking, involving sales and marketing, not within the premises of financial institutions and banks, or in public places
13. Commercial activities involving sales and marketing not within business premises, or in public places, not including food business at food courts, hawker centres, food stalls, food trucks and the like.

Q4. Can a Developer / JMB / MC / Managing Agent / Property manager who manages a strata scheme be allowed to operate with a maximum workforce capacity and can a management office be opened to the public at large during CMCO?

A4. The management office can operate with a maximum workforce capacity and open to the public at large, subject to practising social distancing of 1 metre between the employee in the management office and further taking all necessary measures to curb Covid-10 during operational hours and dealings with the parcel owners / proprietors. Operation hours of the management office is recommended to be from 8am to 5pm only.

Q5. Can common properties like hall, gym, badminton court, swimming pool be allowed to rent out or used during CMCO?

A5. No.

Q6. Can renovation works within the strata scheme be carried out during CMCO period?

A6. Yes. However it is allowed only for a commercial strata scheme and landed strata after obtaining the necessary approvals from the local authority and Developer / JMB / MC within a strata scheme. Renovation within a high rise strata scheme is not allowed.

Q7. Can the operations of the management of critical services like water, electricity, security, cleanliness, maintenance of lift, pump system be continued to operate?

A7. Yes. operations mentioned above can be continued.

Q8. If there is damage for instance, incident of a leaked pipe, can works be carried out?

A8. Yes. Works can be carried out to repair the damage. All repair and maintenance works will have to obtain approvals from the local authority and management body (Developer / JMB / MC) within a strata scheme. *(We however have reservations over the generalisation of requesting approvals from local authority since most of the maintenance works do not require approvals)*

Q9. Are visitors allowed to enter into a residential strata scheme eg: condominium?

A9. No. Visitors are not allowed to enter into a residential strata scheme eg: condominium except for circumstances below:

- (a) an occupant being a senior citizen who stays alone who requires monitoring. Only immediate children or siblings of the occupant or caretaker are allowed to visit, when necessary;
- (b) an occupant being a patient (not a patient of Covid-19 or any other diseases which require notification by virtue of Section 10 Prevention and Control of Infectious Diseases Act 1988) or weak individual who requires frequent monitoring. Only immediate children or siblings of the occupant or caretaker are allowed to visit, when necessary;
- (c) An occupant who requires instant medical intervention. Only immediate children or siblings to the occupant or medical practitioners are allowed to visit, if necessary.
- (d) cases of death which do not involve Covid-19 or any other diseases requiring notification by virtue of Section 10 Prevention and Control of Infectious Diseases Act 1988. Only immediate children or siblings or caretaker are allowed to visit, when necessary;
- (e) providers of basic necessities to the occupant / resident who requires assistance from any individual, family or organisation on a condition that such provisions must be informed and prior approval obtained from the developer / JMB / MC or property manager; **AND**
- (f) all the said visitors (above) are allowed into the residential strata scheme after undergoing a body temperature test. Any visitor whose temperature is above 37.5 degree Celsius shall not be allowed into the residential strata scheme.

Q10. Are activities of short term rental accommodation like Airbnb or other similar platforms allowed to operate within the residential strata scheme during the MCO period?

A10. Yes. All short term rental accommodation activities like Airbnb will be allowed in a commercial strata scheme and landed strata only. The parcel owner or proprietor is to inform the management of a strata scheme of the presence of a occupant for purposes of contact tracing and sanitisation must be carried out before taking in an occupant.

Q11. What about post, courier and delivery persons (FoodPanda, Grabfood and etc)?

A11. All post personnel, delivery persons (FoodPanda, Grabfood and etc) are allowed to enter into a strata scheme only up to the security guardhouse / security counter) or a location determined by the Developer / JMB / MC / property manager after going through and passing the temperature check, and all post personnel can only enter into the mail box room. All delivery persons with body temperature of more than 37.5 degree Celsius are not allowed to deliver the goods.

Q12. Can an occupant take part in outdoor activities like exercising, jogging etc within a strata scheme?

A12. Yes. Occupant is allowed to take part in outdoor activities which do not involve team sports or physical contact. All prohibited activities like, sports which involve gathering of supporters, indoor games like gymnasium, activities in a swimming pool and contact sports like football and basketball are not allowed.

Q13. In a commercial strata scheme like office building, are the businesses within the strata scheme allowed to operate?

A13. Yes. In general, business premises in a strata scheme is allowed to operate subject to the list of approved activities. Premises which are involve in prohibited activities are not allowed and should remain shut.

Q14. Can moving in and moving out be allowed?

A14. No. Only essential service providers are allowed to be involved in moving in and moving out activities. Apart from that, a tenant whose tenancy has expired is allowed to move out.

Q15. My tenancy has expired and I am forced to move out. Can I be allowed to move out? If not, what can I do?

A15. Yes. A tenant whose tenancy has expired is allowed to move out. Apart from that, a tenant who has entered into a tenancy agreement with a landlord is also allowed to move in to the strata scheme.

Q16. Can a management committee meeting be convened within a strata scheme during the CMCO?

A16. A management committee meeting which involves physical gathering is allowed on a condition of not more than 10 persons being present at the meeting venue whilst adhering to the 1 metre social distancing among committee members and further to take all measures to curb Covid-19. Having said that, a management committee is encouraged to convene a virtual meeting through teleconferencing.

17. Negative List

Prohibited activities are set out below:

- i moving in and out matters – limited to tenant and essential service providers;
- ii matters relating to visitors – not allowed;
- iii short-term lease – confined to commercial and landed strata only; and
- iv renovation matters – confined to commercial and landed strata only

PRACTICE NOTES

COVID-19 AND ITS IMPACT ON VALUATIONS OF REAL ESTATE IN MALAYSIA STRATA PROPERTY OWNERS

PERSATUAN PENILAI, PENGURUS HARTA, EJEN HARTA & PERUNDING HARTA SWASTA MALAYSIA
(Association of Valuers, Property Managers, Estate Agents and Property Consultants in the Private Sector, Malaysia)

1.0 INTRODUCTION

The Board has on May 27 2020 issued a Circular to all Registered Valuers to advise them on the importance of compliance with the Valuers, Appraisers, Estate Agents and Property Managers Act, the Rules made thereunder and the Malaysian Valuation Standards. The purpose of this paper is to enlighten Valuers on the possible impact of COVID-19 on real estate valuations. This paper is to provide a broader explanation of how Valuers may be affected in their valuation work and the need to adequately prepare themselves to address the issues that may arise.

2.0 GENERAL

The COVID-19 pandemic is prevalent across countries and has affected the whole world. Transportation, trade, travelling, work, retail and leisure activities have all been significantly affected and most countries have implemented lockdowns for extended periods in a bid to curtail the spread of the outbreak.

The World Health Organisation (WHO) declared COVID-19 as a ‘Global Pandemic’ on March 11 2020 and this has impacted global financial markets. As an immediate measure, Malaysia too has termed COVID-19 an epidemic and implemented the Movement Control Order (MCO) on March 18 2020. The regulations were gazetted on 18 March 2020 and cited as the “Prevention and Control of Infectious Diseases (Measures within the Infected Local Areas) Regulations 2020 of the Prevention and Control of Infectious Diseases Act 1988. The regulations were extended for further 14-day periods, with the Conditional MCO ending on 9 June 2020. Throughout the MCO, certain areas which registered a high number of infections were further gazetted to be subject to an Enhanced Movement Control Order.

The pandemic has brought with it not only lifestyle changes and strict observance of health and social distancing, and personal hygiene, but also in the way we work, i.e. the New Normal and economists, regulators, financial institutions including Bank Negara Malaysia have stated that the pandemic and the Movement Control Orders, will have an impact on employments, consumer spending, and rentals amongst others and in turn these may have an impact on real estate. At the beginning of the MCO, except for the essential services, the rest of the service providers, manufacturing and production facilities, and all commercial activities have been stopped. Gradually permissions were given to several organisations to operate, albeit partially, but with compulsory standard operating procedures (SOP) to be observed. In this respect it is important to observe that Valuers are, and will be affected by this pandemic. All valuations will have to be carefully observed and studied from the point of view of their reliability for use. There are and will be uncertainties that will proliferate not only in the real sector, but also in all the processes of valuation.

It will be in the interest of Valuers to examine all the processes and to document these processes so that valuations arrived at are correct and defensible.

The uncertainties and risks that arise and that can affect valuations as stated by the International Valuation Standards Committee are as follows:

For tangible assets the reduction in market prices during or after the date of acquisition or valuation.

A deterioration on the projected income of a security.

A loss of liquidity compared with other assets.

Costs for maintaining or delivering an asset being higher than currently anticipated.

The rate of an asset's technical or physical obsolescence being higher than currently anticipated.

3.0 UNCERTAINTIES IN THE PROCESSES

Chief amongst the uncertainties will be the gathering of data; internal data and external data. Valuers will be responsible for the use of the data employed in the valuation; they owe a duty of care to their clients. Hence, Valuers need to exercise due care and ensure that the data being used in their valuations are correctly obtained and adequately supported.

4.0 INTERNAL DATA

This includes the inspection of the property, both external and internal. The Malaysian Valuation Standards (MVS) Standard 6 on Inspections and Investigations requires all properties to be inspected. This will include external as well as internal inspections complete with measurements (in accordance with the Uniform Method of Measurement of Buildings by the Royal Institution of Surveyors Malaysia) and photographs. Observation of defects and deterioration as well as the legality of extensions to buildings and structures are also integral parts of the inspection.

If Clients are agreeable to external inspections, such inspections may be carried out. Standard 6 does state that "In the event that an internal inspection of the building is not possible, the Valuer must state this clearly in the Valuation report and that his valuation is subject to this limitation". Sufficient data necessary for the completion of the valuation ought to be procured and their sources and reliability recognised. Compliance to Standard 6 is mandatory, regardless of the pandemic.

5.0 EXTERNAL DATA

This includes data that is collected from other sources. Of these, Title Particulars are of particular importance. With the limited and partial opening of the land offices, this may pose a problem. The MVS Standard 6 states that in the event title searches are unavailable, source of such details being relied upon must be recorded and stated in the Valuation Report with the necessary qualifying statement of reliance thereof.

Other external data such as information on planning and land use, approvals from Local Authorities and information from infrastructure departments such as Public Works Department may not be that easily forthcoming. Notwithstanding that, attempts must be made to collate these information where applicable. If these information are sourced from external sources, their reliability ought to be verified.

Other external data will vary from property type to property type. It is therefore necessary that Valuers pay special attention to all external data and determine their reliability. Questions that may arise will be who is the provider of the information, is the information backed by evidence, can the information be counter checked, and what will its impact be on real estate. All such information ought to be recorded.

6.0 INSPECTION AND OPERATIONAL PROTOCOLS

In the absence of specific SOPs and guidance notes by the Government and its agencies, Valuers should take note of existing SOPs issued by MITI, specifically that relate to "Financial Sector/Sektor Kewangan", and "Professional Services / Perkhidmatan Ikhtisas & Profesional". These SOPs are not by any means exhaustive and can be interpreted to be minimum standards expected to be complied with.

7.0 UNCERTAINTIES IN APPROACHES AND OR METHODS OF VALUATION

The Board has advised Valuers to comply with user specific guidelines and directives required by various bodies such as Bursa Securities Berhad, the Securities Commission as well as requirements by banks and financial institutions who rely on valuations for lending purposes. In this regard, the MVS has clear instructions on such compliance.

The Valuer uses several approaches and methods of valuation to arrive at his valuation. These methods and their applicability or uncertainties in the application of the methods, where applicable, should be duly noted and explained. The Malaysian Valuation Standards under Standard 7 says, in particular, the following:

"There is a distinct difference when valuations are carried out with the objective of arriving at the Market Value and bases other than Market Value such as Investment Value or Worth. For Market Value assessments, all inputs, notwithstanding the approach, must be market derived or acceptable proxies, and this includes capitalisation and discount rates in the case of the Income Approach".

8.0 MARKET DATA APPROACH OR COMPARISON METHOD

The most common Approach/Method of valuation is the Market Data Approach or as is commonly called, the Comparison Method. The real uncertainty in external data is the availability and reliability of market sales data. Whilst market sales for the commonly traded residential properties may soon be available, the reliability of these market sales information and when the sales were struck and whether COVID-19 factors were considered will be points to consider.

Sales data for other types of properties may not be easily forthcoming. Valuers are advised to consider other sources of information, verify these information and make due allowances and adjustments before these data are utilised in forming an opinion. Guidance may be obtained from the MVS Standard 7 on Valuation Approaches.

Sales data must be carefully monitored. In particular, the residential primary market may be opaque due to incentives and rebates to procure sales. Documents that are provided in support of sales transactions, especially in the primary market, but not totally confined to it, must be carefully screened to ensure these hidden over-pricing items are duly noted and necessary actions taken.

In the application of the Comparison Approach an important process is for all dissimilarities (physical, economic, legal) be identified and adjusted for between each chosen comparable and the subject property. The Malaysian Valuation Standards requires that "The values derived after adjustments for dissimilarities should neither be averaged nor weighted to form the final value of the subject property. The Valuer should reconcile the adjusted values of the comparable and express his opinion of value on the most comparable adjusted value(s) and based on his professional judgement and experience".

Obviously, this method works well when there is an abundance of market transactions. Where there are no such market transactions or there is a scarcity of market sales data to correctly and accurately apply, this method may pose challenges. As stated above, guidance may be obtained from the MVS Standard 7 Valuation Approaches, on the application of other sources of information relating to comparable evidences used in the valuations. There is a necessity for Valuers to keep records of useful data for this purpose.

9.0 INCOME APPROACH

The Income Approach is a method that can be applied where there is an abundance of rental information and where the underlying motivation of purchase is investment based. Strict care must be observed in the scrutiny of the rents, especially, if the rents were agreed before the COVID-19 pandemic. Serious consideration should be given to the accuracy, reliability and acceptance of these rents. The management must be engaged to determine the passing rents, vacancies created, how long the vacancies are expected to remain, rebates and rent reductions given, the timing and period for such rebates, when the rebates and reduction will return to normal, whether turnover rents are affected. All these are valuable and necessary information for the application of the income approach.

The Valuer ought to also observe and study any changes in working habits and space requirement for the property, before he forms his conclusion of the rents to be used in the valuation. The income approach uses several methods, chief of which will be the traditional All Risks Yield(ARY) method. If this method is used, the capitalisation rate needs to be reviewed from the point of the rate to be used. The risks inherent in any investment owing to the COVID-19 must be clearly explained in the valuation. If the implication for this pandemic is of a shorter duration, then the methodology should be adjusted appropriately.

In the Residual Method or the Discounted Cash Flow Methodology, the future cash flows need to be scrutinised carefully before a new cash flow is cast. The discount rate also needs to consider not only the risk return formula but also the uncertainties inherent in the cash flow projections. The capitalisation rate for the Terminal value also must be reviewed from the point of applicability and ample justifications be made for that rate. The Malaysian Valuation Standards says that "where the Valuer uses the DCF methodology in order to arrive at the Market Value of a property interest(usually an investment property) the cash inflows, the cash outflows and the discount rate must be market derived.

10.0 COST APPROACH COST METHOD

The Cost Method is another method that will require some consideration, especially if other methods cannot be applied. However, due consideration needs to be paid to each of its constituent parts. The COVID-19 pandemic has brought about changes in the way places are and will be used in the future. Therefore, in considering depreciation factors such as physical deterioration, functional obsolescence and economic obsolescence it will be worthwhile to look deeper into economic obsolescence as it relates to all factors external to the property such as whether there is an oversupply of such properties based on the new economic realities. Another consideration will be functional obsolescence. Buildings are built for a certain purpose, the adaptability and functional requirements of these buildings might have changed drastically.

11.0 ACCOUNTING STANDARDS, FAIR VALUE AND IMPAIRMENT

Accounting Standards require entities to have some assets to be carried in their books on Fair Value. Valuers are advised to read MFRS 13 on Fair Value Accounting and also MVS 10 on Valuations for Accounting. Auditors may require full records on valuations for auditing purposes to determine impairment on the recoverable amounts as against the carrying amounts. As auditors are required to verify the reports or opinions of external experts engaged by the management, for competence, capability and objectivity of the external expert, Valuers carrying out fair value determination are advised to keep proper records and full justifications of their valuations so that the audit queries will be adequately attended to.

Valuers are again reminded that the competence of valuers in undertaking valuations is their compliance in particular to the Malaysian Valuation Standards. It is a subsidiary legislation in Malaysia on account of it deriving from an Act of Parliament: the Valuers, Appraisers, Estate Agents and Property Managers Act and carrying a specific mandate under Section 10 (g) which reads “The functions of the Board shall be...to determine and regulate the professional conduct and ethics of the valuers, appraisers, estate agents and property managers and to set standards of professional practice”. Hence, it is worth reiterating that a full adherence and compliance to the MVS and especially to what has been explained in the approaches or methods of valuation will be matters of importance to auditors and the management.

We would also encourage engagement with auditors and their standards and scope of audit when they review the work conducted by an external expert (valuer).

For valuations for submission to the Securities Commission/Bursa Malaysia the Malaysian Valuation Standards is recognised but in addition to the Malaysian Valuation Standards Valuers are required to also comply with specific user requirements such as the Asset Valuation Guidelines of the Securities Commission. Valuers should ensure on compliance, non-compliance with the Malaysian Valuation Standards and the Guidelines.

12.0 CONCLUSION

Valuers are advised that the Covid-19 pandemic is not to be taken lightly and remains a serious matter which will have serious impact on the real estate sector. This may have an impact on real estate valuations. Hence, Valuers are advised to keep records on all matters of the Covid-19 pandemic that affects real estate and to exercise due care and provide proper justifications in their valuations. Understanding and compliance to the Malaysian Valuation Standards will assist Valuers in arriving at considered judgements or presentation of opinions.

Valuers are also advised to ensure full compliance to SOPs and general guidelines issued by the Ministry of Trade and Industry or the Ministry of Health as well as other authorities, to ensure the safety and wellbeing of their staff and themselves.

This note is being issued to act as a guide as well as a timely reminder to Valuers to keep abreast with the rapidly changing times. It does in no way forms an authoritative document of reference or Standard, and Valuers should at all times make reference to the Malaysian Valuation Standards, as well as the SOPs and regulations issued by the relevant authorities.

CPD PROGRAMMES

Organised by:
Property Surveying
Division



www.rism.org.my

PROPOSED RESIDENTIAL TENANCY ACT - AN INTRODUCTION

via Webinar Conference Saturday, 02 MAY 2020 2.30 pm to 3.30 pm

Applied for
1 CPD
Hour



SPEAKER

Mr. IVAN CHAN
Advocate & Solicitor at
Amir Toh Francis & Partners

Estate Agency Sub-Committee

The Estate Agency Sub-Committee has managed to organised a Webinar CPD Talk on the 2nd May 2020. CPD Talk was greatly affected by the Movement Control Order due to COVID-19 and had only managed to organise one after much postponement. The Webinar CPD Talk was viewed by not less than ?? persons.

The speaker touched on various circumstances where valuers are put in situations that may be conflicting in terms of valuation approaches such as the use of comparison method for valuation of properties held for investment, the need for "speaking" valuations in light of the multi-users of valuation reports and the need for more clarity in conducting valuation in view of due diligent processes. Valuers are also beset with problems associated with property market dynamics, making valuation more challenged.

Webinar CPD Talk : Proposed Residential Tenancy Act

Date	: 2 nd May 2020
Venue	: Webinar RISM
Time	: 2:30 am – 3:30 pm
Speaker	: Mr Ivan Chan (Advocates & Solicitors- Partner – Amir Toh Francis & Partners, Kuala Lumpur)

Registration Link : <http://event.webinarjam.com/register/32/ox1p8fw6>

For any enquiry, please email to psdiv@rism.org.my or whatsapp Ms. Salmi A Rahman at 019- 2967014

YOUNG PROFESSIONALS

MOCK TEST OF PROFESSIONAL COMPETENCY (TPC)
(SESSION 2019/2020)

Live Webinar

Mock TPC Interview

A MUST Attend Course

The Young Professionals Committee of the Property Surveying Division had organised the second Mock TPC seminar on April 25th, 2020 via Zoom Meeting Application with great success. The committee had invited two (2) speakers with a combined experience and knowledge of about 100 years, namely Yang Berbahagia Sr Dato' Sidsapesan Sittampalan and Prof. Sr Dr. Wan Nor Azriyati Wan Abd Aziz to give their insights into the Test of Professional Competence (TPC) Interview.

REGISTER IN ADVANCE
ZOOM FOR WEBINAR

For further info, registration and
contact Ms Salmi A. Rahman via

Fees : Member of RISM - RM 80.00

Non Member - RM 100.00

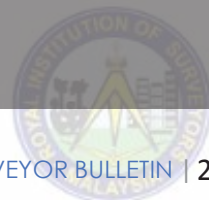
OUR SPEAKERS



YBhg. Datuk Sr Siders Sittampalan

The event started at 10.00am with a briefing on the interview format, rules and regulations, whilst Prof. Sr Dr. Wan Nor Azriyati Wan Abd Aziz gave talks on valuation, agency and property management respectively. At 11.30 am, the speakers organised a Question & Answer Session towards the end.

Overall, there were 109 participants from various property surveying firms. The event also saw participants coming from all over Malaysia such as Johor, Sabah and Sarawak. The organising committee received good response from this event, as it gives young and aspiring valuation executives the opportunity to prepare themselves for the actual examinations.



EVENT

VALUE DETERMINATION OF INTANGIBLE ASSETS COURSE

15 – 17 FEBRUARY 2020 (SATURDAY TO MONDAY)

Prepared by:

PP Dato' Sr Lau Wai Seang



The above-mentioned course is the first-ever specialised course conducted in RISM catering to not just the IP valuation industry but to related industries such as real estate valuers, IP Filing Agents, IP lawyers, universities, the auditing and accounting services.

It is the second product of the Intangible Asset Sub-Committee (IA Committee) under the PS Division, the first product being the Guidance Notes to Intangible Asset Valuations published by RISM in 2017.

This Sub-Committee was set up in 2017 and had since been headed by PP Dato' Sr Lau Wai Seang.

To date, there is not a single organisation or higher learning institution locally that had put together a course on Intangible Asset Valuation spearheaded by local lecturers and RISM is taking the lead.

This course was designed to run over the weekend and Monday, taking advantage of the off-working time of practitioners. The course received an endorsement from MyIPO, the authority of the Malaysian Intellectual Property. This endorsement came with a request for 3 Complimentary seats, which as the organiser, the IA Committee agreed as it will grant greater recognition of this course through their attendance and on-site vetting.

There was a total of 16 participants from different organisations and professional background. Of this, 6 are not RISM members (37.5%) which is three of them were from MyIPO. Of the 16 participants, 7 were sponsored by the PS Division. Daily classes were from 8.30 am to 4.30 pm.

The general feedbacks were:

- RISM should be going forward with this course, especially to the institutions of higher learning as they are rich in Intangible Assets.
- MyIPO is keen to work with RISM in the provision of this course through MyIPO.

The IA Committee is of the opinion that the PS Division needs to be supportive of this course as the industry moves forward in the digital age where Intangible Assets are very-recognised, especially in the matured markets of Europe and USA. The PS Division should not turn away learning which they are unfamiliar with, but instead allow the industry to progress by sharing knowledge and skills.

PLANNED EVENTS

The following events are being planned for members. We hope for continuous support from members in making the events more memorable and successful.

NO.	EVENTS	DATE
1.	Technical Visit to Kuantan Port	Postponed until further notice
2.	University Outreach Programme - Visit to University Tun Hussein Onn	Postponed until further notice
3.	29 Th National Real Estate Convention	2 March 2021
4.	Study Visit and Tour Australia – Australian Property Institute	Postponed until further notice

WE VALUE YOUR CONTRIBUTIONS

THE PROPERTY SURVEYOR BULLETIN is a semi-formal professional journal on updates on the property consultancy and professional services and activities held by the Property Surveying Division of the Royal Institution of Surveyors Malaysia(RISM). The journal aims to report current issues in hand and knowledge sharing on new innovations as well as revision on current practices. The Editorial welcome original article contributions, property news reporting, activities reporting among members and subject matter experts to contribute to this journal. Photos of goings on within the profession, RISM and among members are encouraged with small writeups to describe the event.

KINDLY EMAIL ARTICLES, NEWS, ACTIVITY PHOTOS TO:

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