SUSTAINABLE PERFORMANCE AND STRATEGIES OF MALAYSIAN PROPERTY DEVELPOERS

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Brundtland Commission defined Sustainable Development as the development that meets the needs of the present without compromising the ability of the future generations to meet their own needs. Property development provides space for economics activities but property development and operation also known as major contributor to environment degradation as its activities involve large amount of energy and resources consumption and greenhouse gasses emission. By using content analysis, this paper summarized current sustainable strategies implemented by property developers in Malaysia and the sustainable performance of the property developers. This paper also investigated the correlation of the sustainable performance with the company size and the growth of the company. The finding shows there is no significant correlation between sustainable performance and the company size, but there are association between sustainable performance and the growth of the company. This research serves as an important reference for the industry to plan for strategy and the authority to plan for policies related to sustainable development.

Keywords: Sustainable Performance, Sustainable Strategies, Malaysia, Property Developer

INTRODUCTION

Property development provides space for economics activities but property development and operation also known as major contributor to environment degradation as its activities involve large amount of energy and resources consumption and greenhouse gasses emission during the life cycle.

Razali (2015) claimed that in Asia, it is crucial to implement green or sustainable property development in order to reduce environment damage. This is consistent with Mokthsim (2014) that mentioned as a developing country, the main issue in Malaysia includes the environment degradation issue.

Mokthsim (2014) also mentioned that, despite Malaysia yet acheive the title of "sustainable development nation", but the government looked in-depth about the development planned without destroyed the good environment quality.

This is well proven when Malaysia governemnt established the Ministry of Energy, Green Technology and Water (MEGTW) - a result of reshuffle and restructuring of ministries in April 2009. The function of the newly formed ministry including planning, formulating policies and programs in green technology and green township.

On the other hand, the government allocated RM 1.5 billion as soft loans to the private sector through the Green Technology Financing Scheme to enccourage green technologies implementation in the country.

The increasiongly concern of sustainable development (SD) in Malaysia Plan - a five country development plan has shown the determination of the government's initiative toward sustainable development.

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Table 1: Malaysia's National Five Years Plan showing SD concepts, extended from Yiing (2013)

Malaysia Plan	Key Emphasis
Seventh Malaysia Plan (1996-2000)	SD.
Eighth Malaysia Plan (2001-2005)	SD of energy resources and renewable.
Ninth Malaysia Plan (2006-2010)	SD covering social, economic and environmental aspects. Improving accessibility to and within the country, enhancing transportation links and communication services and internet at entry points.
Tenth Malaysia Plan (2011- 2015)	Improving the standard and sustainability of quality of life through better access to healthcare, public transport, electricity and water. AFFIRM framework (Awareness, Faculty, Finance, Infrastructure, Research and Marketing) was established to promote the implementation of SD in the construction industry. Green building as part of SD is a better future for next generations.
Eleventh Malaysia Plan (2016-2020)	Sustainable consumption and production practices in low-carbon building, transport, products and services. Encourage new affordability housing developments to adopt sustainable practices and provide livable and environment-friendly facilities and infrastructure for the people. Emphasize on sustainable in agriculture, sustainable transport system, healthcare system, sustainable energy, waste management system, sustainable construction and manufacturing process. Establishing sustainable financing mechanisms, sustainable corporate ownership.

Despite of the governemnt's effort, in Malaysia, it is the property developers to decide types of property developement to develope. Property developers play important role in developing green and sustainable building or even green township.

Green Building Index (GBI) is the green rating tools developed in Malaysia, for Malaysia. GBI certified residential building increased from 2011 to 2013 but decrease from 2013 to 2015.

Table 2: GBI certification for Residential New Construction (RNC)

	2011	2012	2013	2014	2015
Platinum	0	0	3	1	0
Gold	3	4	8	8	5
Silver	0	3	7	1	3
Certified	3	11	32	32	17
Total	**6**	**18**	**50**	**42**	**25**

GBI certified only four townships in 2012, in which one is rated Platinum, two rated Silver and one rated as Certified. No township was certified in 2013 and in 2014 and there were two townships certified with the rating Certified, there is 1 township awarded Gold.

Table 3: GBI certification for Township

	2012	2013	2014	2015
Platinum	1	0	0	0
Gold	0	0	0	1
Silver	2	0	0	0
Certified	1	0	2	0
Total	**4**	**0**	**2**	**1**

Stefan and Paul (2008) illlustrated in their research, conventional wisdom concerning environment protection comes at an cost imposed on firms, and will erode the competitiveness. However, they discovered the paradigm being challenged in the 2000s. The finding is enhanced by case studies done by Zhang (2011) in China, the study suggested that adopting green element can contribute to improving housing developers' competitive advantages by product differentiation.

Razali's (2015) research results show that green or sustainable property development in Asian countries remains at a low level although increasing. There is still much room for improvement to increase the level of green elements in property development.

Yam (2012) studied the sustainable practices of listed proporty developers in Malaysia and found the sustainable practices are mostly at corporate social responsibility (SCR) level, which is at philanthropic level and not strategy level.

Newell (2008) studied the significance of sustainability practices by the Malaysian property sector and conclude that a number of property companies take storng leadership role in implementing best practice regarding sustainability.

It is obvious that the property developers want to know how a property developer with sustainable strategy will benefits the company as a whole. Anyway, there is yet attempt on investigating the correlation of companies performance and the sustainablility strategies which the industry players keen to know.

This paper aims to study the correlation of the sustainable strategies and the company characteristics, inculding size, growth, profitability and leverage of property developers.

Is sustainable development an attactive investment, does sustainable increase the favourism of investors?

METHODOLOGY

Ainoriza (2010) found that Malaysian property investment companies begin to adopt sustainability practices. Ainoriza's research do not define sustainable developers in the research.

Leong (2015) describe Sustainable Developer as developer which incorporate additional green technologies in their project(s) and market themselves as developer that promote green and sustainable developement.

The population of this study is the property developers listed in BURSA Malaysia under property sector. As in December 2015, there are total of 97 companies list on main board – property. The companies which changed the financial year end during the study period – 2010 to 2014, will be eliminate from the population, the annual reports will consist of finanical information which is not at 12 months basis. The companies which are not listed throughout the whole study period will also be eliminated.

Total of 72 companies are listed as sample in this study. The companies were catogoried into 4 ranks according to the following criterion.

Table 4: The sustainable strategy ranking criterion

Rank	Description
1	Project won green/sustainable award OR Project certified GBI, LEED, Green Mark OR Green/sustainable certification AND and Published the above achievement
2	Organised green/sustainable conference OR Sponsored green/sustainable conference OR Introduced green/sustainable features at project level OR Adopted green technologies/materials at project level AND Published the above achievement
3	Adopted green/sustainable practises at company level
4	Complied to government regulation

Companies with rank 1 and rank 2 qualified as Sustainable Developers with sustainable strategies.

Companies with rank 3 and rank 4 are considered as companies without sustainable strategies.

Following are number of property developers in each rank. 20 out of 72, which is around 28% of property developers qualified as sustainable evelopers.

Table 5: Number of companies according to rank

Rank	No. of Companies	Percentage
1	9	12.5%
2	11	15.3%
3	9	12.5%
4	43	59.7%
Total	**72**	**100%**

The required financial data for each company was obtained from the annual reports filed in BURSA Malaysia, companies website and Thomson Reuters Data Stream. Full financial details including balanace sheet, income statement, and cash flow statement, were tabulated and formulated in excel.

The first analysis involve randomness test to identify correlation between the level of sustainable strategy and the size of the property developer. All companies in the sample were assigned with two ranks, namely, the sustainable strategy rank as above and the ranking for the company size, i.e.: the company with highest assets value will rank 1, follow by the second highest assets value as 2.

The pair of rank were use to do Walk-Wolfwitz test, also called randomness run test to verify the randomness of the data.

Ratios, growth rates and compound annual growth rate (CAGR) of companies' characterictics and performances were derived from the data from above mentioned sources.

The property developers' characteristics of growth, profitability and leverage are studied in this paper, which includes: revenue growth rate, assets growth rate, liabilities growth rate, share price growth rate, market capitalisation growth rate, average return on equity, average return on assets and debt ratio.

RESULTS AND DISCUSSION

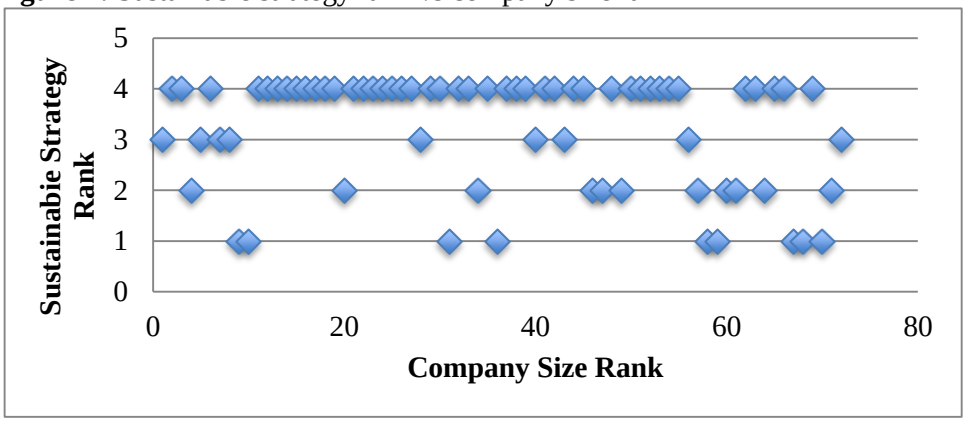
Walk-Wolfwitz test's results as follow:

Run test for randomness with 31 runs,
p value = 0.12609

Conclusion: No real evident against randomness.

This concludes that the size of company do not correlate to the level of sustainable strategies.

Figure 1: Sustainable strategy rank vs company size rank



Tables below compare the property developers' charactristics and performances between overall industry, conventional developers and Sustainable Developers.

Table 6 shows the revenues growth for the industry recorded 12% to 20% growth for 2011 to 2013, the Sustainable Developers recorded higher growth than the conventional developers for all 3 years. In year 2014, the market slowed down and recorded -7% growth for revenue, in which conventional developers made a 1% growth but the Sustainable Developers suffered 14% dropped in revenue.

It is observed that the Sustainable Developers revenue growth is more sensitive then the industry as a whole. Overall Sustainable Developers recorded CAGR at 11%, which is slightly better than CAGR 10% for conventional developers.

Table 6: Revenues growth

Revenues Growth	2014	2013	2012	2011	CAGR
Industry	-7%	20%	12%	19%	**11%**
Conventional Dev	1%	12%	10%	17%	**10%**
Sustainable Dev	-14%	29%	14%	20%	**11%**

Total assets growth for the industry do not show any negative growth throughout the study period. The 0% growth in year 2012 was casued by the -7% growth from conventional developers and was neutralised by the positive 10% growth from the Sustainable Developers.

The Sustainable Developers enjoyed a straight 4 years of positive growth for total assets and marked 13% CAGR which is more than double compare to the conventional developers at 5% growth.

Table 7: Total assets growth

Total Assets Growth	2014	2013	2012	2011	CAGR
Industry	10%	10%	0%	13%	**8%**
Conventional Dev	12%	8%	-7%	7%	**5%**
Sustainable Dev	9%	12%	10%	21%	**13%**

Both total assets and total liabilities will give impact to the financial health of a company. The total liabilites for the industry have CAGR at 6%. Throuhgout the study period, the conventional developers increased and decreased the liabilities and ends up do not accumulate more liabilities but the Sustainable Developers recorded 14% growth in total liabiites, which is 1% higher than the total assets growth.

Further analysis on leverage will be illustrated in table 13 – debt ratio.

Table 8: Total liabilities growth

Total Liabilities growth	2014	2013	2012	2011	CAGR
Industry	11%	13%	-12%	16%	**6%**
Conventional Dev	17%	12%	-28%	5%	**0%**
Sustainable Dev	7%	13%	7%	30%	**14%**

Cummulative share price is not poportionate to market capitalisation. It is due to the fact that the number of outstanding share are different for each company. Anyway, the cummulative share price give a good indicator on the market confident towards the company, or type of company as a whole.

The industry cummulative share price has CAGR at 8% for 2011 to 2014, the conventional developers constributed in the price increase as the CAGR is 11%. At the same time, the share price of Sustainable Developer has CAGR -1%, which means the cummulative share price in 2014 is lower than 2011.

In year 2014, both conventional and Sustainable Developers suffered dipped of share price at 2% and 12%, total up a 4% dropped for the industry. For the same period, KLSE recoreded dip of 6%, hence property industry consider performed better than KLSE in 2014. The CAGR for KLSE index for 2011 to 2014 is 4%, which shown property industry was doing better than KLSE as a whole for the study period.

Looking at the break down, the conventioanl developers perfoms better than KLSE but Sustainable Developers perfoms lower than KLSE.

Table 9 Share price growth

Share Price Growth	2014	2013	2012	2011	CAGR
Industry	-4%	27%	15%	-2%	**8%**
Conventional Dev	-2%	31%	16%	3%	**11%**
Sustainable Dev	-12%	12%	13%	-15%	**-1%**

Market capitalisation is the prduct of share price and the number of share. It is the market value of the company. The industry has 3% CAGR, in which conventional developers recorded 9% and Sustainable Developer recorded -3%. Similiar with the share price, the performance of Sustainable Developers are not as favourable as conventional developers in term of market capitalisation.

Table 10 Market capitalisation growth

Market Cap growth	2014	2013	2012	2011	CAGR
Industry	-2%	7%	16%	-8%	**3%**
Conventional Dev	1%	25%	12%	0%	**9%**
Sustainable Dev	-5%	-9%	20%	-16%	**-3%**

Both return on equity and return on assets measures the profitability of the company. Table 11 illlustrates the conventional developers recorded better performance from 2011 to 2013 and Sustainable Developers has superior performance for year 2014. The performanec of convertional developers are more stable compare to the Sustainable Developers.

Table 11 Average retun on equity

Average Return on Equity	2014	2013	2012	2011	2010
Industry	8%	8%	8%	7%	4%
Conventional Dev	8%	8%	9%	7%	5%
Sustainable Dev	9%	8%	7%	6%	2%

Table 12 shows average retun on assets, the conventional developers showed more superior performance than Sustainable Developers for all 5 years.

Table 12 Average return on assets

Average Return on Assets	2014	2013	2012	2011	2010
Industry	6%	6%	6%	5%	3%
Conventional Dev	6%	6%	6%	5%	4%
Sustainable Dev	5%	5%	5%	4%	3%

Debt ratio has formula of total liabilities divided by total assets. The higher the debt ratio means the more the company rely more on liabilities to operate. The industry debt ratio fluctuated from 36% to 38%. The conventional developers always has lower debt ratio but the Sustainable Developers have debt ratio range from 41% to 44%.

Table 13 Debt ratio (TL/TA)

Debt Ratio	2014	2013	2012	2011	2010
Industry	38%	37%	37%	38%	36%
Conventional Dev	36%	35%	34%	36%	35%
Sustainable Dev	44%	43%	44%	44%	41%

CONCLUSION

Many will possibly think larger developers will have higher intention to diversify and be Sustainable Developers. The research shown the size of the developers do not correlate with the level of sustainable strategy implemented. There are huge developers that do not has sustainable strategy and there are smaller developers which keen to promote themselves as Sustainable Developers.

As for the company charateristics and performance, it is found that Sustainable Developers are more sensitive in term of revenues. They tends to grow more when the maret is growing but lost more business when the market is not good.

Regardless the revenues fluctuation, the assets of Sustainable Developers increase at a favorable 13% annually. Anyway, the growth of liabilities is faster than the growth of assets, which is at 14% annually. This leads to an increasing debt ratio from 41% in 2010 to 44% in 2014. The Sustainable Developers should take notes on the high debt ratio and keep it at a tolerable level.

From the share price and the market capitalisation growth, it is found that the market has more confident in conventional developers compore to Sustainable Developers.

It is suggest to do future study on the characteristics and performance of Sustainable Developers rank 1 and rank 2 to capture if there are differences between chracterictics and performance when different level of sustainable strategies are implemented. The insight generate will be very important reference for future strategy generation and policies design.

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