

Refurbishment vs redevelopment in malaysia construction essay



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Malaysia property market has experienced a drastic change in 2008. The property market moved from a boom at the end of 2007 to uncertainties due to increasing construction cost. Finally, the property market moved into a relatively quiet market towards the end of 2008. With all the banks trying to tighten their loan terms, obtaining loans for development of all types of commercial building have been difficult in the last three years.

Yet, study shows that there is still a high demand for space in office building in area like Kuala Lumpur. From time to time, there are several developments of new office buildings in Klang Valley area. From the study done by JPPH, there is an increase of approximately 10 million square metres of new office space throughout Kuala Lumpur. Yet, the average vacancy rate in office space decreased to 18.6%. This proved that the demand for office building is still able to cater the increase in new office space. Study also showed that there is a new supply of approximately 280,000 square metres of new office space and additional 92,000 square metres of office being refurbished and repositioned in the year of 2009. So, building owners have to struggle to maintain the popularity and the competitiveness of their building. The current lack of new-build development raises the likelihood of grade-A supply shortages when the occupier market returns, creating investment opportunities for carefully targeted refurbishment.

But, usually owner is in great dilemma when they are in such situation. As everyone know, the refurbishment of office space offers advantages over new-build which can facilitate the achievement of economic, social and environmental sustainability. But, redevelopment is the ultimate solution for

eliminating all problems regarding the maintenance, changing tenants requirement and other problems.

Making comparisons between refurbishment and redevelopment is also problematic because the term refurbishment can be used to encompass a wide spectrum of building works, from minor cosmetic improvements through to extensive reconstruction. But, in the majority of cases, refurbishment will be a quicker and cheaper means of restoring second-hand office space to grade-A specification. As a low-cost option, the refurbishment of office space should be intuitively attractive in an economic climate marked by a lack of development finance. But in many cases refurbishment is as costly as redevelopment and likely to carry with it greater risks and physical constraints.

Problem statement

Malaysian has been accused as a clever builder but poor manager. For example, certain office buildings in Golden Triangle are often looked deteriorated and relatively matured compared to other purpose-built office building. Example of such older office buildings are those office building located on the fringe of Central Business District, like Jalan Ampang. These older office buildings have a higher tendency to be left vacant due to its poor office building images. This will lead to lower rental rate to be paid by the tenants to remain its competitiveness. Other important characteristic of such office building also includes by low occupancy rate, lower quality of the building and services provided.

Besides, recent office developments are very likely to adopt green features such as energy saving, reduction of wastage and water usage, as well as the use of environmentally friendly materials. This new trend in development had forced many owners evaluate the condition of their building and try to make several changes to the buildings to attract more tenants. These efforts are important to attract corporations who fascinate energy-saving and environmental-friendly building.

But making such decision is not easy. The owners have to evaluate the cost and benefit of each choice, and determine the solution he desires to improve the condition of his buildings. But other factors also have to take into consideration. For example, the rate of interest the bank would charge for development of different risk, the time of completion and others also greatly affect the decision-making of owner

Objectives of study

This study has three main objectives. There are:

To determine factors influencing the decision-making in deriving a solution to the method chosen.

To identify the benefits of building refurbishment or redevelopment to the building users.

To determine whether tenant likes refurbished secondary office building or newly redeveloped building.

Scope of study

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The scope of this study will focus on selected office buildings, both building which had undergo refurbishment and those which had undergone redevelopment. To ensure a more complete study, the newly constructed building is also considered as building undergone redevelopment.

The respondents of the questionnaire are limited to tenants in Golden Triangle area only. As for the property manager, all property managers can be chosen as the interviewee. Building manager who are hired by owners and acted on behalf of them, will gives their opinions in owner perspectives (maximise profit) and current tenants will voice out their preferences in choosing a building space.

Methodology

All the relevant data are collected through primary data and secondary data.

Primary data includes questionnaire, samplings, interviews and case study.

In this study, respondents identified in questionnaire study are selected property manager who represents building owner's point of view and some tenants within Golden Triangle area through sampling. As for interview session, interviewees targeted are property manager who are the representatives of building owners. Through this interview sessions, benefit of building refurbishment and redevelopment will be ascertained. Finally, case study of three similar office buildings will also be done as the quantitative analysis. All three building will be compared according to the cost incurred for construction and the benefit obtained. Then the differences in term of occupancy rates, rental and others will be calculated to represent the increment in term of market value.

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On the other hand, collection of data in this study will also includes references such as reference book, journal, articles, conference paper, property market reports, internet/ website searching and other sources.

In addition, data will also be collected from books, magazines or newspaper article to obtain general information on building refurbishment and the effects of building refurbishment.

Further details of methodology will be discussed in Chapter 3.

Structure of Study

This study consisted of five chapters. The brief discussion of each chapter is discussed as follows:

Chapter 1

Chapter 1 is the introduction of the study. This chapter starts with an introduction of this study with a brief background. Besides, other things like problem statement, scope of study, methodology and others are also discussed in this chapter.

Chapter 2

Chapter 2 is about the literature review. In this chapter, definition of building refurbishment and redevelopment, benefit of building refurbishment and redevelopment and others will be discussed in this chapter. Besides, factor influencing decision making of building refurbishment and the tenant preferences will also be discussed.

Chapter 3

Chapter 3 is the methodology. In this chapter, methodology used to survey and interview in order to gather information needed. The structure of questionnaire is also discussed in this chapter. Furthermore, a brief discussion on the opinion of respondents of questionnaire and interviews will also be carried out in the last part of this chapter.

Chapter 4

Chapter 4 is the chapter regarding research findings analysis. In this chapter, data gather will be analysed and presented in this chapter. An analysis on the benefit of building refurbishment and its value-enhancing ability will also be carried out by studying the information gathered through interviews, questionnaire survey, and secondary data.

Chapter 5

Chapter 5 discuss about the conclusion and recommendation. In this chapter, conclusion from the findings and analysis of data in the previous chapter will be discussed and summarized. Besides, it also illustrate on the confirmation of the objectives and overall summary for the whole study. Other information included in this chapter is the suggestions for further study.