

VIEWPOINTS



**REALTY CHECK**

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# Is there hope for Bukit Antarabangsa property owners?

IN December 1993, residents of Bukit Antarabangsa were shocked to learn that the Highland Towers tragedy was happening at their doorstep.

A multitude of other disasters have also taken place such as flooding of residential areas in Malaysia, Australia, the United States, and the United Kingdom. The Chernobyl nuclear power station accident in the then USSR and Union Carbide factory disaster in Bhopal, India claimed lives from nearby residential areas.

Hence, we have become more aware of environmental risks and its corresponding deadly ramifications. This awareness is almost always manifested in the environment and real estate; the environment is contaminated/weakened and property values plunge.

As a result of the stigma attached to these events, property values have fallen despite the cleanup efforts.

There are two factors that have led to this stigma. The first is the environment surrounding the properties adjacent to a hazardous landslide – the magnitude of the landslide causes owners of neighbouring property to be concerned about safety issues.

The second is neighbourhood – a landslide or disaster area and its surroundings can affect the composition of residents in the area, and that could have an impact on neighbourhood quality and property values.

If the neighbourhood factor is the source of the stigma, implementing a remedy for the landslide-prone area may not result in increased property values. Most real estate scholars have argued that uncertainty or

concern over whether the property is still vulnerable is a cause of stigma while they have hardly considered the neighbourhood effect.

When an event leads to damages, there are multiplier effects. The resulting additional damage is called consequential damage. In the case of landslide or geological disasters, the environmental externality causes changes in the composition of a neighbourhood, which results in severe property value attenuation.

Once geological or environmental disasters have become associated with a particular neighbourhood, its property values may be stigmatised. Even if a potential home buyer believes that the formerly affected area has been remediated, a resident will probably demand a discount.

A neighbourhood may be deemed undesirable if it is identified as affected.

Real estate has an intangible element that is determined by the public's acuity of the location, similar to the intangible asset of goodwill on a balance sheet. When the public perceives that a neighbourhood is no longer safe, the value of the intangible constituent falls.

By making the neighbourhood less attractive, a hazardous landslide decreases the value of the neighbourhood's property, making it more affordable to lower-income families and less attractive to higher-income families.

Over time, higher-income residents may relocate. Therefore, although the environmental problems are temporary, they affect the character of a neighbourhood, creating long-term stigma.

Due to uncertainty about the risks of mort-

gaging affected properties, lenders' willingness to provide financing on affected properties fell from 30% in the late 1960s in the United States to a low point of 10% in the early 1980s.

It maintained the status quo until the early 1990s where it began to improve.

During the low willingness-to-finance period, majority of lenders would not consider providing financing until the property has been remediated and satisfied certain tolerance limits. Local empirical studies have shown that long-term stigma exists in a very limited area.

The sphere of influence of the landslide is no larger than a circle around the affected area with a 1.2 km radius. Also, in the years directly following a cleanup or remediation, properties within 1.2 km radius will sell at significantly lower prices than properties located farther away.

For Bukit Antarabangsa, market sentiment is influenced by the perceived safety of the area as reflected in price movement. Bukit Antarabangsa's reputation took another beating in 2008 when landslide occurred at Taman Bukit Mewah.

Post-price movement showed that price per sq ft (psf) dipped from 10% to 36% in 2009. However, terraced houses almost remained unscathed with 1% increment as they are always popular to the market of bargain hunters.

The silver lining in the grayish Bukit Antarabangsa property market came in the form of a company which took advantage of the spiralling property prices by flipping it in

a year.

It bought several condominium units in 2009 when the price was low and sold them back to the market in 2010 with an average total of 26% capital appreciation.

Last year was a good one for most of the residential types in Bukit Antarabangsa as holistic capital appreciation averaged 1% to 13% sans the apartment category.

The apartment segment showed a 4% decline in price and the unpopularity was shown in a limited volume of transactions.

While contaminated or affected real properties like those in Bukit Antarabangsa still pose significant concerns, various factors have resulted in waning value attenuation from environmental stigmas.

These include attitude shifts within the residential market and advanced valuation methodologies.

The market's fear of unbridled financial millstone that once drove much of the unfavourable responses toward tainted properties must be replaced by a more academic approach that identifies, then solves or mitigates, the problems.

Federally-run and affordable flood or disaster insurance, prompt geotechnical remediation, transparency and accountability are just some of the best practices which should be introduced here to mitigate the stigmas related to ongoing costs, contingencies, residuals and market resistance, like those in the United States and Australia.

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