

A SURVEY ANALYSIS ON ABANDONED HOUSING PROJECTS IN MALAYSIA. THE HOUSE BUYERS' PERSPECTIVES

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Abstract

The Ministry of Housing and Local Government's regards abandoned housing projects as a highly serious problem. As of June 2015, Malaysia records 10,403 house buyers being affected from 15,206 abandoned housing units on 53 housing projects. This study, therefore looks into this matter through a survey analysis on 328 house buyers covering 11 states in Malaysia. Lack of enforcement of housing law and policy is detected as one of the main contributing factors of this problem and the house buyers are not adequately protected under the existing law and practices. The developers and the banks have taken advantage of the Sell Then Build (STB) system where associated risks were being transferred to the house buyers through progressive payments and the monthly instalments. The study provides insights to practitioners and policy makers on necessary improvements of the law and policy to protect house buyers' interests and to avoid abandoned housing projects in Malaysia.

Keywords: *Abandoned Housing, House Buyers, Developers*

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Introduction

The Ministry of Housing and Local Government in Malaysia (MHLG) emphasizes that housing should provide residents with safety, security, comfort, health, privacy and other services. However, despite being recognised as a lifetime experience not all house buyers sailed through smooth sailing of purchasing a house. In fact there are some who are suffering half way through the journey, not even managed to move in to the house. Their nightmare begins when the pace of the project is slowing down and finally stop progressing at all for several months. This situation is usually referred to as abandoned housing project. The worst nightmare to any house buyers. Literature documents abandoned housing projects all around the world, regardless of the economic landscapes, developed or developing countries (Mustafa & Maznah, 2012).

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Not only that abandoned project is the worst nightmare to house buyers, it gives terrible headaches to the government as well. Abandoned housing projects which are mostly projects undertaken by private developers may possibly put government's effort to provide sufficient housing to the societies at stake (Tan, 2011). The alarming rate of abandoned projects reported throughout the decade has initiated quite extensive research worldwide on the factors determining to the problems and the efforts taken to mitigate or at least lessen the effects of abandoned projects on the parties involved: the government, the developers, the financiers and ultimately the house buyers. Nevertheless, studies that examine and explore the impacts and causes of this problems through the eyes of the house buyers are very limited, especially in Malaysia. Therefore, this study aims to fill the gap by exploring the house buyers' perceptions on the abandoned housing projects, being the worst affected party in this issue. This study will look into the aspect of the house buyers' interest, in terms of its legal and financial issues via questionnaires distribution to selected samples. This study contributes to the existing body of knowledge by providing insight and views from the house buyers in the aspects of legal and financial issues and will attempt to provide evidences through survey analysis distributed to selected house buyers in Malaysia.

The rest of the study is organized as follows. The next section briefly discusses past literature of abandoned projects in Malaysia and follows by data analysis from the survey and a description of the method employed in this study. The following sections presents a detailed discussion on the results of the analysis and the final chapter concludes the whole study.

Literature Review

Abandoned housing projects¹ is one of the main problems facing the housing sector in Malaysia since 1980s (Rahman et al., 2013, Dahlan, 2014). As of June 2015, Malaysia records 10,403 house buyers being affected from 15,206 abandoned housing units on 53 housing projects with Selangor, Perak and Johore recorded the highest number of abandoned housing projects, 22, 9 and 8 respectively (Source: National Housing Department of MHLG). The number of abandoned units recorded constitutes about 19% of total 81,434 housing units approved for construction to private developers during the period of January-June 2015. This scenario is truly a serious burden especially to low and middle income groups (Mustafa & Maznah, 2012). They carry a large portion of the risks involved when purchasing a house. They start paying even though the houses that they have purchased are nowhere near completion (Rahman et al., 2013). If the construction of the houses are disrupted or abandoned, they are the ones who bear the stress.

Even though literature has been documenting several key factors to abandoned housing projects particularly in Malaysia, Hussin and Omran (2011) highlighted that the most common cause of abandoned project is the developer's inability to complete the project due to serious financial constraints. Nevertheless, as has been stressed earlier, the house buyers are the ones who suffered the most (Mustafa & Maznah, 2012). The house buyers were forced to bear all the risks associated to financing the projects where it should be borne by the developers, thus developers took less initiative and proactive measures to prevent the projects from abandonment (Amin & Chong, 2007). In light of that, Dahlan, (2011) opined that the legal aspect of the housing projects matters should be scrutinized further as to safeguard the house buyers.

Razali (2011) highlighted that the current system of sell and build (STB) does contribute to the recurring problems of abandoned housing projects in Malaysia. The STB system has caused damaging effects where there are cases, among others, where developers go missing after collecting deposits from house buyers. Under STB, developers generally depends on house buyers' 10% down payment and progressive payments to fund a significant portion of the construction costs. This is translated to a much lower capital to begin the project (Yusof & Shafiei, 2012).

Survey Method

This study aims to look into the problem of abandoned housing projects from the views of the house buyers. To meet its objectives, a random survey has been carried out using a set of questionnaires developed based on literature, and structured into five Likert scale from strongly disagree (1) to strongly agree (5). Satisfied with the results of the pilot test conducted, the questionnaires were then distributed to 328 respondents across 11 states in Malaysia (Kuala Lumpur, Penang, Selangor, Negeri Sembilan, Melaka, Pahang, Johor, Terengganu, Perak, Kedah and Kelantan).

There were 43 individual questions in the questionnaires aiming to derive to a certain pattern of responses from the respondents. After responses were gathered, some basic and fundamental analyses were performed on the data: the demographic analysis to report the characteristics of the respondents and the descriptive statistics analysis on each variable to reveal the level of disagreement or agreement of the respondents. In order to address the issues concerned easily and more accurately the Exploratory Factor Analysis (EFA) was conducted resulting to the formation of three main constructs derived from the questionnaires. The first construct deals with legal expectation on the house buyers' side. The second construct measures the house buyers' expectation on the developer and the third construct assesses the house buyers' perceptions on the banks. Hair et al., (2010) stressed that factor analysis helps in reducing items to form smaller number of coherent subscales, in this case the three main constructs mentioned above, thus allows a more comprehensive analysis to be carried out.

Result and Discussion

Descriptive results

The respondents came from various backgrounds covering 11 states in Malaysia. The descriptive analysis reveals that majority of the respondents were from Selangor and Kuala Lumpur which constituted to 32.2% and 29.6% respectively. Out of the 328 respondents, 53.7% were male and 46.3% female respondents with 79.6% married, 17.1% single and 1.8% divorced participants. From the analysis, it appears that a large portion of the respondents were at the age of 40 and above and approximately 36% were with 20 years of experience in buying a house. The largest sample size were drawn from government servants with 35.1% followed by the private sector, self-employed, educator and others with 31.1% percent, 17.4%, 8.5% and 7.0% respectively. The income level of RM3000-RM5000 constituted to 36% of the respondents while 27.4% with income level below RM3000. 22.3% came from RM5000-RM10000 income level and 15.5% with RM10000 income level and above.

Discussion

The objective of this study is to investigate the house buyers' perceptions on the problems of the abandoned housing project, thus, the inferences made in the analyses are through the eyes of the house buyers. Based on what have been computed in the analyses, the findings of survey revealed that the house buyers were very much affected by the abandoned housing projects as been documented in the literature. In the first construct, pertaining to the legal aspect of the problem, the highest mean recorded is 4.29 where the house buyers claimed that existing law and regulation is insufficient. This claim supports Dahlan (2011) where she stated that the Ministry of Housing and Local Government (MHLG) and local government department and agencies had failed to strictly monitor the terms of statutory provisions being adhered to by the developers, thus consequently led to abandonment. Dahlan (2011) also added that one of the reasons leading to the reoccurrences of abandoned housing projects in Malaysia was the weaknesses and loopholes of the provisions under the Housing Development Act (Control and Licensing) Act 1966 (Act 118). In relation to this, statistics from the National Housing Department shows that 164 housing developers have been compounded for the period January-June 2015 with breached on act and regulation of 127 and 38 respectively, involving total compound of RM 839,800.

As for the second construct which regards to the developer, the highest mean recorded is 4.60 where the track record of the developer is important. This is reflected by the flaw of the STB system which somehow allows developers to heavily depend on the progressive claims to complete housing projects thus, enabled more developers of smaller capital and no promising track record to be involved in the business (Razali, 2011). Developers may face financial problems if there is a problem or delay in progressive claims from the financial institutions. This scenario supports Yusof & Shafiei, (2011) where he asserted that having smaller developers in the housing industry is one of the main causes of the abandonment of housing projects. Aggravating the problem, Dahlan (2011) stated that there is no provision in the Housing Development (Control and Licensing Act) 1966 (Act 118), which specifically requires the applicant developer to show to the satisfaction of the Housing Controller their financial position particularly the assets, the liabilities and the liquidity of their business prior to the application for housing advertisement and sale permit. Similarly, there is no provision emphasising the need of the applicant developer to have a certain degree of experience before their application for the permit.

The third construct which deals with the financial institutions records the highest mean of 4.54 where banks should check the progress of the project. This is very much supported by Tan (2011) where he claimed that banks do not really care whether the projects will be completed or not since monthly repayments by house buyers are guaranteed regardless of the status of the projects.

Conclusion

The analyses from this study revealed that lack of enforcement of housing law and policy as one of the main contributing factors of abandoned housing projects and the house buyers are not adequately protected under the existing law and practices. Developers, for instance, should state clearly their scope and specifications in the Sales and Purchase agreement and

should include clause that will protect the interest of the house buyers in case of any default throughout the progress of the project until completion. Banks, on the other hand, should act prudently and with due care to their clients, the house buyers, and strictly adhere to the Banking and Financial Institution Act 1989 (BAFIA) stating that banks cannot do anything that would harm the interest of their clients. Ultimately, the study provides insights to practitioners and policy makers on further improvements of the law and policy to minimize or prevent the delay in completing the housing project which may eventually lead to abandoned projects as well as to protect house buyers' interests in the case of late delivery of vacant possession in the housing market in Malaysia.

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¹ Referring to the Ministry of Housing and Local Government (MHLG), the term ‘Abandoned Housing Projects’ are defined as projects that meet the following criteria: The project is not completed within or later than the delivery date stated in Sale and Purchase Agreement and no significant activity is noticed at the construction site for six (6) continuous months, or ‘*Petisyen Penggulangan*’ has been registered in the High Court under Section 218 of the Companies Act 1966, or company is under the Receiver and Manager, or developers are not able to acknowledge in writing to the ‘*Pengawal Perumahan*’, and confirmed as abandoned project by the MHLG under Section 11 (1) (c) of Act 118.