

ABANDONED CONSTRUCTION: FACTORS AND WAYS TO CIRCUMVENT ABANDONED HOUSING PROJECTS IN PENINSULAR MALAYSIA

Siti Norehan Binti Hassan Baderi, Nor Rashidah Binti Muhammad Najid, Roseleda Binti Rusli,
Mohd Nasrun Mohd Nawi, Wan Nadzri Osman

College of Business, School of Technology Management and Logistic,
University Utara Malaysia, 06010, Sintok, Kedah, Malaysia
Email: s205760student@uum.edu.my, s205747student@uum.edu.my,
s206388student@uum.edu.my

ABSTRACT

Abandoned housing projects are one the major problems in the housing industry in Peninsular Malaysia. A housing project is considered abandoned when construction activities on-site housing construction has ceased for 6 (six) months or more in a row, after the completion of the sale and purchase agreement has been signed by the developer and the buyer or the developer has put under the control of the Official Receiver and Controller of Housing. This paper reviewed information on the current issues of causes of occurrence of abandoned projects. The reasons leading to this problem are many. This catastrophe has caused multifarious problems to the stakeholders, particularly the purchasers who become the aggrieved parties. Until to date there is no effective and once-and-for-all means to face the problems of abandoned housing projects. This project aims to analyze the factors of existence abandoned housing project in Peninsular Malaysia and find the best way to revive this abandoned housing project.

Keywords

Abandoned housing projects, ways to circumvent and factors.

1.0 INTRODUCTION

Referring to the Ministry of Housing and Local Government, "Abandoned Projects" are defined as projects that not completed within or later than the delivery date stated in Sale & Purchase Agreement and no significant activity is noticed at the construction site for six (6) continuous months. It is also known as 'Petisyen Penggulangan' has been registered in the High Court under Section 218 of the Companies Act 1966, or Confirmed as an abandoned project by the Ministry of Housing and Local Government under Section 11 (1) (c) of Act 118.

2.0 LITERATURE REVIEW

The literature review will be discussing about the factors causes abandoned housing projects and ways to prevent or avoid abandoned housing project in Peninsular Malaysia.

3.0 METHODOLOGY

This article discusses the methodology methods that use to get data in this research. Data collection from the article and the newspaper is main sources to complete this project report. This research paper will analyze causes and ways concerning the abandoned housing project. The data collected to fulfill certain standards and requirement that meets the specification of good data. In this study, this research conducted on an abandoned housing project that happened in Peninsular Malaysia. The analysis is done by article, newspaper and resources from the internet.

4.0 FINDINGS

4.1 Factors That Lead To Abandoned Housing Projects

4.1.1 Developer

Developers are the main party that contributed to the factor of the abandonment of housing project (Esha.Z, 2006)⁵⁰. 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 with the construct cost more than the development 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 areas and unforeseen the high infrastructure cost during the

feasibility study stage. (Dahlan, N.H., 2008)51. (Sources: UK Essays)

According to Dr. Narwhal Hilal Md. Dahlan senior lecturer in UUM, there are a few developers who do not have a developer license but still continue their housing projects and bizarrely nothing about legal action and enforcement by the relevant parties. There are developers who implement housing development despite the building plan has not been approved for application developers to get a license, advertisement and sales permit has been approved by the ministry.

In effect, even if the developer can sell the units but as long as the plan of the building has been approved, the developer unable to perform any construction of housing units. However, there are cases where the units are sold to the public but the application for conversion of land use, land subdivision and the approval of the layout plan has yet to be obtained. There are also developers who sell the units to the public and to collect a large amount of the deposit from the buyer while the advertisement and sale permit has not been approved by the Controller of Housing (MHLG Secretary General). Sales occur only on paper agreement, whereas the important things to ensure the completion of unfinished houses and this can cause problems for the buyer.(Mahligai Gading Development Articles)

4.1.2 Financial Institutions

This is understandable, as in the economic recession, banks would be reluctant to grant housing loans to the developers and house buyer as they are many bankruptcy in the country. This may cause the party difficulties in getting bank loan as the bank may set higher quality and requirement for grant housing loan to protect its interest as the show business couples with high gearing ratio of borrowing and less generating profit by banks, traders and business entitle. The small and medium size developers may face difficulties to obtain the bridging funds from the bank and finally will cause them weaker financial capability. Furthermore, this phenomena keeps on recurring especially during the economic downturn and the inflation rate are high where it may cause the financial institutions not to approve any loans or even loans are approved. The charges of interest rate will certainly go up drastically and high to the developer and when the interest rate increases it will cause the management of company operation cost to increase and this will reduce the developer's profit. Meanwhile, the problem may rise up as the bank simply approve the claims and without conduct further due diligence investigations and verifications

of the truth of the certificates issued by the project architects and presented by the developers in the Sell-Off-The-Plan system. (Cheong, Eranest, 2009)29. (Sources: UK Essays)

4.1.3 Government

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. Additionally, inefficient development control process by the Local Planning Authority in 'filtering' and assessing the new housing development application may also contribute to oversupply of housing and subsequently exacerbated the problems in the housing market (Rameli. A, 2006)40. According to Sufian.A and Rahman.R (2008)58 the Street, Drainage and Building Act 1976(SDBA) and the UBBL do not impose any specific duty on the local authority to inspect the construction work done by a contractor. In the Selling-Off-The-Plan System, the duty of inspection lies on the qualified person who submitted the plan.

4.1.4 Other Factors

Every step prescribed under the Housing Development (Control and Licensing) Act (the Act) is being taken by the Ministry of Housing and Local Government (MHLG) to minimize the number of abandoned housing projects in the country. Nevertheless, there are unforeseen of the environmental factor beyond the control of the ministry, such as the Asian financial crisis of 1997-1998, that have hurt many small housing developers and caused project abandonment. (Parameswaran.G, 2006)24 Subsequently, building cost not stable with the insufficiency of building material supply and higher costs of materials prices, especially that of steel bars and cement and this will cause the contractors unable to finance the costs and delays in or deferment even worst building project get abandoned. Against a backdrop of an economic boom, the traditional lump sum contracts and coupled with an era of high inflation can generate considerable uncertainty over the prices and supply of input resources. It will influence for the Selling-Off-The-Plan system as this system take longer authority approval period. (Sources: UK Essays).

4.2 Prevention of Abandoned Housing Project.

4.2.1 Adopting Build-Then- Sell (BTS) concept

BTS may be viewed as an option to tackle the problems faced by houses buyers who suffer from irresponsible developmental. The BTS is a concept where the developers can only sell the fully constructed houses together with the issuance of a Certificate of Completion & Compliance (CCC). There is no progress payment made by house buyers to the developers and the developers have to bear all costs by using their own capital or loan from financial institutions or both. Developers can sell his product before or during construction but he can only collect a small deposit from the house buyer. The developers are not allowed to collect progress payment based on certifications from architect, as under the STB concept. Moreover, a potential house-buyer can see and inspect the unit physically before deciding whether to buy or not. In this circumstance, the developers will have to do a better job, i.e. good design, good quality of workmanship, faster completion and high quality of finishes. (Esha.Z, 2006)48 (Sources: UK Essays.com)

4.2.2 Government's Resolutions

The implementation of the BTS-practice is one of the effective methods to solve the abandoned housing project problem but since it is not compulsory for the developers to utilities this practice, prevention measures can be taken into account to better protection for the house buyers (Sufian.A and Rahman.R 2008)62. Firstly, MHLG should have the licensing system as practice by the Construction Industry Development Board (CIDB) to categories developer base on their expertise, ability, resources or performance. Next, the government should speed up the approving process as close link the department which is responsible to process and approve the application for licenses to become more efficient. (NG. Angie. 2009)63. Additionally, the Government should reduce the tax on building material and remove the 10% import tax to make building material affordable in helping the developers and contractors enable to counter the rising price of materials. Furthermore, in order to ensure adequate supply of building material, the government should impose an export tax and allow the import of the building material. (Lee.R,2009)65. It is important for the government to make sure the developers crucially

uphold their responsibilities towards house buyers. (Rameli.A, et.al. 2006)67 (Sources: UK Essays.com)

Housing and Local Government Minister Datuk Seri Chor Chee Heung said, the government has allocated RM65 million for the completion of 118 private housing projects abandoned in the country since 2009 to 31 December last year. He said a total of 178 private housing projects abandoned involving 53,058 units recorded in the country for that period with 118 of them have been successfully completed. (Kosmo, BERNAMA 18 Mei 2013)

4.2.3 Financial Institution's Resolutions

The banks can prevent projects from being abandoned as it shall not proceed to pay the certificate claims issue from the architect. Furthermore, banks can appoint independent architects, quantity surveyor, and any property consultants to carry out independent site inspections to verify the truth and accuracy of the certificates. Even the banks have located extra cost to hire this professional to process the work but it would have saved the banks in the burden of having to shoulder millions, or even billion, of Ringgit in non-performing loan. (Sources: UK Essays.com)

4.2.4 Revival abandoned housing projects

In order to achieve this revival, the ministry had taken steps to engage the existing developers to help them overcome challenges they may be facing and they are also considering designating new developers, if need be, to revive these projects. The ministry also acts as a mediator in reviving these housing projects. Rehabilitation of abandoned housing projects is done through existing developers, assistance from the selected white knights and members of the REHDA and also through the government allocated funds that are conducted in accordance with the tender process. To counter errant developers, the ministry has increased enforcement action taken against errant housing developers by compounding and prosecuting them under the Housing Development Act. The ministry will also blacklist developed and their directors if all attempts to engage them fail. (Mastura Atan. 2012).

5.0 RECOMMENDATIONS

5.1 What can be done to curb the problems of abandoned housing projects?

There are few ways that can be done to curb the problems of abandoned housing projects. Firstly, tightening the monitoring progression of construction on every new home project to ensure developers comply with applicable laws or guidelines. Early action to resolve any problems will be much less or saving costs and has a higher chance of settlement.

Secondly, the authorities have tightened housing developer's license issuance procedures which emphasized the company's financial ability. Control over the company's audited financial statements be improved so that the project developer suspected to be monitored at all times.

Thirdly, the ministry has implemented the Housing Development Regulations 1991 to ensure that the money in and out of the housing project development and not abused. There is a role for government to play in how it shapes policy, interacts with private enterprise and formulate legislation.

Lastly, each developer also required to submit physical progress reports from time to time. Site visits should also be implemented. However, the government should be more drastic, while the bank should be more sensitive to the sufferings of the buyer to defer payment of loan installments.

6.0 CONCLUSIONS

While the ministry of housing had no part to cause the causing projects from being from being abandoned by irresponsible, inexperienced, unprofessional developers, the ministry could at least have helped in reducing the numbers of abandoned housing project problems. Why keep talking about amending the laws to curb the problems of abandoned housing projects when there are ample provisions under the Housing Development Act that the ministry can enforce to protect the house buyers? Rectification always cost less when done earlier. The Less progressive claim will be made when the defect or noncompliance were dealt with in the early stage. While house buyers cannot blame the ministry/government on abandoned housing project, but definitely the ministry can help in reducing the

numbers, if there is efficient, determined approach in the monitoring job on housing development.

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