

# Sell then build concept analysis



## **1.0 INTRODUCTION**

For years Malaysia has been practicing Sell Then Build concept in the housing development and for years also, the concept has contributed to various types of problems, mainly to house buyers. Budget 2013 proposed that the Government will allocate RM100 million to the Ministry of Housing and Local Government to revive 30 abandoned housing projects. From 2009 to 2012, some 178 housing projects were declared abandoned of which 112 were restored, 67 were being restored while the remaining 9 projects were at planning stage of restoration. Selangor recorded the highest number of abandoned housing projects with 48 involving 16, 073 buyers. Y. B. Dato' Seri Chor Chee Heung, the Minister of Ministry Housing and Local Government said concerted government efforts led to the restoration of 25 projects while 22 projects were in the process of being restored.

Malaysia has a guideline to the housing scheme development. The developer should fulfill the guideline before to make a development. The guideline is complied with law of provision has been made.

National Land Code 1965

Malaysian Land Acquisition Act 1960

Town and Country Planning Act 1976

Malaysian Building By-Law

## **2.0 SELL THEN BUILD CONCEPT**

Sell then build is one of the concepts for housing scheme in Malaysia. There are several definitions from other party in Malaysia.

Definition of the sell then build concept is as follow:

Sell first before the houses are built. (MHLG, 1999)

Sale of houses that are yet to be built. (Zulkifli, 2000)

The house was sold before it was build.(National House Buyers Association, 2004)

Buying off the plan – buying a particular house based on plans provided by the developers. (The Edge Daily, 2005)

Sell then build concept has been derive to the development not in reality in the site but it already sell to the buyer. Buyer bought a property without seeing the reality and just taking a higher risk to make sure the property complete in the completion date. Usually take 3 years to complete the development it's involve higher risk to be abandon project. These concepts give more impact to the buyer and more benefit to the developer itself.

The process of Sell Then Build

Figure 1

Figure 1 show the process of the sell then build concept. Firstly the buyer signing the sale and purchase agreement (SPA) in this part the buyer should pay 10% of purchase price as a deposit on the signing the sale and purchase

agreement. After that the buyer should complete the payment to the developer by using the bank as a middle man. Bank will pay the progress payment to the developer as both party agreed.

For example (10: 10: 15: 10: 10: 10: 5: 5: 5: 12. 5: 2. 5: 5%) it will claim by the developer by architect report. It means bank will give the payment after they get the architect report. Lastly buyer just waiting to the completion of the project and the developer get the certificate of completion (CCC). Buyer can enter to their house as long get the certificate of completion. Developers will give one year liability period to the owner. This is to make sure on the liability defect in the property.

### **The Sell Then Build scenario**

In property development, any construction put onto a piece of land will progressively enhance its value. Full value is attained when the houses are completed. Thus the fact that a large number of these abandoned projects become financially not viable for revival only indicates that their developers have been paid more than what the construction stage entitles them to and/or that the money collected from buyers are channelled elsewhere instead of towards the completion of the projects. In both of these cases, fraud is involved and in any case, the buyers are the ones who suffer most although the banks involved are also put in a quandary. So, Sell Then Build is deemed to be unsafe and could not protect the buyer from fraud and risk of buying a house which is not fully guaranteed.

The Relationship between Bank-Developer-House Buyers in Financing Sell Then Build

It can be seen that house buyers have to make progressive payment to the developers during or even before the construction work start under the Sell Then build system. The purchase of yet-to-be completed houses from housing developers is through the regulated contract known as schedule G (for landed property) and schedule H (for subdivided building) of the housing development (Control & Licensing) Act 1966 [Act 118]. Developers collect progressive payment from purchaser or end finance banks when construction work has been completed up to the stages as specific in Schedule H. All construction costs will cover by:

Developer own capital

Bridging loans from financial institution

End finance bank or purchase

Implications on Sell Then Build Concept in terms of Advantages (Ramu, 2011)

## **Investment Factor**

Purchase first before the construction phase start or the construction have been stated. The investment is the good to the investor it's because the purchase can make expectation for the value of the property. The price is below the market value it also give more attraction to the investor to make an investment.

## **Early Purchase**

The purchase can allocate their unit for example the lot of unit in term of corner, intermediate and end. The view of property also as the factor to by the property in early purchase can choose possible the best unit.

## **Guarantee**

In term of guarantee normally developer give 1 year defect liability period from the date buyer enter to the house. It's have the failure from the structure of the building, roof and other.

## **Price**

The price has been set by the professional developer to determine the price refer to the current market value compared to the private seller. The property price will be a difference depends on the factor regarding to the property. For example the location, view and other related to the property. Mostly the price for Sell then Build is same standard.

Implications on Sell Then Build Concept in terms of Disadvantages (National House Buyer Association, 2011)

## **Quality house**

The poor quality of the house in term of the time to completed. It will have depreciation for the condition of the structure.

## **Abounded project**

The most impact of the sell then build concept is abounded. When the developer can't complete the house in the development period has been

given. Usually the project will continue by the government as the government initiative to the public.

### **Image of country**

The investor from outside as foreigner has a negative perception to Malaysia in terms of the property development. The Malaysia My Second Home (MMSH) programme doesn't have support from outside investor.

### **Waste government fund**

Government needs a lot of fund to repair the abandoned project. The fund already wastes to the project. Why not use the fund to make another project to help the buyer can't afford the house.

## **4.0 COMPARISON BETWEEN STB AND BTS**

There are few items that could be defined to compare both build then sell and sell then build concept. In terms of upon signing the Sale and Purchase Agreement (SPA), both concepts were the same where the buyer will pay 10% of the purchase price. Same goes with the waiting period for Completion of Construction and Notice of Delivery of Vacant Possession. The waiting periods for both concepts are within 24 or 36 months or more upon Architect's Certification of Completion.

On the other hand, in terms of buyers completing payments, as for sell then build, there is progressive payment system that is 10; 10; 15; 10; 10; 10; 5; 5; 5; 12. 5; 2. 5; 5 in % from first 10% payment or SPA Date while waiting for completion of construction. But, as for build then sell, the 90% balance of purchase price need to be completed within 24 or 36 months from SPA Date depending on the regulated contract of sale. As mentioned earlier, the

waiting period for the completion of the project and the developer get the certificate of completion and compliance (CCC) based on the terms that the buyer can enter the house anytime as long as they get the certificate.

Developers will provide one year liability period to the owner where it was to make sure on the liability defect in the property bought. (What is 10: 90 or Build then Sell, n. d.).

## **5. 0 DEVELOPER'S PERSPECTIVE**

Basically, developers that has been established or a newbie in the industry were talking about the implementation of build the sell concept. It is very much concerned that developer given bad impressions towards that implementation.

Extracting the developers' perspective of the sell then build concept, they mentioned that the projects which are currently developed could be secured by a pre-commitment by the buyers. Plus, they need not be worried about problems of not having a buyer for their projects when the construction been completed and worried about the demand of houses as well. Other than that, on sell then build concept, the developer could have early data collection on matters related to demand of the houses constructed, the changes needed as well as the room for improvement once the selling of the houses project started.

On the other hand, they opposing the build then sell concept saying that they, the developer and the bridge-financier has to bear the bulk of the project financing. They added that they might be a number of small and medium sized developers who would leave the business as the concept was



idealized with capital intensive to implement. As seen from a better perspective, this could give a chance for them to build up their names in giving a good end product to the buyer with the help of the bridge-financier. In addition, the developer questioned about the risk of whether they would lucratively repay the loan or not.

## **6.0 BANKER'S PERSPECTIVE**

As looking at the banker's perspective, they very much thought about the finance and loan to be given to the developer and the buyer.

The sell then build is said that the house buyer could part-finance on the costs bear by the developer obtained from the end financier that is a financial institution during the construction period. Besides that, the developer may also obtain a bridging loan from their financial institution to bridge-finance the construction costs paid out pending receipt of progressive payment from the house buyer.

On the other hand, the banker's perspective towards the build then sell was quite contradicted with the perspective on sell then build. They seem to believe that the build then sell could be the answer to the entire unwelcome phenomenon to be prevented before there is a greater incidence happens. They mentioned that there would not be any progressive payment received by developer from the house buyer and therefore they would require a higher financing from the financial institution in order to finance the project. They added that the higher risks of financing in build then sell project means the bank or financial institution would increase the loan pricing and interest rate. There is a situation that if there is no house buyer making part-finances

to the project, the developer would most likely demand on the higher financial cost to the house buyer itself. Things will end up to housing bubble where people could not afford to buy the said property.

## **7.0 HOUSE BUYER'S PERSPECTIVE**

Both sell then build and build then sell approach most likely affecting the house buyer. The chances to be involved in abandonment, cheated or fraud by developers are quite high. The implementation of build then sell was to avoid such problems and to retain the rights of the house buyer particularly.

The house buyer commented as the sell then build would have most new launches only be completed within two to four years which it took a long waiting period full of anxieties. However, it would allow speculation opportunity to make money with less capital and zero down to the investors and speculators where it would be good for those who have accumulated where sell then build might enhance better capital appreciation. As for the developer, the smaller developer could sell cheaper housing property but with the risk of specification failure or incomplete projects therefore it was not preferred. People who chose to save budget and buy from those developers would end up losing more when the projects get abandoned. Thus, sell then build would increase cost or otherwise risky in whichever way.

On build then sell concept, the house buyer perspective were, there would be almost zero risk to the buyers where they could get what they see on the purchasing moment. There would be a fair availability to genuine buyers instead of secret launches made for crony and developers which would keep the housing from being sold. In terms of price, it is subject to the demand

and supply of the current price which would not represent the future price. In addition, this concept will provide a better competition among developers in which the small and new developers can prove they are worth without prejudice.

## **8.0 RECOMMENDATIONS**

After gone through with the discussion on sell then build and build then sell concept, it has to be added with a few recommendations to avoid unwanted problems in this housing industry in the future. There are few solutions to make build then sell work and reduced the probability of abandoned house that is by reducing delays in approval process and cut off all the red tapes. This is involving the government intervention between the developer and house buyer. Other than that, the term of efficient and effective should be implanted in the public and private sector altogether for a better result in getting build then sell successful. The government could also raise more awareness related to housing and allow the buyer and publics to exercise their rights for the product they purchased which is in this case, the house. Furthermore, government should do its parts as well in ensuring there is no problems in house ownership and promoting build then sell in Malaysia as saying to be implemented fully in year 2015.

## **9.0 CONCLUSION**

The sell then build and build then sell have its own advantages and disadvantages and both must be used parallel in order to ensure a carefully planned development for housing and ensuring housing ownership issue to be solved. Thus, in order to ensure the right solution of housing policy related to housing ownership and housing delivery, a comprehensive study

by the government should be done before any decision be made on which concept to be used better and how to utilized it. In short, the buyer has all the rights to choose their best developer that they wanted.