

# Will rising costs affect 9MP projects?

THE year is almost coming to an end but there has been no end to the rise in the cost of building or construction materials, especially for steel, cement and quarry products. This has led to higher costs for those in the construction sector, which include property developers.

With expectations of an accelerated rollout of Ninth Malaysia Plan (9MP) projects in the next two years, those in the construction sector view the problem as becoming more acute. There have been calls by various industry bodies representing the various professions and trades in the sector to address the rising costs.

The UEM group, on its part, has set up a one-stop agency, Mavtrac Sdn Bhd, to source for construction materials directly from suppliers for government construction projects, which would include those under the 9MP and the development corridors.

The 9MP took off against a backdrop of rising building material prices, largely caused by rising demand for building or construction materials such as steel, cement, sand and aggregates, copper and timber in emerging economies such as China and India.

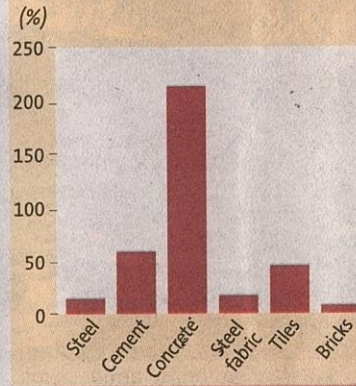
The higher prices for building materials on the international market have led local producers to prefer exporting instead of selling to the local market, thereby creating a shortage. The problem is further compounded by the prohibition against imports of steel and cement

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The high cost of building materials has made it increasingly hard to keep total construction costs down. With the anticipated acceleration in the rollout of Ninth Malaysia Plan projects in the next two years, industry players are clamouring for more sustainable solutions.



Steel billets at a warehouse.

## Building materials price increase in 2006 vs 2007 (%)



Source: Building Materials Distributors Association of Malaysia



imports of steel and cement and, government control ceiling prices for these materials.

The Malaysian Iron and Steel Industry Federation estimates steel consumption to increase by 5% to 8.1 million tonnes this year and further expects another 7% growth next year and in 2009.

The federation's president Tan Sri Soong Siew Hoong said at the Asean Steel Conference in late August that steel consumption was 7.7 million tonnes last year and would hit 8.4 million tonnes next year.

Reuters reported recently that Chinese steel producer Baoshan Iron and Steel Co had announced that it was raising cold-rolled steel product price by 4% to 4,796 yuan per tonne while hot-rolled steel products was raised by 8% to 4,042 yuan per tonne from this quarter. The wire service, quoting an analyst, said this was to reflect the increase in the cost of production.

Another worry is the surge in the price of crude oil because total construction costs have to take into account the use of diesel fuel for transportation and machinery for construction. Building material producers would have to take this into account too due to energy consumption and recent calls for a review on



Tan Sri Soong Siew Hoong

electricity tariffs. Crude oil has risen by more than 40% since mid-August to over US\$99 per barrel in intra-day trading.

Since the announcement of the 9MP, three development regions have been launched, namely the Iskandar Development Region in southern Johor, Northern Corridor Economic Region encompassing the northern states of the peninsula and the Eastern Corridor Economic Region encompassing the eastern

## Selected high steel content projects in the pipeline

RM bil

Project	Value (RM bil)
Ipoh - Padang Besar electrified double tracking	11.0
Klang Valley LRT extensions	10.0
South Johor Economic Region	10.0
KL-Singapore high speed rail link	8.0
Selangor water treatment & distribution	4.0
Pahang-Selangor interstate water transfer	3.8
Second Penang Bridge	2.6
Johor Baru Monorail	1.3
Penang Outer Ring Road	1.1
Penang Monorail	1.1
Expansion of KLIA	1.0
<b>Total</b>	<b>53.9</b>

Source: 9MP, Brokerages

states. There is another development region to be launched for the state of Sabah before the year-end.

A large proportion of the development in the economic regions includes large-scale infrastructure developments that need lots of raw material, whose prices have been rising over the past two to three years.

Development of these economic regions would span the implemen-

tation periods of several Malaysia Plans starting with the 9MP, which was launched last year, so naturally there would be concerns about how projects in the implementation period (2006 to 2010) would be affected since it would give an indication of where things may go.

In fact, according to figures released to *StarBiz* by the Building Materials Distributors Association of Malaysia (BMDAM), the price of



Patrick Wong

steel in the local market has risen by 13.7% this year compared to last year while the price of cement has risen by 57.15%, concrete products by 213.35%, steel fabric by 17.08%, tiles by 43.88% and bricks by 6.7%.

BMDAM president Steven Tai said the main problem was the price ceiling imposed on steel and cement "encourages steel producers to export steel as billets instead of converting it to bars for local consumption."

According to MBAM president Patrick Wong, the average price of steel bars in Singapore was S\$865 per tonne while in the local market, it was RM1,837 to RM2,010 per tonne depending on size and product for the peninsula.

As for cement, the average price in the peninsula is RM10.85 to RM11.50 for a 50kg bag or RM217 to RM231 per tonne. It is understood that the price in Singapore is the same.

Wong estimated that an extra RM30bil to RM40bil would be needed for 9MP projects because the cost estimates were made last year and only announced in the fourth quarter of last year.

"In the middle of last year, steel bars had an average price of RM1,800 per tonne, now its averaging RM2,500 per tonne," he said.

Projects that were awarded this year but have been delayed would face higher costs next year.

"In fact UEM Builders Bhd is asking for a review in the costs for the second Penang Bridge, which was estimated at RM3bil.

"My own jobs have been delayed due to the supply problem while a number of Class F bumiputra contractors have also faced problems. Quarry products would also be going up by between 20% and 30% next year," Wong said.

## Fewer property launches?

the costs?

Real Estate and Housing Developers' Association president Ng Seing Liong said developers who had locked in the sales would just have to absorb the cost.

"Next year it would be different, where developers and contractors can pass on the cost, they will," he said, adding that this would depend on location, market demand and supply.

Ng echoed Master Builders Association of Malaysia president Patrick Wong's estimation that construction cost would go up by 20% to 30% next year.

According to an analyst with a local investment bank, the bank's in-house projection showed an average increase of 10% in the price of building materials such as tiles, glass and bricks next year.

The analyst said there was a demand for higher cost building material for high-end residential property developments while there was less demand for medium-cost building material products.

He attributed the slower growth in mass-market residential property demand to the build up in overcapacity in recent years.

He added that the bank's in-

house projection showed a downward trend in property launches next year by private developers.

However, projects under the Ninth Malaysia Plan (9MP) may not be much affected because of the Government's commitment to build low-cost and medium-cost housing.

"Operating cost margins for building material producers have been going up gradually since last year due to raw material prices and they're operating in a cut-throat environment where its difficult to pass on the cost to consumers," the analyst said.

WILL the rising cost in building materials contribute to fewer property launches? Or, since property development has more of an impact on consumers, will demand - which according to developers, consultants and realtors has generally been sustainable - play a bigger role?

Will there be a more cautious mood next year among potential house buyers, especially given the less than robust outlook of the global economy? Will inflation play a role? Will property developers, already burden by higher operational cost as well as having to put in the public amenities, low-cost housing for projects of a certain size and the discount for the bumiputra quota, be able to absorb anymore of