

Prevention of abandoned housing projects



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Chapter 1: Introduction

1. 1 Project Title

A study on the prevention of abandoned housing projects in Malaysia.

1. 2 Problem Statement

In developing country, the construction sector forms a high percentage of the economy and it also represents one of the most dynamic and complex industries environments (Peurifoy and Ledbetter, 1985; Rahman. H. A et al., 2006)¹. As a developing country, housing development in Malaysia is one of the issue reflect the growth of population country, housing development in Malaysia is one of the issue reflects the growth of population and economic in this country. Since Independence Day, housing development is one of the sectors highlighted to improve and budget in the Malaysia's plan. Although housing industry has served as the development of economic and social and has benefited the nation. Nevertheless, there is myriad project failures Andrew Tan, (2004)³¹ state there are innumerable unsold properties resulting in huge property overhung, which is one of the more pressing form of project failures. Though year after year abandoned housing project have been widely highlighted by the local media and even through the ministry of housing and local authority are yet find an effective solution to help the housing buyer to overcome the problem facing by them. (Datuk Seri Kong Cho Ha... ' Project abandonment is serious as the casualties are consumers and their hard-earned money.') Was reported in the star (2009)³². With the reviews on what other researchers had done are the way to revival the abandoned project but if the problem leading the project being abandoned have solve, that's no more project will abandoned and being waiting to

revival. This research is to present the key issues of successful and failure of housing project so that thought the research to find out the way to preventions for a project not being abandoned.

1.3 Aims

To analyses the key to avoid having abandoned housing project in Malaysia

1.4 Objectives

1. To study the conventional method of housing development delivery
2. To identify the causes and effects of abandoned housing project.
3. To study the method of prevention for housing project being abandoned.

1.5 Background

In Malaysia, the housing industry is contributing to the economic and social development of the country. Housing policies for Malaysia are stipulated in the Malaysia plan and each of it is for a period of five years. (Rahim & Co research; 1992-2007)³⁴. The government of Malaysia recognizes housing as a basic human need and an important component of the urban economy. This has led to the formulation of policies and programmers aimed at ensuring that all Malaysians have an access to adequate shelter and related housing facilities (Rameli. A, 2006)³⁸. In Malaysia, housing development is carried out by public and private sector.

According to (Asiah, 1999; cited by Rameli. A, 2006)⁷⁰ Malaysia government has formulated a housing policy which aims to strengthen the involvement of private sector in housing production and delivery especially in housing schemes development. Under the ninth plan period (2006-2010), main

objective of the housing policy is to providing adequate, affordable and quality houses for all Malaysians. Toward this end, the private sector will lead the role to provide the necessary support and regulatory measures to ensure efficiency. (9th Malaysian Plan 2006-2010)³⁵ And yet, there are rules, regulatory and policy issues in order to carry out the housing development, developers has to comply with all requirements laid under the housing developer Act (Control & licensing) 1966 (Act118) and as well as other related statutory requirements of local authority in controlling building quality.

Although housing development has benefit to the nation in development of economics, social. And yet, there are project which are failed to be completed. This will finally cause the problem of abandoned housing project. There are some issues rose from developers such as financial and management problems, inexperience of the developers, unsuitability of site and location, delay in getting plan approval, inadequate market survey and/or feasibility study, failure of project management, and planning of the property market. Failure to complete the project is not only happened among the private developers, but also happened to the inexperience contractors, instability of building material supply and prices, and state development corporations (Zulkifli. 2005)⁶⁸.

1. 6 Scope of study

The study will list out the criteria of successful housing project being implemented in Malaysia and how the private and government can play a role in order for the project to become successful.

The study will also investigate entirely action to be taken by government, private sector, developers and contractors in order to avoid the project being abandoned.

1. 7 Research Methodology

To carry out the study, questionnaire will be adopted as the primary data it is useful method to gain the data as this topic may involve sensitive questions. As there is no interaction between the researcher and respondents it would facilitate response of accurate information. They will be set of open-ended question and close-ended question prepared and sent to 50 relevant parties such as suppliers, developers, contractors, government agencies.

Secondary resources will be focus on obtaining relevant information for the project failures and abandoned housing project which data accumulation will from the publisher resources for example Newspaper (The Star), Magazine (The Edge Malaysia), Online resources, journal browse from internet, books, journals, and collection from government agencies.

1. 8 Contribution

Through this research, it will gain the knowledge of particular parties for them to overcome and handle problem, as well as to prevent the housing projects being abandoned in Malaysia

1. 9 Proposed structure of the dissertation

Chapter 1 : Introduction

Introduction housing development in Malaysia and the effect of abandoned housing project.

Chapter 2 : Literature review

Determine the housing development process and the successful and failure of housing project from journals, book, information ministry of housing department, information from Construction Industry Development Board and e-book and e-journals. To identify the number of housing projects being complete and abandoned.

Chapter 3 : Literature review

Determine the housing development process from journals, book, and information ministry of housing department, information from Construction Industry Development Board and e-book and e-journals. To identify the number of housing projects being complete and abandoned

Chapter 4 : Literature review

Determine the factors lead to success for housing development project and suggested action to be taken to prevent the housing project being abandoned from journals, book, and information ministry of housing department, information from Construction Industry Development Board and e-book and e-journals.

Chapter 5 : Research Methodology

The method for this research is using questionnaires. A questionnaire is developed to facilitate systematic data collection in this study. The main purpose is to obtain facts, data and basic information from every party that involves in this area of study. Open-end question and close-end question will

prepared sent to the difference parties who involve in the construction and housing development industry. Envelop and stem will sent together with the question for them to gain their response and sent back to the researcher. The benefit of open-ended questions is that they give the respondent freedom to provide a complete and unstructured response. Between, open questionnaires are useful in determining the ideas, thoughts or concepts that first come to mind when a specific question is posed (Rodeghier, 1996; cited by Nima, 2001)⁶⁹. Other than that, online resources and publisher information is gain to be part of the way to obtain facts, data and basic information. At the end of the questionnaires section, result will be tabulated in charts, graph, and pie forms. This will reflect the trend and indicates the distribution of figure to help in analyzing the problems.

Chapter 6 : Data and analysis

After the gain the responder answer, all the analysis results will be record and explain in this chapter. All the result will base from the responder and given a conclusion sources from the answer they reply.

Chapter 7 : Conclusion

In this chapter will list down the achievement of objectives for this dissertation and will be concluded and commented. Other than that, my personal opinion and comment will also be in this chapter.

Chapter 2. 0: Housing development

2. 1 Introduction

Policies related to the housing development are outlined in the various five-year Malaysia Plans under the provisions for social and macroeconomics
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objectives. The Government supervises and monitors the overall housing project through the Ministry of Housing and Local Government. Besides that, private sectors also play a primary role in developing the housing industry. Housing development activities by the private sectors are subject to the Housing Developer Act (Control and licensing) 1966 and Housing Developers Regulations (Control and Licensing) 1989. Nevertheless Sabah's Housing Development (Control and Licensing) Enactment 1987 and Sarawak's Housing Developer's (Control and Licensing) Ordinance 1993 was enacted on their own. Under the act, developers are required to comply with all requirements under the acts as well as other related statutory requirements in order to obtain a license to carry out any development when they undertake housing development involving the construction for more than four units of housing accommodation. (Buang S., 1993)²

Unfortunately, the present arrangement has its shortcomings. Even though the government has the rules to minimise the failures of the project, there is a possibility that the developers will fail to complete the project due to incompetent contractors, unsuitability of sites and location, delays in getting plans approved, financial and management problems (Esha Z., 2006)³.

According to Enshassi. A(2006))⁴ the economic cycles and political environment has a significantly high rate of business failure. On top of business failure, collapse and bankruptcy are common terms in the industry due to the many risks inherited on how the industry operates.

In Malaysia, abandoned housing projects are getting severe. The effectiveness not only crucial to the houses buyer for their own a shelter but also health issues needed to be addressed to the citizen and imagining

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corruptions amongst developing country when absorbing investment.

Reported by The Star (2008)⁵ an abandoned project could have been cause of the landslide. Furthermore, an abandoned project will make the site turning into a haunt for drug addicts where hideout for criminals and an ideal breeding ground for mosquitoes reported in The Star (2008)⁶.

2. 2 Definition of Housing Development

According to Buang S, (1993)²⁷ under Housing developers Act 1996 (Act118) section 3 of the act defines “ housing development” simply to mean-“ the business of developing or providing monies for the developing or purchasing, or of party developing and partly providing monies for purchasing, more than four units of housing accommodation which will be or are erected by such development...”. Furthermore in this chapter, it will touch on the conventional delivery methods where sell off the plan and build and sell would be explained and elaborated.

2. 3 Conventional method of development delivery

2. 3. 1 Traditional Selling-Off-The-Plan System

At the juncture of Selling-Off-The-Plan concept by the Housing Buyers Association, is the system that selling or buying house are off the plans or uncompleted. Generally, Selling-Off-The-Plan system normally implemented in developing countries which adoption in Malaysia as well. As the Selling-Off-The-Plan system manages to deliver houses to meet the housing supply target in Malaysian plan. By using Selling-Off-The-Plan system a potential buyers make a booking and pays 10 percent of the sales price upon signing of the Sales & Purchase (S&P) agreement for the purchase of a house. The developers are allowed to collect money upfront even before starting

construction work on their projects. It is unfair to the potential buyers as it is an irregular situation for the property industry.

More often the buyer then will makes a loan arrangement with a bank to finance his purchase (KPKT, 2007; cited by Isa, Z, 2008)⁴³. Following the bank would release stage payment directly to Housing Development Account (HDA) of the project upon certification by the architect according to the stages able to claim in Schedule Payment (Schedule G for houses build on terra firma where Schedule H is for high-rise building). Then from that juncture, the loan amount and balance purchase price will be paid progressively to the developers in accordance with the various stages of construction works. The end financiers were placed with the burden to disburse the approved loan progressively. They were duty-bound to ensure the loans disburse were for work performed by the developers and they were usually supported in the form of Architect's Certification.

The drawback found here is where the approval from the developers will normally brought longer period whereas time is the essence of the project (normally 6 months approval rather than 4 months implied on build and sell concept). If the project is under categories Schedule G the projects have to be completion within 24 months from the date of signing of the Sale and Purchase agreement. For any projects under Schedule H categories the projects have to be completion within 36 months from date of signing of the sale agreement. During the waiting of authority approval it wills possible happen of any unforeseen circumstances for example the raises of materials cost and if the developers can't affordable the cost then the project may late delivery or become abandoned.

Additionally, sell off the plan system tends to be very deceiving through myriad of colourful and marvelous design brochures (potential buyers rely on advertisement) that would ensure to entice customers. Consequently house is bought on nothing more than an artist's impression where the location of the site is still a bare land. There are risks of project being abandoned as the un-build houses is sold by showing the potential buyers a model house, which the design and workmanship may be different from the actual unit built. (HOME FINDER, 2006)¹³

Chapter 3. 0: Abandoned Housing Projects

3. 1 Introduction

As one of the developing countries, Malaysia too faced insufficient supply of housing units besides other numerous problems such as difficulty in getting CF and land titles approval, late delivery and abandoned projects which have affected most house buyers (Sen M. K, 1985; Esha Z, 2005)¹⁵. Therefore, problems such as abandoned projects, property overhang, late delivery and shoddy workmanship had almost been accepted as a norm in the Malaysian property development industry. Abandoned project can be classified into 4 categories which are:

- Abandoned project which have the prospect for rehabilitation
- Abandoned project which are taken over by other developers
- Abandoned project which are not suitable for rehabilitation
- Completed and rehabilitated projects

According to Dahlan N. H, (2008)¹⁶ even though there are legislation that cater for housing development in Malaysia, record shows that, the abandoned housing project keep on recurring especially so during the

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economic downturn. This is understandable, as in economic recession, banks would be reluctant to grant housing loans as they are many unemployed people or dismissal cases, all of which, resulting in social and economic malaise and chaos in the country.

3. 2 Definition of abandoned housing project

Hitherto, ironically there is yet having any official, legal or judicial definition on the meaning of ‘ abandoned housing project’. Nevertheless, that is a practical definition which for the purpose of facilitation and administration has been given by the Ministry of Housing and Local Government (‘ MOH’). The definition as follows:

- Construction and development works on site had been stop for continuous 6 months or more. Such termination has either occurred consecutively or occurred during the period within which the project must be completed or beyond the required completion period stated in the Sell & Purchase agreement. Completion period means the period within which the developers has to complete the construction of the housing units. Property with land completion period is 24 months calculated from the date of the sale and purchase agreement being executed, whilst for flats the completion period is 36 month from the date of the sale purchase agreement.
- Within the said duration of 6 months, the developers concerned had been wound up and has been put under the control of the Official Receiver
- Officer of housing ministry in opinion that the developers is unable to continue to perform his obligation as a developers.

3.3 Effects of abandoned housing project

According to the latest report from the Ministry of Housing and Local Government (‘ MOH’), until June 2009, there were about 146 projects throughout Peninsular Malaysia that have been identified as abandoned housing projects. These problems involved 48, 878 housing units, and 31, 095 purchasers. Most of the projects occurred in Selangor with 40 projects, followed by Johor (33 projects) and Negeri Sembilan (20 projects) etc. The state which no abandoned projects is Perlis. Overall the substantial figure is a cause of concern to the general public, who may lose confidence in housing developers especially to those who were or are already be the victims. On its own, these numbers may not seem surprised high but when view from perspective that there are tens of thousands of people who are aggrieved by such failed projects, it become a serious problem that needs to be resolved urgently.

When a project is stalled or abandoned the house buyers is facing monetary losses as they have to settle monthly loan repayments and some may have to continue forking out rental for their current abode. Worst case scenario would predicament the house buyers with blacklisting from the bank and application on loan for the second time would be difficult as they can’t repay their loan in the abandoned housing project. According to him, who is also our Minister of Housing and Local Government, project abandonment is serious as the casualties are consumers and their hard-earned money. Besides that, from an industry perspective, the economic cost is staggering; abandoned project also affecting many other related industries including suppliers of construction materials, transportation companies, contractors

and consultants. Abandoned projects were very dangerous when it comes to landslides, where the site is not completed and there is no maintenance of the site and therefore causing the slopes to collapse.

Moreover, National Economic Action Council (NEAC) (1999) has identified that one of the reasons why the economy of the country suffered badly during the 1997 economic recession was due to overhung and oversupply in the property market; inclusive of the housing property. Since economic recession forms major issue in this country, it will directly influence the other running project to become abandoned (Rameli. A, et. al. 2006)⁴².

3. 4 Causal success or failure of housing project

3. 4. 1 Causes of abandoned project in Sell-Off-The-Plan System

According to Isa, Z, (2008)⁴⁴ the problems in the current sell off the plan concept is identifying from three perspectives of non-performing developments, project failure and financial risks that house buyers have to bear as consumers. The buyer not just been financially ruined, but also suffer on the family, emotional and health fronts. Isa, Z, (2008)⁴⁵ points out that the complaints for non-performance development in the industry grew from 151 project in 2002 to 245 project in 2005, which affected 28, 550 buyers in 2002 to 38, 315 buyers in 2005 and out of these complaints more than a third of complaint apprehension were concerning poor timeliness housing delivery and non-delivery of housing units and another 29 percent involved strata title issues according to National House buyers Association (HBA) which recorded Non-Performing Developments and Complaints from House Buyers between 2002 and 2005. When they is late delivery of housing unit to the house buyers it may causes the developers contain an extra cost to

compensate the purchases liquidated damages or even any unforeseen circumstances making the cost for construction increase and it will finally make the project become abandoned as making the developers losses of profit. Besides that, Selling-Off-The-Plan system may cause the late issue of Certificate Fitness (CF) and it will cause the house buyers unable to move in to occupy their build. Even they move in it will illegal to stay in their own property.

The project failure and abandoned housing projects may come from the list below:

- The developers may run short of funds to continua the cash flow as the project could not reach the required amount of sales;
- The developer's building contractors cannot deliver their contractual duties of constructing the building and the developers may be stuck in a legal tussle, which may also affect house buyers.

In the current sell off the plan concept, it has to address the fact that the buyer's money is stuck and he is dragged into a very muddled legal situation and it has to endure finance risk as consumers in housing development.

When house buyers buy off the plan, they have to paid the 10 percent deposit and stage payment in accordance to construction phase. Therefore they have to shoulder many risks, whether or not the house will be completed on time, the possibility of the project being abandoned, delayed or varied from original plan.

Furthermore, the 10 percent deposits are based on development value of the housing project. Buyers paid the amount even before the foundation costs

incurred during the construction phase. This indicates that buyers finance housing development projects right up front before the starts of the construction works. With this type of concept it will make the housing project abandoned easily as the irresponsible developers when found the project are no longer profitable by certain reason then he will give up the project to reduce his losses. Meanwhile, the house buyer's may have to incur rental or other expenses while waiting to move into the new house.

Other than that, the introduction of Housing Developers Account and standard Sale and Purchase Agreement by the government has been slow in tackling this problem of abandoned housing projects. However, it cannot be totally resolved since a project abandoned for a host of other ' non-financial' reasons, such as problems with squatters, disputes between developers and architects, management problem, developers " disappeared" and problems with Public Works Department, etc.(Sothi, 1992; cited by Esha. Z, 2006)⁴⁷

Moreover, the lack of monitoring and strong enforcement on the part of the Housing Ministry has also contributed to the reason on why the projects fail and this division's workload is extremely heavy and it cannot keep a constant vigil on developers thus contribute to further problems like the ongoing practice of getting buyers to pay for a property purely on the conceptual basis also known simply as the sell off the plan concept. It will also lead irresponsible developers to abandon the project as they are no policy or act to punish those developers who give up project easily. This indirectly lays a sense of irresponsible developers who merely wanted to get their buildings sold and not servicing the house buyers.

Therefore the wrong step carried out by the buyers through continuous payment of loan settlement and installment of the house without even check properly whether the project might even move where in the latter stages, because legal issue on money transferred on the return of nothing. They are also problem arise as the house buyers more rely on the project model and advertisement showing by developers. It may be different in site as the shoddy workmanship and non-adherence to the building plan. At the end the problems which arise will be hardly in getting authority approval for example CF and project being abandoned. The developers might caught the bank by cheating them on the progress payment needed certified by Architect who illegally conspiring with the developers. The sell off plan would not critically affecting the financial situation of the developers as compared to build and sell as the developers has the financial backing unlike relying on one self's financial power where inability to get the money to commence with the project would incurred more bridging loan (not necessarily the bank will approve) regardless of CF issued. (HOME FINDER, 2006)²⁵

3. 4. 2 General factors lead to projects failures and abandoned

According to Balchin P. N, (1985)³³ development are complex and costly as it may have fundamental changes occur in the market to increase the risk before the scheme is successfully completed. Many project fails and become abandoned because of the unforeseen factor which effect upon the initial calculation of the developers. It is an indisputable fact that at home turf, project failures are thus adversely affecting our nation's economic health Tan A. L, (2004)¹². Innumerable unsold properties resulting in a huge property overhang, which is one of the more pressing forms of project failures. There

is several of the reason for type of project failures, but in failures causes by project management it is an oversimplification to generalize and categories failures in term of the time, cost, and quality. Project failures can be primary or secondary, serious or inconsequential. By using the Selling-Off-the-Plan system the abandoned of the project basically involve in few party (Tan. A. L, 2004)49:

- Developers
- Government
- Contractors
- Financial institutions
- Other factors

Developers

Developers are the main party that contributed to the factor of the abandonment of housing project (Esha. Z, 2006)50. Problem usually arises and result abandoned housing project. Imperfection of the market system and unethical speculation by housing developers are amongst the factors contributing to the market failure, resulting in an overhang and oversupply of housing (Rameli. A, 2006)71. Even some of the cases that, mismatch of housing demand and supply resulted in abandoned housing problem (Ho, 1992; cited by Rameli. A, 2006)39 . Developers fail to estimate the sales unit price as poor of feasibility study in term of land cost, finance cost, estimated the returns, gross development value, and gross construction cost will end up of the construct cost more than the develop cost. For example, that is non-availability of amenities for the site and developers have to come out with own cost to connect the main water pumping from outsource to theirs

develop area and unforeseen the high infra structure cost during feasibility study stage. (Dahlan, N. H., 2008)51

Additionally, developers forced to stop mid way through the project when facing financial problem as fails to secure the targeted demand to break even due to high or unsuitable pricing of the product and lack of feasibility study in choosing the site for develop, the type of development, and precise in supply and demand. Developers are lack of a feasibility study to gauge its economic and technical viability from the very onset. The culprit may come from poor planning and researches as the developers that rush into a development without comprehensive market study will most likely cause developers stuck in a project due to poor cash flow. For example choosing a strategic location for develop is important and influencing the interested for the consumer to buy the product Tan. A. L., (2005)59. Besides that, developer's insufficient fund or stops to operation and become bankrupt as the weakness of the company in financial management. (Dahlan, N. H., 2008)52

Project may found failures cause to the developers as it appointed the inexperience project management consultant PMCs or project managers PMs to manage the project. The repercussion of the problems would be in managing a good cash flow of the project and causing the project cost overrun, insufficient quality control, poor planning causes the manpower lack of supervision and coordination, quality of product is low as always delay. (Tan. A. L, 2004) 53 The developers fails to constantly date the first estimate project cost by incorrect fixation and causes insufficient fund to pay the contractors interim certificate claim. Moreover, it will have a case of <https://assignbuster.com/prevention-of-abandoned-housing-projects/>

uncertainty prevails over payment and timing with implications on the contractor's cash flow; design changes that may adversely undermine timely delivery of the project; and interpretations of the contract documents which may lead to disputes and litigations. (Tan. A. L, 2004) 55

For instance, weakness of the developers in management of the project organization normally will be the weakness in planning and control. It would cause the project will fail to complete within the fixed period and project may found too many people involve and lead to overstaffing slows communication and decision and increase the changes of personnel thus disrupting smooth progress. (Tan. A. L, 2004) 54 Conflict between landlord and housing developers would invite dispute between family members for owning the land in selling to developers and the developers may need start advertise house put up for sell but the land case is still unresolved.

It will possible with the case that, the developers used the progress payment financial from purchaser to other unrelated matter (own investment) then the money on following month is stuck and unable use for project construction payment. But, when they try to get the loan from financial institutes as their financial record of the developers is instability causes hardly to get approval in application of bank loans. Site investigation and design stage both fall under the standard that is crucial for the success of the project. For example, the developers fails in studying the rule and regulation of the plot ration requirement on that area for develop with not fulfillment design type of housing will cause him unable to get the approver from authority (Tan. A. L, 2004) 56. The irresponsible attitude of the

developers as give priority to the profit by awarding tenders to incompetent contractors.

Government body

Statutory provision provided by Ministry of Housing and Local Government (MHLG), Local Authority, planning authority and technical agencies had failed to strictly monitor the term in legal provision and requirements in the Selling-Off-The-Plan system. For example, the Housing Development (Licensing and Control) Act 1966 (Act118) and its regulations, are blatantly disregarded by developers without any punishment being meted out