

Opportunity Evaluation on the Property Developers in Malaysia: An Exploratory Study

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Abstract

Opportunity evaluation is a critical process for enterprising organisations and enterprising individuals to differentiate themselves. Literature review shows constructivist approach to opportunity evaluation towards the industry. However, there were limited studies on the use of opportunity evaluation on the property developers in Malaysia. The objective of the study is to explore the nature of opportunity evaluation by the property developers. Qualitative responses through company websites, interviews and industry expert reviews were used. The pursuit of property buyers needs towards a sustainable townships were instrumental to opportunity evaluation identification, with developers attempt to be a green innovator. Subsequently, the emerging factors that may contribute to the opportunity evaluation were the rise of the lifestyle concept and leasing opportunities.

Keywords: Opportunity, evaluation, Property Developers, Builders

1. Introduction

Within the construct of an entrepreneurship study, the discovery, evaluation, and exploitation of opportunities remained significant contributions to the research (Shane and Venkataraman 2000), through the constructivist models of epistemological and ontological debates (Busenitz et al. 2003; Venkataraman et al. 2012). The constructivist theory approach recognised entrepreneurs' perceptions, interpretations, and understandings of environmental forces influence the construction of opportunities by relying heavily upon causal logics (Schumpeter, 1934; Hayek 1948; Kirzner 1979).

Wood and McKinley's (2010) further established conceptual model that summarizes extant (causal) constructivist theorizing concerning processes of entrepreneurial opportunity production serving as a foundation of an entrepreneurial business. In the uncertain environments, Metzger and King (2015) conceptual research suggested that entrepreneurs delayed the objectification and evaluation of opportunities as they recognised that predictions are unlikely to be correct and commercialization was likely to be associated with failures. Venkataraman et al. (2012) proposed that the influences of cognitions, intuitions, emotions on the entrepreneurial process that are difficult to quantify and have traditionally been excluded from scholarly inquiry.

Using the conceptual research conducted by the past researchers, this paper attempts to explore the opportunity evaluation process in the property development and building industry in Malaysia.

Research Objectives

The following are the objectives of this research:

- a) To identify the nature of forces prevailed
- b) To identify the concepts developers offer

2. Literature Review

Entrepreneurs relied on opportunity-specific attributes to make judgments about the worth of opportunity ideas. Opportunity evaluations framework were broadly conceptualised in three categories within the supply and demand value chain (Casson, 1982; Venkataraman and Sarasvathy, 2001). However, the categories were found to be interacting with each other. In the opportunity evaluations of supply considerations, Ardichvili (2003) proposed a theory where resource efficiency and profit objectives were the pursuit of the entrepreneurs whereby Bryant (2007), Gregoire and Shepherd (2012) considered the pursuit of business returns and personal attributes of entrepreneurs as the key considerations. Entrepreneurs with existing knowledge were found to evaluate opportunities favourably (Haynie, 2009). In contrast, entrepreneurs with a potentially wide window of opportunity via duration of the investments were perceived as more favourable.

From the demand perspective of the opportunities evaluation, it was suggested an idea to be considered as novel (Schumpeter, 1934; Shane 2003). When similar product or service does not currently exist in the marketplace, the potential value of novelty of then new and different product will be perceived as higher (Choi and Shepherd, 2004). Despite the first-mover advantages and differentiation value, the uncertainty over the value of the product, or the returns from the product showed the market may not be ready for the novel product or service (Porter, 1980; Lieberman and Montgomery, 1988; Sapienza and Gupta, 1994). The desirable characteristic of novelty continued to pose a challenge for entrepreneurs despite being exploited. Rumelt (1987) argued that only high difficulty level of imitation can create significant demand and potential value of the opportunity and the aggressive evaluation of opportunity holds greater potential and evaluated as more personally attractive.

2.1 Property Development Trends in Malaysia: 2010 - 2015

At The Edge Investment Forum on Real Estate 2016, Sarena Cheah, Sunway Bhd Property Division Malaysia and Singapore, Cheah believed that property was not just an investment that will help property buyers to make money but it will also help create memories. With different locations commanded different premiums, properties were expected to have better opportunities for capital appreciation when the location has accessibility, new infrastructure and mass rapid transit. The real-estate or development's surroundings were propelled by the value creations and developers were challenged to think of ways to use space creatively as part of the innovation process (Lee, 2016a).

2.2 Property Development Trends in Malaysia: 2017 - 2022

Based on Kenanga's population analysis, there was a high correlation of 85% for the incremental population growth of those turning 30 years of age versus Malaysia's residential transacted units. The age of 30 was typically when people buy a first house. The 2010-2012 residential market boom

cycle was driven by those born in the early 1980s, which peaked in 2012. The next major bull run for the property market is expected to be 2030 or 2031 (Lee, 2016b)

2.3 Emerging trends: Integrated Developments

The general consensus among developers is that more mixed-use developments will be built across the country over the next 5 to 10 years. The projects, which incorporated residential, commercial, entertainment, recreational and even cultural components, were already expanding across cities and new townships. Homes, offices, restaurants, shops and entertainment outlets were stacked vertically on each other. Developers found that the popularity of these projects reflects the changing behaviour and mindset of young homebuyers. Connectivity to a transport hub, such as a mass rapid transit or bus station, allows residents to take public transport and scale down the use of private cars.

“Young homebuyers have different expectations and they want facilities that allow them to live a certain lifestyle. So, developers are building an environment that fosters the desired lifestyle of our buyers ... with facilities, amenities and connectivity. In these developments, we will look at the physical layout, facilities, architecture and design of the residential units as well as the office space, mix of retail outlets, parks or recreational spaces and connectivity to roads and transport hubs. Ideally, all these are available and easily accessible. Mixed-use developments, which are also known as integrated developments, are transforming Malaysia’s property landscape. Property investors are looking for “condotels”, or condominium hotels. These are residences that merge the best features of condominiums and hotels and offer a luxurious living experience for tenants. Condotels are currently very popular among global property investors. They are looking for condotels with a global brand name (Boey, 2015).

*Datuk Seth Yap, Executive Director
M101 Holdings Sdn Bhd*

3. Research Methodology

This paper has been conducted using the desk research approach of a sample of selected property companies’ annual reports taken from the companies’ corporate website. According to the South Coast Information and Library Services of University Bournemouth (1995), “desk research” refers to the identification and analysis of information that has already been compiled and published in any form. This type of information is perceived as “secondary” in nature. The qualitative approach is carried out to explore the opportunity evaluation on the property development.

Apart from the annual reports, company websites and property experts will be useful tool to determine the opportunity evaluation processes of the property development companies. The analysis of from the company websites represents the current dynamic movement and trends of the property development industry in Malaysia. The interviews in the property business magazines were coded and transcribed to find common themes in the opportunity evaluation process.

4. Findings and Discussions

4.1 A Sustainable Township

Despite the first mover advantage and abundant resources, it was found that the opportunity evaluation framework which included supply and demand value chain, resource efficiency, and profit objectives proposed by Venkataraman and Sarasvathy (2001), Schumpeter (1934) and Ardichvili (2003) could not be supported as the property buyers did not want to live within the parameters of a facility at the premise (such as an airport or a waste management system). Sime Darby Property, the pioneer in the property building industry who built a thriving and bustling Subang Jaya township of 40 year old in Malaysia, felt that providing the private residential went beyond the basic needs of the property buyers. Despite limited supply of residential properties, the buyers were initially reluctant to pay for affordable homes

'We focus on our property buyers and owners, and on the building communities. When our first residential units built in 1976, was only sold for RM60,000 to RM70,000, the take-up rate was very slow that we included built-in kitchen cabinets, fixtures and fittings to make it easy for our buyers to move into their new homes. At that time, people were worried about Subang Jaya being on the flight path of airplanes using the Sultan Abdul Aziz Shah Airport (Subang Airport)..... Over time, concerns about being on the flight path subsided'

Datuk Jauhari Kamidi, Acting Managing Director, Sime Darby Group

It was also found that both the external factors (e.g. the development of the township with tertiary education, retail shops, recreational facilities, jobs opportunities and business opportunities new launches) and pulling factor (e.g. company branding) were important variables to consider towards the opportunity evaluation, hence the demand-supply should not be ignored during the opportunity evaluation.

'Demand started to pick up when the other components of the township started to materialise property buyers started to get really excited about new residential launches. To buy a house then, aspiring buyers would have to register their interests, then queue up to ballot for a house ... for two days just to secure the opportunity to buy a unit. A number of factors led to the change in sentiment. The Sime Darby Property brand is a pulling factor. We are a developer that is backed by Sime Darby, one of the biggest conglomerates in Malaysia. A trusted brand ... gives property buyers the confidence to invest in a new township. Furthermore, neighbouring suburbs such as Petaling Jaya were increasingly congested. Our property buyers from the early days have upgraded to new homes and/or acquired newer residential launches that we built for their children.'

Datuk Jauhari Kamidi, Acting Managing Director, Sime Darby Group

Unlike Sime Darby Group who purchased parcels of land to develop a sustainable community homes in the early years, Mah Sing Group chose to differentiate itself by developing a sustainable commercial development by being the first to provide a niche market as centralised building facilities builder for multinational corporations in the different industries. According to Tan Sri Dato' Leong Hoy Kum, Group Managing Director and Group Chief Executive of Mah Sing Group Bhd, *"We purchased land and built a low-density industrial park hosting hi-tech industries, logistics warehousing and service facilities. The main target market would be local companies looking to integrate headquarters with operations and warehousing facilities, as well as multinational corporations from various industries."*

4.2 A Sustainable Green Township

Another established builder understood that the master plan with residences, offices, retails and integrated public infrastructure network would not be adequate to be a builder leader. Sunway Resort City, a trusted brand, differs from other builders by being the first builder to achieve Green Building Index (GBI) Certification in 2015.

Sunway Berhad had transformed from a tin-mining wasteland into a sterling example of a transit-oriented community where people live, learn, work and play in a safe, healthy and connected environment. People of all ages and incomes have greater access to jobs and opportunities within the city, while also leading affordable and healthy lifestyles. Carbon footprint and transportation costs are also reduced, allowing residents more disposable income and spending power. Today Sunway Resort City welcomes 42 million visits annually and is home to more than 200,000 people, including a student population of 25,000. Our unique Build-Own-Operate business model is actually a key differentiator for us in the industry, which is reinforced further by our commitment to community. Sunway Group's construction division has completed some of Malaysia's most impressive landmarks, including the Kuala Lumpur Convention Centre, the Sunway Pyramid Shopping Mall, Legoland Theme Park and Pinewood Iskandar Malaysia Studios.

*Sarena Cheah, Managing Director,
Sunway Bhd Property Division
Malaysia and Singapore.*

4.2.1 A Green Project: Affordable Housing Category

Another company who aimed to provide quality product was SkyWorld Development Sdn Bhd in the affordable housing category. The Group new launches were SkyLuxe On The Park in Bukit Jalil, SkySierra in Setiawangsa and Rumawip Scheme in Sentul. Of the three projects, SkyAwani development is adopting the Qlassic (Quality Assessment System in Construction) standing. According to Lee Chee Seng, SkyWorld chief officer project, *"We are emphasizing on quality, so we are going for accreditations for Rumawip (Rumah Mampu Milik Wilayah Persekutuan) Scheme SkyAwani. I don't think other developers are willing to do it for affordable housing."* Despite applying 'novelty' in the green building projects to attract demand, developers predicted the product innovativeness were confident of creating 'value'. The 'green buildings' concept did not show that that the market nor the challenging market conditions were yet ready as a result of the sales execution mix of 70%-30% owners-investors at SkyWorld Development. This stressed that positive

correlation of the demand theory study by Schumpeter (1934), Shane (2003), Choi and Shepherd (2004) but the contention by Porter (1980), Lieberman and Montgomery (1988), Sapienza and Gupta (1994) that the desirability of the novelty continued to pose a challenge for entrepreneurs despite being exploited will be required to be explored further.

4.3 Integrated Lifestyle Experience

Majority of the emerging property developers introduced product-mix of residential and commercial build-ups with favorable infrastructure connectivity. They emphasized real estate as one of the best hedges against inflation and one of the most preferred assets for wealth preservation in Malaysia. The most common living experience product innovation proposed was garden, park, lake and artificial water mist.

'We are now shifting gears to focus on the mid-range price market, where we have adopted the strategy of "sell what the people want to buy. Product design, competitive pricing and product differentiation are being implemented to complement this strategy as current property buyers are now hunting for competitively priced products in strategic areas, which would provide return on investments in terms of capital appreciation or rental yields (iProperty, 2015).

Andrew Tan, Senior Marketing Manager, Country View Group

Majority of the emerging property developers lamented that the mixed development was a very competitive market and defined the market as "buyers who were looking for a home with a premium brand, amenities and services of a four or five-star hotel (Boey, 2015)" Mixed-use projects were touted as "greener" developments as the developers are making optimum use of the land and supporting infrastructure while maintaining the quality of life and making life better. According to Datuk Seth Yap, Executive Director of M101 Holdings Sdn Bhd, "Young adults have a tendency to look for things to do. Their lifestyle can be described as 'living out' as opposed to 'living in', which is the desire to spend time at home. The young want to socialise, engage and connect with each other and they are looking for property that enables this lifestyle"

Following the success of Sime Darby Group on integrated community in the master plan of 40 years anniversary, Naday Properties Bhd called the commercial component an urban centre. Hamidon Abdullah, Executive Chairman, Nadayu Properties Bhd believed that integrated community could be viewed as a catalyst for the township with the commercial component set to bring dynamic lifestyle and retail activities to the residents, 'Our retail component will be the first in Nadayu Garden and is set to reinvent the township and help create an integrated community. We are going to keep and manage the commercial portion to support the tenant mix or community mix of a medical centre, a supermarket or lifestyle shops. The commercial component maybe sold en bloc to investors after the right mix of tenants has been achieved.'

Urban township development had also focused on the lifestyle that combined affordable and modern housing development with specific demographics provided integrated township that offers well-connected infrastructure to the other parts of the cities. Sime Darby Property Development focused on sustainable living of an environment that nurtures social and emotional health via

culture, food, arts and entertainment. Mah Sing Group identified the shortage of integrated townships and targeted first-time home purchasers who are keen to live within a modern development of industrial and educational community surrounded by Forest Reserve. Mah Sing Group was confident with the ease of approval rates for the first-time purchasers.

Our modern development would be surrounded by Bangi Forest Reserve, in the middle of the Bangi township. The freehold Cerrado Residential Suites will be offered in the affordable price range of RM388,000 to RM599,000 per unit. The approval rates for our units will be higher compared with those priced between RM800,000 and RM1 million. We are targeting two demographics. Our target market is essentially first-time homebuyers and we are also focusing on the industrial and educational community in Bangi. Currently Bangi has a shortage of integrated townships and there were good road network to major town centres such as Kuala Lumpur, Kajang and Putrajaya and access to major highways. Investors would want to take advantage of the close proximity to the universities, training centres and colleges as a source of potential tenants in the form of students.

*Ong Chou Wen, Chief Operating Officer of
May Sing Group Bhd*

There was also a shift in the mind-set that of the growing importance of the property market moving proportionally with the national economy, the proactive initiative of the government to spur property purchase and the number of banks loans in a challenging business environment. During the Edge Investment Forum on Real Estate 2016, the managing director of Sunway Bhd Property Division for Malaysia and Singapore, Sarena Cheah, commented, 'From 2011 and 2012, when the market saw an increase in (property) transaction volume, it coincided with the launch of the Government Transformation Programme and infrastructure developments to create new jobs and spurred the market for the investors and buyers to possess the confidence to buy. An indicator of the property market is the number and potential of non-performing loans. Property is very dependent on the banking sector which is more capitalised today. And non-performing loans are on the decline. In 1997, when customers couldn't service loans for six months, it was considered a non-performing loan (NPL). Today, if customers cannot pay for instalments for three months, it is an NPL.' This showed a trusted brand primarily perceived to contribute to the opportunity evaluation need to co-exist with an external factor (e.g. bank loans performance)

4.4 Lessing Agreement

The discovery of the homeowners-investors markets indicated that significant number of property developers was targeting the lessor-lessee segments implicitly. The developers' emphasised with the investors to generate immediate yields from the property purchase. This category of homeowners' needs had become more important to property developers. Beverly Group promised potential buyers who were unable to rent out their units within the first three years will receive rental fees from the property developer where leaseback agreements options were offered.

"We will be near amenities such as schools, an AEON supermarket and will be accessible via Duta-Ulu Kelang Expressway. Our facilities include 50m infinity lap pool, two sets of Jacuzzis, one children wading pool, function rooms and reading

rooms, a garden area and yoga platform. There will only be 18 retail outlets supporting lifestyle environment for the residents, facing the main road and priced at an average of RM960 psf. We are planning to provide guaranteed yield returns and leaseback agreements to our buyers, providing our customers peace of mind.”

Wendy Tang, Sales and marketing executive director, Beverly Group, Lexa Residence

5. Limitation and Recommendations

In the journey of the inquiry of this research, it was still a challenge to capture the conceptual view of the nuances, cognitions, and emotions of the entrepreneurial process of the opportunity evaluation.

Throughout this exploratory study, resource efficiency were not distinctively emphasised by the property developers. Personal attributes of the developers were also found not to be the main attraction of the opportunity evaluation in the property development industry.

6. Conclusion

The findings of this paper provided an insight towards the opportunity evaluation process commence in the property development or building industry in Malaysia. It is evident that the environmental factors influenced the property developers. The study shows property developers proceed to provide property or building innovations in view of the uncertain environments. Target markets were clearly crafted in the master plan of the development and innovative solutions were used to attract the buyers of the choice within all the players in the property development players.

A sustainable master plan of a township was also found thriving over 40 years with strong interaction of the local community, local businesses and its surroundings. The green township which stressed on the quality of living was the latest concept emerged. Majority of the developers appreciated the need to provide lifestyle homes that would be attractive to the buyers and global investors segment. For both the market segments, it was found that leasing agreement was gradually proposed as one of the evaluation opportunity.

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