



Building of homes has been a bright spot for the industry this year.

# Builders cautiously optimistic

The sector's growth will hinge on timely implementation of announced mega infrastructure projects

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**C**AN you blame the construction industry for being cautiously optimistic about the outlook for 2012? The growth of the sector next year will mainly hinge on the timely implementation of announced mega infrastructure projects.

That is a big if. Master Builders Association Malaysia (MBAM) president Kwan Foh Kwai says the industry is excited that the Economic Transformation Programme (ETP) features many infrastructure projects that are meant to be implemented soon. However, it is crucial that they are rolled out according to the planned timelines.

"The Performance Management and Delivery Unit (Pemandu) and other government agencies must make sure the usual hurdles to executing infrastructure projects, such as land acquisition issues and local authorities' approvals, are tackled efficiently. For projects involving foreign direct investment and domestic investors, the speedy issuance of construction permits will further improve investor confidence.

"While MBAM applauds the Government's decision to spur the growth of the construction sector for a targeted growth of 7% in 2012, much has to be done now to meet this challenging target," he says.

He points out that the construction and services sectors are expected to be the main drivers of Malaysia's economy next year because of the difficult external environment, especially in Europe and the United States, will slow down exports.

"Thus, construction projects will be a key economic stimulus due to their multiplier effect," he explains.

Kenanga Research believes that the first quarter of 2012 will see a lot



**Kwan:** 'Speedy issuance of construction permits will further improve investor confidence.'

of activity on the construction front, especially on the My Rapid Transit (MRT) project and the light rail transit (LRT) extension works.

"Despite the delays experienced in 2011, most of the contractors are positive that they will be able to get the delayed works by the first quarter 2012. The MRT contracts should be out by then. It will be a busy period of contract awards although meaningful execution will only take place in late first quarter 2012, especially for the MRT project," the research outfit says in a recent sector report.

"With the election rumoured to be held in March 2012, we opine that the construction sector could see the last leg of its sector run-up when contracts are flushed out before the election," it says.

Another big project slated for roll-out in 2012 is the Kuala Lumpur International Financial District (KLIFD). Owner 1Malaysia Development Bhd has started the



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tender process on major foundation works.

In addition, ground works on Permodalan Nasional Bhd's proposed 100-storey Menara Warisan Merdeka are expected to start by the middle of next year.

MBAM's Kwan confirms that the award of contracts was quite slow this year. "One can judge this by the volumes of cement and steel production, which did not record much increase," he says. "So far, the sector's growth in 2011 has been quite volatile at 3.8%, 0.6% and 3% for the first, second and third quarters respectively."

"To achieve the 3.8% growth target this year, I guess the fourth-quarter growth needs to be higher," he adds.

The building of homes has been a bright spot for the industry this year. "We should be able to maintain the momentum if the Government keeps on pushing for affordable housing. This is important as residential



The first quarter of 2012 is expected to see a lot of activity on the construction front.

projects, especially medium to low-cost, have the largest multiplier effect," says Kwan.

On the major challenges for builders, he says the biggest concern is the struggle to meet the demand for skilled labour. "We face a shortage in terms of volume and quality of skilled workers, technicians and supervisors."

Meanwhile, property and construction player Ireka Corp Bhd believes that projects that have been planned for roll-out under the ETP will continue to pick up pace, thus sustaining the sector's expansion in 2012.

"However, competition for new construction works remains stiff. Companies with good track record and well-tested core competencies will have an edge," says group executive director Lai Voon Hon.

Lai expects the construction industry to keep growing, albeit at a moderate pace.

"The momentum for the construction and property sector is expected to continue on the back of the progress of the ETP, including initiatives under the Greater KL National Key Economic Area (such as the MRT and highway projects) and other projects under the 10th Malaysia Plan," he says.

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Nevertheless, Lai points out that factors that can possibly hamper construction growth include the escalating cost of building materials and land, shortage of skilled labour and scarcity of strategic land. "All these will result in an increase in property prices, which may dampen the buying sentiment; and in the construction context, will impact on construction margins."

Ireka was awarded two construction projects worth more than RM110mil in Vietnam this year. In Malaysia, the company will be busy trying to secure some of the major infrastructure and buildings projects under the ETP as well as other private sector projects.