

Challenges of Implementing Build-Then-Sell Housing Delivery System to Address the Abandoned Housing Problem in Malaysia

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Abstract: The manifestations of housing projects being abandoned are detrimental to the Government and house buyers. The suggestion to implement the Build-Then-Sell (BTS) Housing Delivery System by the Malaysian Government is an effort to tackle the problem of abandoned housing projects in Malaysia. However, it needs the cooperation of housing developers who have been first selling the houses and then building them, in what is known as the Sell-Then-Build (STB) system. The Malaysian Government has proposed the 10:90 BTS housing delivery system to deal with grievances of house buyers of abandoned housing projects. However, the Government's plan to require housing developers to adopt the 10:90 BTS system in 2015 was not carried out as the developers raised several issues related to its implementation. In view of the problems faced by house buyers of abandoned housing projects, the Federal Government appointed the Ministry of Urban Well Being, Housing and Local Government to revive these projects. In the housing industry, the interests of all stakeholders need to be considered. This is to ensure that the housing delivery system is technically feasible and acceptable, and the problem of abandoned housing is resolved to the benefit of all parties.

Keywords: Abandoned housing, build-then-sell, developers, government

JEL classification: O2, R1, R3, R5

1. Introduction

Home ownership has always been component dream of every Malaysian. It is also one of the major investments made by an adult during his or her lifetime (Tan, 2009). Home ownership is beneficial not only to households but also to communities. Home owners are willing to enhance the quality of their communities and develop interactions with neighbours (Tan, 2011a). This could be due to home owners generally having a large financial stake in their communities.

Although owning a house might be seen by some as being desirable, signifying their home ownership pride and personal success, this dream could sometimes turn into a lifelong worry, given the fact that it might be their single largest financial obligation. This is mainly caused by errant house builders who either create a chain of irritating sub-standard housing quality problems, or leave the housing projects uncompleted (Michael, 2014).

The issue of abandoned housing projects has greatly undermined the success of the housing delivery system in Malaysia (Ministry of Finance's Valuation and Property Service

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Department, 2009). The Malaysian Government has been continuously enforcing suitable resolutions in order to address the problems faced in the housing development industry, with the intention of protecting house buyers from irresponsible house builders (Tan, 2011b).

According to the definition by the Ministry of Urban Wellbeing, Housing and Local Government (formerly known as the Ministry of Housing and Local Government), a project is declared abandoned when the project is not completed within the delivery date as stipulated in the sale and purchase agreement (S&P) and no activity has been carried out at the site for six consecutive months (see Appendix 1).

Recent statistics have revealed that the current housing delivery system, namely the Sell-Then-Build (STB) system has failed to tackle the underlying problem of not being able to promote a sustainable housing development industry in Malaysia. Apparently, the STB system does not guarantee protection for house buyers from errant housing developers. There are housing projects, mainly low-cost, that have been abandoned by irresponsible housing developers. The number of abandoned housing projects in Peninsular Malaysia between January 2009 and April 2015 is shown in Table 1. Although the number of abandoned housing projects has decreased from 148 in 2009 to 67 in 2014, the cumulative total in Table 1 shows 216 abandoned housing projects as of April 2015 (National Housing Department (NHD), 2015a).

1.1 Government Efforts in Reviving Abandoned Housing

The STB system, in an effort to provide more housing to Malaysians, has contributed to a certain extent the problem of abandoned housing. In view of the mounting number of abandoned housing projects as shown in Table 1, the Government has little choice but to step in and try to revive them. This is necessary as abandoned housing projects involve various parties such as house buyers, financiers, contractors, and investors. For these parties, there will be financial losses, loans to pay back although there is no house, legal and technical problems, as well as negative perceptions of housing developers and consequently, a lack of confidence in Malaysia's housing industry. Indeed, it is necessary for the Government to step in and ensure that these abandoned housing projects are revived to protect the parties involved, especially the house buyers. Towards this end,

Table 1. Number of abandoned housing projects from January 2009 to April 2015

Year	Total number of abandoned housing projects		
	Current	New	Total
2009	144	4	148
2010	133	13	146
2011	110	6	116
2012	84	11	95
2013	60	27	87
2014	57	10	67
2015 (April)	52	1	53
2009 – 2015 (April)	144	72	216

Source: National Housing Department (2015a)

the Federal Government considers it as its responsibility to put in place the processes whereby abandoned housing projects are revived and completed.

The federal government has appointed the Ministry of Urban Well Being, Housing and Local Government as being responsible for ensuring that this process is carried out. A department under this Ministry called the National Housing Department (NHD) was given the task of overseeing the abandoned housing projects. The NHD discharges this duty via its Abandoned Project Rehabilitation Division (APRD). Developers who have abandoned their housing projects will be blacklisted by the NHD and these projects will be taken over by the APRD. The NHD will then identify 'White Knights' in the form of rescuers or new developers, as well as consult the Real Estate and Housing Developers' Association Malaysia (REHDA), and other relevant agencies to assist in preparing feasibility reports after studying the situation of each abandoned project (NHD, 2015b). On identifying a new developer, they will be appointed and given monetary assistance to complete the abandoned project (actual sum of money allocated to each developer is confidential and cannot be disclosed by the NHD). The federal government, through the Ministry of Finance, provides an annual allocation to the Ministry of Urban Well Being, Housing and Local Government for abandoned housing projects as shown in Table 2. From this allocation, the APRD will appoint developers to undertake the completion of a number of identified abandoned housing projects in each state.

The role of the state governments in abandoned housing projects is very minimal and they are only involved when the project is completed. State governments will issue the Certificate of Completion and Compliance (CCC) on completion of the project through the local authorities. The local authorities will ensure that the necessary procedures and requirements have been followed and met before proceeding to issue the CCC to the developers for onward transfer to the house buyers.

The process appears to be in line with the federal government's efforts in reviving abandoned housing projects. However, there are many constraints to undertaking this task. Foremost is the appointment of developers to undertake the abandoned projects as many developers are reluctant to take over abandoned houses and complete them. Their reluctance is based on various problems such as issues of documentation, re-financing and financial costs, inability to sell abandoned houses due to their reputation as an abandoned project, legal constraints and liquidation of wound-up developers, and implications for their existing projects (NHD, 2015b). Thus far, the number of successfully completed abandoned projects is quite dismal with less than 40% of the abandoned projects being completed since 2011 as shown in Table 3. These statistics from the past

Table 2. Federal allocation of funds to revitalise abandoned housing projects from 2011 to 2015

Year	Amount Allocated (RM)	Projects financed
2011	14,541,800.00	5
2012	51,365,772.89	7
2013	45,032,401.13	7
2014	43,863,597.82	5
2015	55,200,000.00 (planned)	To be determined

Source: National Housing Department (2015a)

Table 3. Number of successfully completed abandoned projects from January 2011 to April 2015

Year	Under planning	Under construction	Completed
2011	22 (19.0%)	62 (53.4%)	32 (27.6%)
2012	9 (9.5%)	51 (53.7%)	35 (36.8%)
2013	24 (27.5%)	33 (37.9%)	30 (34.6%)
2014	32 (47.7%)	20 (29.9%)	15 (22.4%)
2015	29 (54.7%)	22 (41.5%)	2 (3.8%)

Source: NHD (2015a)

Table 4. Number of abandoned housing projects, abandoned housing units, and affected house buyers by state as of May 2015

State	No. of abandoned housing projects	No. of abandoned housing units	No. of affected house buyers
Johor	20	4,663	3,082
Kedah	4	1,013	219
Kelantan	13	980	677
Malacca	1	32	22
Negeri Sembilan	5	434	397
Pahang	7	508	280
Perak	29	1,947	1,493
Perlis	0	0	0
Penang	4	144	123
Selangor	63	14,626	11,146
Terengganu	6	351	318
Kuala Lumpur	5	794	230

Source: NHD (2015a)

five years from January 2011 to April 2015 indicate the difficulties faced in reviving the abandoned housing projects.

It appears that the tightening of procedures by the NHD through the enforcement of the Housing Development (Control and Licensing) Act 1966 (2007), or Act 118, has had little impact in ensuring that housing developers are more responsible. There is also the problem of inability to complete or rehabilitate abandoned housing projects as planned. In 2011, 22% and 62% remained in the planning or construction stages, respectively while in 2012, 9% and 51% remained in the planning or construction stages, respectively. The total number of completed abandoned projects has declined from 30 in 2013 to 15 in 2014. However, 2015 may see an increase in the number of abandoned housing projects. As of April 2015 only two projects had been completed, leaving 96% of the projects still in the planning and construction stages as shown in Table 3.

In terms of the numbers of housing units and house buyers in the states of Peninsular Malaysia, data from the Ministry of Urban Wellbeing, Housing and Local Government tabulated until May 2015 show that Selangor has the largest numbers of abandoned projects (63), abandoned housing units (14,626), and affected house buyers (11,146). Malacca has the least with only 1 abandoned project comprising 32 housing units and

22 house buyers affected. The state of Perlis does not face the problem of abandoned housing projects as shown in Table 4.

Government efforts in trying to reduce the numbers of affected house buyers throughout Peninsular Malaysia can be seen in Table 5. In 2012, the number of abandoned property units was 37,316 and by May 2015 it was reduced by 32% to 25,492. During the same period, the number of house buyers affected by this problem had decreased 31% from 26,170 to 17,987.

However, the Government's efforts thus far to rehabilitate abandoned housing projects have not been effective as in the whole of Malaysia, there are still close to 18,000 house buyers who are awaiting the completion of their houses through no fault of their own as of May 2015. Indeed, the Federal Government, through the Ministry of Urban Wellbeing, Housing and Local Government, has tried over the years to rehabilitate the housing industry in the country, but this process appears to be a painstakingly slow task with results that are not commensurate with the efforts put in. It is acknowledged that in the housing industry, various stakeholders need to be engaged to tackle the underlying problem of housing delivery, and promote sustainability. Towards this end, the Government has increasingly involved the private sector in trying to resolve the issue of rehabilitating abandoned houses in Peninsular Malaysia.

1.2 Stakeholders in the Housing Delivery System

In order to promote a better housing delivery system, it is vital to look into the interests of all stakeholders involved. As stated by Kaler (2002), the identification of the right stakeholders is crucial as it can enable the success of the system or program implementation through better management. A stakeholder can be defined as any group or individual that is affected by the accomplishment of a system or a program (Freeman, 1984; Atkinson, Waterhouse, & Wells, 1997). Similarly, Friedman and Miles (2006) highlight that stakeholders can be identified by considering the groups or individuals that have classifiable relationships with the achievement of the system's implementation.

In Malaysia, the main stakeholders in the housing delivery system comprise housing developers, house buyers, financial institutions, and government agencies (Yusof et al., 2010). In this regard, the stakeholders' interests or well-being in terms of quality of life can be affected either positively or negatively by the decision of implementing the type of housing delivery system. Therefore, a sustainable housing delivery system should be developed which can satisfy the interests of all stakeholders (Tan, 2013).

Table 5. Number of abandoned housing units and affected house buyers in Malaysia as of May 2015

Year	No. of abandoned housing units	No. of affected house buyers
2008	87,725	60,159
2009	49,913	31,824
2010	50,605	32,848
2011	42,397	28,565
2012	37,316	26,170
2015	25,492	17,987

Source: NHD (2015a)

1.3 Housing Delivery System

There are several housing delivery systems in use throughout the world. The most commonly used systems are the STB and Build-Then-Sell (BTS) methods. The characteristics of both housing delivery systems are discussed below.

(a) The STB Housing Delivery System

Under the STB system, house buyers pay a deposit of 10% of the property price upon signing the sale and purchase (S&P) agreement, and subsequently enter into a bank loan agreement to pay the balance. House buyers are required to make progress payments, which will normally be disbursed accordingly by the bank, as stipulated under the payment schedule in the S&P agreement to the housing project's Housing Development Account (HDA). This will be carried out as and when the architect certifies that the house has reached certain phases of completion, until the completed property is handed over to the house buyer. Housing developers are allowed to sell their houses before completing them and collect payments from the house buyers to fund the construction costs or to secure a bridging finance from the banks. For decades, the STB delivery system has successfully met the housing needs of Malaysia's growing population and generated millions of affordable housing units for all income groups in the country (Tan, 2011b). As claimed by the Real Estate and Housing Development Association (2014), the STB system has been quite successful in its attempts to achieve Malaysia's objectives and strategies in promoting homeownership specifically in the low income group.

To a certain extent, the STB system may have met its housing targets to provide affordable housing units for all income groups in Malaysia but it is not without flaws. Over time, the STB system faced challenges as the first of many housing project abandonment cases was reported during the 1983 economic downturn (Yusoff et al., 2010). The large numbers of abandoned housing projects in Malaysia were partly caused by the economic downturn, and partly by dishonest and unscrupulous housing developers (Rahman et al., 2013). Some of the housing developers abandoned their projects due to poor take-up rates and absconded. These were mainly small-time developers who did not undertake proper feasibility studies of the housing projects before starting, and subsequently suffered from financial shortcomings as a result of their poor financial management (Lee & Tan, 2006).

Once projects have been declared as being abandoned, house buyers will have to continue to service their housing loans for houses that may be nowhere near completion. In the worst case scenario, some house buyers need to continue paying for their rented accommodation while servicing their housing loans.

The severe consequences of housing projects abandoned that are caused mainly by errant and irresponsible house builders have prompted the Malaysian government to rethink the viability of the STB practice and adopt a more sustainable housing delivery system. The 10:90 BTS system was introduced in April 2007 (*The Star*, 2011) to safeguard all stakeholders' interests, particularly the helpless house buyers if they become victims of abandoned housing projects. Additionally, the BTS system strives to achieve the objectives as stipulated in the National Housing policy, which is "to provide adequate, comfortable, quality and affordable housing to enhance the sustainability of the quality of life of the people" (Tan, 2011b).

(b) The 10:90 BTS Housing Delivery System

Since 1981, the proposal to implement the BTS system to the housing industry has been debated and developers have been urged by the Malaysian Government to implement the BTS housing delivery system in 2005 to tackle the underlying issues in the housing industry, particularly in addressing the problem of abandoned housing projects (Zulkifli & Abdul Ghani, 2004; Tan, 2005).

The Malaysian Government has offered two slightly different BTS systems, which are the 100% BTS and 10:90 BTS system (Tong, 2012). Under the 100% BTS system, housing developers are required to complete 100% of the housing projects before selling them to house buyers. In view of the risks involved for housing developers to switch from the conventional STB system to the new BTS system, the government has proposed a new system called the 10:90 BTS system, which it believes can assist in spreading and managing the risks housing developers are exposed to (Ng, 2014).

Under the 10:90 BTS system, house buyers are only required to pay the initial 10% deposit upon signing the S&P agreement, with the remaining 90% payable upon the completion of the housing project with the issuance of a Certificate of Completion and Compliance (Yusof & Mohd Shafiei, 2011). The advantages of implementing this system are obvious as house buyers will only lose 10% of the payment if the project is stalled and abandoned. As a result, the business risk of development will then be shifted away from the house buyers to the housing developers (*The Sun Daily*, 2012) as the construction of the housing projects will be funded by the housing developers' banks, rather than those of the house buyers, as is practised under the STB system currently. House buyers will now have peace of mind given that they no longer need to worry that their investment in the house will be jeopardised as it will be completed before they make the final payment. They will have the opportunity to see the finished house and to inspect its quality before paying the remaining instalment to the housing developers.

According to Alagesh (2013), the 10:90 BTS system can benefit housing developers because actual construction costs are known at the time of sale. Furthermore, better quality houses will be built because house buyers will only seek quality houses, and subsequently, this will enhance the image of the housing industry. Certainly, complaints such as substandard workmanship, late delivery of houses, and abandoned projects can be reduced with the implementation of the 10:90 BTS system (Jeyaraj, 2001).

In 2012, the Government had planned to set 2015 as the policy date to make the 10:90 BTS system a mandatory housing delivery system in Malaysia. The implementation of this system was to be on a voluntary trial period for two years, followed by an evaluation of its effectiveness in enhancing the sustainability of the housing delivery system in Malaysia. In order to facilitate the adoption of the 10:90 BTS system, the Malaysian government offered several incentives to encourage the housing developers, such as fast track approval in their applications for rezoning, subdivision, planning permission, and building plan approval within four months. For this, a one-stop-centre (OSC) was set up to hasten the process of handling and approving the housing projects.

(c) The 10:90 BTS System: Wither its Feasibility?

The road towards the proposed mandatory implementation of the BTS system in 2015 is fraught with many challenges as there are still a number of niggling issues yet to be

settled, particularly from the housing developers' perspectives. For housing developers, the BTS system increases the difficulty of securing funds to finance the projects and decreases the housing supply which in turn may raise house prices (Chua, 2013). In this regard, this paper attempts to focus on the challenges faced by Malaysian housing developers in adopting the 10:90 BTS system. The paper also explores the possible ways to achieve a sustainable housing delivery system in the country.

2. Methods

In order to address the issues relating to the 10:90 BTS system, semi-structured and unstructured interviews with respondents were conducted. The respondents for the interviews comprised five housing developers, with two from public listed companies (Developer A, and Developer B), and three from small scale developers in the Klang Valley (Developer C, Developer D, and Developer E). All respondents have over 20 years experience in housing development. Additionally, an experienced banker from the local banking industry (Banker F) was invited to participate. The six respondents were interviewed in July 2014. The sampling method was based on a purposive basis, allowing the respondents to share their experiences. The key themes of the interview included opinions and views of the respondents over the housing delivery system in Malaysia, and discussion about the challenges of implementing the 10:90 BTS system. The interview data were analysed using content analysis, and data were coded and categorised according to several themes to identify the patterns across various respondents' viewpoints.

3. Discussion

The abandoned housing projects issue should be a priority concern to all stakeholders who are directly or indirectly connected to the problem. As mentioned earlier, the housing delivery system comprises several main stakeholders, including the Government, housing developers, house buyers, and financial institutions. The 10:90 BTS system could have been a success in addressing the abandoned housing project problem had all industry players agreed to collaborate and work together during its mandatory implementation in 2015.

Furthermore, the 10:90 BTS system should not be used to penalise trustworthy and responsible housing developers. In fact this system was initiated to curb housing projects from being abandoned by irresponsible developers. However, the effectiveness of the 10:90 BTS system is undermined relative to several critical concerns highlighted by the housing developers. These are identified as follows:

3.1 Lack of Support from Financial Institutions

The main concern about the 10:90 BTS system is the difficulty of getting funding from the banks. Other than from the developers' own internal funding, they still need to approach the banks as their main source of financing. The following comments support the general perception of developers' reluctance to adopt the 10:90 BTS system:

“The bankers will be more inclined to lend to those companies with a strong financial background.” (Developer C)

“Under this BTS system, as cost of financing has gradually become more expensive, only the qualified housing developers with strong financial background would be able to survive. The small or new housing developers will be slowly pushed out of the housing industry, resulting in raising the bar for new entrants.” (Developer A)

“With the adoption of BTS, housing development looks like a game for big boys in Malaysia. The small scale developers will not be able to develop any projects as they cannot afford to bear all the costs.” (Developer D)

Most of the respondents highlighted that the support from banks in providing financing to embark on the 10:90 BTS system is crucial to make the implementation of the system a success. Meanwhile, the small-scale developers will not be able to develop any projects as house buyers will only pay the 10% deposit, while the balance will only be paid after the properties are completed. As a result, housing developers cannot collect progress payments from house buyers to fund their development costs.

However, from the bank’s viewpoint, they are willing to finance the housing development project as long as it is viable. The viability of the project is a crucial element that banks will take into consideration during the credit evaluation and assessment process. Furthermore, banks will also assess the housing developer’s credit worthiness *vis-à-vis* their reputation in terms of past performance and track records as well as their ability to repay the loan. A banker provided the following comment:

“We do support the implementation of the 10:90 BTS system in Malaysia in view of various success stories overseas. With the 10:90 BTS system, more viable housing projects will be launched and house buyers are assured of completed houses with quality...’ (Banker F)

The sentiment from the banks is that with the 10:90 BTS system put in place, house buyers will be well protected, as the 10:90 BTS system only allows housing developers to sell their houses when the properties are completed. As house buyers have the opportunity to view the completed unit, developers will have to build quality houses in order to persuade the house buyers to purchase their products.

3.2 Higher Financing Costs for the BTS System

Many housing developers will in all probability seek higher bridging loans from the banks to start their housing projects. Their primary concern is the absence of progress payments from the house buyers under the 10:90 BTS system. There is always the possibility that house buyers may not bother to buy the house once it is completed since there is no guarantee that they will settle the remaining 90% of the house price. One developer expressed the following concern:

“Under the suggested 10:90 BTS system, house buyers are only required to pay the initial 10% deposit upon signing the S&P agreement. There is a possibility that house buyers may choose not to pay the remaining 90% after the completion of the housing project.” (Developer C)

Echoing these sentiments another developer added:

“As there is lack of assurance that the house buyers will take ownership of the property upon completion, this will probably make the process for financing, i.e. bridging loans harder, due to no pre-sales records and higher risk exposure for the banks to grant the loan.” (Developer B)

These arguments were further supported by a third developer:

“We might suffer a cash-flow squeeze because we would not be collecting progress payments from the buyers before the completion and we could be strapped for cash if we happen to undertake a few projects simultaneously under the BTS system.” (Developer D)

Based on these responses, it appears that the large-scale adoption of the 10:90 BTS system is dim in the near term because not all housing developers have sufficient financial strength or the capability to implement this system. Added to this is the uncertainty over house buyers settling the remaining 90% of the cost of the house once the house is 100% completed.

3.3 Limited Supply of Housing

According to most of the developers in the survey, the 10:90 BTS system might be a cause for the housing market to slow down. Essentially, developers will only be able to build limited quantities of housing units, which may result in an eventual shortage of housing supply. As mentioned by one small scale developer:

“Developers who can afford to implement this system will only be able to build limited quantities, say about 100 units a year. If this happens, it may cause houses prices to escalate and go out of reach for ordinary folks, especially for those first time home buyers.” (Developer C)

Another developer concurred with this opinion:

“The BTS system is only workable in the UK, USA and Australia because developers over there opt for smaller scale development comprising less than 50 units of houses per project, which does not cause a great financial burden to them..... As far as Malaysians are concerned, we can't use such a system to meet the nation's housing demand as we are still a developing country.” (Developer D)

The respondents in the interview seem to agree that the current STB system is still an effective and efficient method for the housing industry in Malaysia. As with many other developing countries, Malaysia has suffered an acute housing shortage due to the ever-increasing demand resulting from urban migration and increasing population growth. Furthermore, there is an inadequate supply of housing especially for the low income groups as land in urban areas is limited and expensive. It is imperative that the housing delivery system in the country be economically viable, socially acceptable, and technically feasible if it is to ensure that all can have access to adequate and affordable housing.

3.4 Lack of Interest in the Incentives Given by the Government

The Malaysian government had offered several incentives to encourage housing developers to adopt the 10:90 BTS system. However, the response from the housing developers to take advantage of the incentives is poor. It appears that not many housing developers are keen to take advantage of the Government's incentives to implement this system. The reason could be due to the fear of change for the housing developers from the conventional STB system which they have practised for more than a few decades, to a fairly new 10:90 BTS system as highlighted by a developer:

"We are generally not willing to take the risk to venture into a delivery system which we are not familiar with." (Developer B)

Another housing developer also expressed the views that the incentives given by the government are not attractive enough to motivate them to adopt the system:

"We did not apply for the 10:90 BTS system, seeing that it will expose us to a higher level of risk in view of the uncertainty in the global economy. If we choose to adopt this 10:90 BTS model, we will need to fork out quite a sum of money to embark on the housing project, and this will tie up our cash flow." (Developer D)

He explained further:

"I think the Malaysian Government should revise its incentive plans in order to motivate the housing developers, especially the small scale ones, to adopt the 10:90 BTS system...." (Developer D)

Similarly, another small scale developer pointed out that there should be more incentives given by the Government in order to entice housing developers to revitalise abandoned housing projects.

"I personally think that incentives such as green lane, flexibility in price setting and fair pricing should be given to the housing developers who are willing to take over abandoned housing projects." (Developer E)

The above comments appear to imply that the present incentives given are not sufficiently attractive to housing developers, and only the developers that have strong cash flows and who are in a good financial position will be able to adopt the system. The small scale housing developers, on the other hand, will be side-lined. In this aspect, it would be advisable to review the incentive plans especially for small scale developers in order to encourage them to adopt the 10:90 BTS system.

3.5 BTS alongside STB

The BTS system is an effort to curb housing projects from being abandoned mid-way, but it is quite unlikely to be completely embraced by the developers as many of them still think that using only one system is not a practical solution. One developer suggested:

"I have no objection to the BTS system, but the Government should allow us to continue to use the existing STB system... I think it is appropriate for housing developers to decide on the system they are comfortable with. As for house buyers, if they perceive the risk is

higher to buy a house under the STB, they can go to developers who adopt the 10:90 BTS system.” (Developer C)

Another developer in the interview also explained:

“I don’t support the system totally if I don’t get support from the local financial institutions. Furthermore, the time is not right for the system to be implemented in 2015 when the Goods and Services Tax (GST) is going to be imposed in April, 2015.” (Developer B)

Housing developers in the survey generally think that the impending implementation of the Goods and Services Tax (GST) from April 2015 is going to create uncertainties in the property market. As one developer pointed out:

“I don’t really know the exact impact of GST on the housing market, but one thing for sure is that most development costs will be on the rise.” (Developer A)

Although residential properties that are for sale, purchase, and rental will be GST-exempt, the development cost may be passed onto purchasers in terms of higher selling prices. Based on the calculation from the REHDA, the construction cost, which constitutes 46% of the total development cost, is subject to 6% GST, and may inflate house prices by 2.6% (Lai, 2014).

It seems that all housing developers would like to have more than one system in the country and believe that the Government should allow the housing developers to adopt the system voluntarily alongside the existing STB system. As pointed by Yam (2013), the current STB system still plays a strategic role in meeting the housing demand by providing access to adequate housing in Malaysia

4. Conclusions and Recommendations

The Government is keen to make Malaysia a home owning society by fulfilling the housing needs of its citizens through various home ownership programs in both rural and urban areas (Tan, 2011b). However, efforts made to provide housing for all have been hindered by errant and irresponsible developers who often take advantage of the vulnerable position of some Malaysian house buyers.

With regard to the issue of abandoned housing projects, one of the main problems can be attributed to irresponsible housing developers taking advantage of the current STB system. In an effort to address this problem, the 10:90 BTS system was proposed by the government to deal with grievances of victims of abandoned housing projects. Unfortunately, the plan to call for the mandatory 10:90 BTS system to be implemented in 2015 was not well received by many housing developers in the country.

This paper looked at the reasons for the unwillingness of developers to adopt the 10:90 BTS system and recommends measures to reduce the number of abandoned housing projects. It is important to address the challenges faced by the developers to develop a sustainable housing delivery system. These challenges described previously include high financing costs, low support from financial institutions, limited supply of housing, and inadequate Government incentives for adopting the BTS system.

As mentioned by the Tan (2011b), the current STB system has to a certain extent achieved the country’s objectives in meeting the nation’s housing demand; therefore, it

should not be abolished from the housing delivery system in the country. Additionally, the Government should make the housing delivery system sustainable and workable by strengthening the collaboration of all stakeholders involved. Before making the BTS system mandatory, there is a need to review this system and consider the views raised by the responsible developers on why the BTS should not be the sole system supported by the government to overcome the housing shortage in the country.

It cannot be denied that the role of the Ministry of Urban Well Being, Housing and Local Government in the housing industry is to facilitate and coordinate between the house sellers and house buyers. As an enabler between these two parties, the Ministry should ensure that the procedures for the issuance of a license to housing developers are stringent. Licenses should only be given to developers with a good track record of completion and with sufficient finances. This can be carried out through the strict enforcement of Act 118 with its accompanying regulations so that irresponsible developers can be taken to court and prosecuted. Indeed, continuous monitoring of housing projects, auditing and consultation with the developers at the sites of housing projects should be undertaken by the NHD. In addition, the government should provide a monitoring service for developers from the beginning of their projects until completion. This will reduce problems and make it less complicated for the CCC to be finally issued by the local authority. There should be transparency and accountability in all operations and interactions with housing developers to avoid any form of mismanagement.

In an effort to encourage developers to undertake abandoned housing projects, the government should consider facilitating the procedures for undertaking projects and selling completed units. The interviews with housing developers suggest that the government may consider providing a 'green lane' for fast tracking the completion and approval of housing projects undertaken by these developers. This may take the form of the present OSC, but better coordinated together with the technical units of the local authorities. This will lessen the time taken to process approvals for the housing developers. For the developers, time is of essence, essentially lessening their costs through speedy construction and completion of the houses so as to enable expeditious sale.

Since abandoned housing projects tend to have a negative image, the government may need to ease the price of houses in these areas to allow the developers to better sell these abandoned houses again. There should be some flexibility given to the developers of such projects to determine how to better improve the quality or even design of the houses, and then to build them accordingly. The price should then reflect the current market demand, and flexibility be allowed for the developers to price the houses as warranted by fundamental supply and demand mechanisms. Developers are in the market for a gain, but the government has to ensure that the gains will not be at the expense and exclusion of certain categories of house buyers.

In the meantime, while the abandoned housing projects are to be completed by the 'White Knights' appointed by the Ministry, the affected home buyers need to be assisted as well. These buyers will be facing financial difficulties especially in servicing their bank loans. Giving consideration to these house buyers, the government may assist them with reduced interest rates or help them to restructure their housing loans with the banks. Furthermore, there are also others who would have made withdrawals from their Employees' Provident Fund (EPF) or personal savings and may need legal or financial

advice. Thus, the government should seek ways to alleviate their problems by providing assistance, especially for loan extension and addressing legal implications. Letters of support, advice, and counseling should be provided by the NHD of the Ministry to those in need.

The state governments should be encouraged to participate more actively in abandoned housing projects in their respective states by forming joint ventures (JV) with the housing developers. Such a joint venture with the housing developers, or the 'White Knight', may reduce the financial costs of the developer, speed up the process of approvals and lead to quick completion of the projects. JVs may take various forms and the state governments should take the initiative to discuss all possibilities with the developers in expediting completion to reduce abandoned projects in the state. These 'quick win' solutions will certainly encourage the housing developers to finish their projects as soon as possible and deliver the completed houses to the house buyers. For the house buyers, the desire of owning a house will be realised much sooner, thereby reducing their anxiety over financial implications and constraints.

In so far as getting financial support from the government to revitalise the abandoned housing projects, there will be challenges. As shown in Table 2, only a few selected housing projects have been revitalised using funds from the federal government. Since 2012, the annual allocation for revitalising abandoned houses has been within the range of RM 45million to RM 55 million. However, the federal government has not divulged the process of arriving at such allocations and its decision on the quantum. It is apparent that the role of the government in abandoned housing should not be merely that of providing financial support towards completion of these projects. The onus of responsibility for completing these projects also lies with the qualified and financially capable 'White Knight' housing developers. In other words, the Government should not be depended upon to keep on increasing its financial allocation for abandoned housing projects simply to overcome this problem. There is also difficulty in determining what is considered to be a fair financial sum to be allocated annually to the 'White Knight' developers to assist them in completing the abandoned housing projects. However, it is crucial and necessary for the federal government to continue its financial support but to give due consideration to the particular needs of each 'White Knight' and thus for the pre-financial disbursement, due diligence should be carried out accordingly.

While the position of the Government with regard to the issue of financial support is difficult to determine, it is essential that the federal government comes out with a clear policy to ensure fairness to both developers and house buyers. For instance, the government may continue with the present *laissez-faire* situation but may have a policy to state that only the low to medium cost housing units will be allowed to be built under the BTS system and not other types.

In another policy, the Government can decide that in any STB project, the developer is required to build a certain percentage of total housing units under the BTS system too. For this to work, the developer that uses this STB system should be allowed to determine the price for high end houses built. This will warrant a reasonable profit overall for the entire housing project. The aim is to help the developer to manage his finances and cover any financial short fall from building the low to medium costs houses under the BTS requirement. Indeed, this method will reduce the possibility of the developer abandoning

their project mid-way. These policies can be implemented with the collaboration of REHDA and other housing developers associations who can advise both the Government and developers as to the percentage of houses to be built under the mixed or combined systems.

Malaysia's future in ensuring that its people can buy and own a house requires the government and developers to think innovatively so that there will be new ideas to address challenges that are constantly arising from the problem of abandoned housing projects. There is a need for a little governmental intervention to ensure that the free market system of determining house prices has its limits, otherwise the spiralling house prices may be detrimental to first-time house buyers. It will be an irony when housing projects are abandoned in the future as a result of the house buyers' inability to continue with payments and to service their loans. The government's role in balancing the right price and the right profit will be crucial because any slight imbalance may be destructive to the housing industry in Malaysia.

In the housing industry of Malaysia, the interests of all stakeholders need to be considered, otherwise the problem of abandoned housing projects will continue to manifest itself and become an insurmountable challenge. Attempts at using the BTS system have been problematic thus far, but through negotiations and fine-tuning, it might have a chance of success. The nation's middle class is swelling in numbers with upward social mobility taking place right now, which means that the demand for houses will not abate. In an effort to safeguard against rising numbers of abandoned housing projects, it is incumbent on the Government to come out with housing policies that are fair, acceptable and easy to implement. This will ensure that the Government's aspiration of reaching a modest level of homeownership for its citizens will be attained when the nation achieves its developed status in 2020.

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Appendix 1

Definition of Abandoned Housing Project

- Projects that are not completed within or later than the delivery date stated in the first Sale and Purchase Agreement and no significant activity is noticed at the construction site for six (6) continuous months; or
- Petition for winding up has been registered in the High Court under Section 218 of the Companies Act or other related laws; or
- Licensed housing developer which has wound up and placed under Receivership, Liquidator or the Malaysia Department of Insolvency (MDI); or
- Licensed housing developer notified in writing to the Housing Controller that they are unable to continue further with the development of the project; and
- Certified by the Minister of Housing and Local Government under Section 11 (1)(C) of Housing Development (Control and Licensing) 1966 (Act 118) that the housing project is an abandoned project.

Source: Ministry of Urban Well Being, Housing and Local Government (YEAR?)