THE KNOWLEDGE, PRACTICES AND CHALLENGES OF DEVELOPERS IN HOUSING DELIVERY SYSTEMS IN MALAYSIA

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DEDICATION

To my beloved family members
Dad, mom, brothers and sister, for your unwavering care and support
And a special appreciation for my lovely sister
I have a carefree study life because of you all

To my truly great housemates and friends
KokKhong, WenAun, ThiemHee. PoolYong, SiangLi
SockYen, PangSoon, Dess and others
My Master years study life was never been so meaningful
and wonderful without your attendance
Thank you for your moral supports and helps

To my beloved, Chai Kar Hau
For your never absent love and concomitance
Meeting you is the greatest unexpected present in my Master years
The life is perfectly complete since the day we met
Thank you.
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ABSTRACT

There are various types of housing delivery system in Malaysia which are Sell Then Buils (STB), Build Then Sell (BTS), 10:90 System (10:90) and 5/95 Home Loan Package (5/95). It is reported that most of the developers are practising the conventional system which is STB. In this context, it is important to justify developers’ circumstance and the rationales of their preferred and practised housing delivery system. The objectives for this study are threefold. First, to determine the knowledge of developers about the different types of housing delivery system in Malaysia. Second, to identify the common types of housing delivery system currently practised by developers and third, to determine the challenges faced by developers in the implementation of different types of the system. The data and information needed in this study were obtained from the questionnaire returned by 20 developers out of 32 in the scope of study, Johor Bahru. Contingency Table Analysis was used to obtain the findings for the first and second objectives; whereas the third objective was studied via the average mean score and ranking method. The findings revealed that most of the developers only knew and practised STB but lacking in the knowledge and information for another three types of housing delivery system. Although they are practising STB, not all of them have good understanding about it, especially regarding the party to bear the risk of abandoned housing project. It was also found that the burden of financial sources and inherent risk of project are among the main challenges faced by developers to not implement BTS, 10:90 and 5/95. This study would serve as supplement information for developers, government agencies, and house buyers to gain better insight on the reasons for developers’ reluctance to adopt the proposed housing delivery systems. With that, the existing housing delivery system can be improved further.
ABSTRAK

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CHAPTER 1

INTRODUCTION

1.1 Introduction

Maslow Theory is one of the basic theories in the field of economics which suggests that each individual is motivated by a series of need (McLaren, 2007). Based on the theory, the most basic requirement for humanity is to have a safe residence. Therefore, it is undeniable that humans need a residence which is a comfortable house. Housing can also symbolize someone luxury and it is an indicator to show the people life in a country (Pollack et al., 2004).

Every activity which is related to construction and renovation of building structures and unmoveable facilities is included in construction industry (Nam and Tatum, 1988). Housing is one of the major elements in construction industry and it plays an important role in our country’s development. Housing activity, a dynamic industry brings a wide multiplication effect on the growth and development of country economic. The Malaysia construction industry is one of the largest industries in this country. It accounted for 3.3% of Malaysia Gross Domestic Product in (GDP) in year 2010 (Construction Industry Development Board). This clearly shows that construction industry plays an important role in GDP and it can be one of the tools to measure the economic status of a country. For Malaysia to reach developed country status in 2020, construction industry plays a major part in realizing this great aspiration (Zainul, 2010).
Demand for housing will increased parallel to the growth of population. The same scenario can be seen happening in Malaysia. There are 24.5 million population in Malaysia on year 2002 and increased to 28.3 million on year 2010. Likewise, supply for residential units in 2002 was 3,050,421 units and increased to 4,433,310 unirs in year 2010 (Property Market Report 2003 and Property Market Report 2010). There is a need for government to intervene into housing market due to its imperfectness and competitiveness (Yu & Lee, 2010). Malaysia government had tried to fulfill the social needs in housing by introducing a number of housing programmes within the time period of 5th Malaysian Plan until 10th Malaysian Plan. Such as, allocate RM 20 million for financing preliminary work in 5th-MP, increase accessibility to adequate, affordable and quality houses for all income groups in 8th-MP, and provide Housing Assistance Programmes in 10th-MP (Economic Planning Unit, Prime Minister’s Department Malaysia). Unfortunately, there are still a lot of problems in the housing market, one of the major problem is the incertitude of housing delivery systems.

In Malaysia, Sell Then Built (STB) is the most common housing delivery system practised by developers. Under this system, developers sell the proposed housing units before starting the construction work. With this system, the developers and the projects are secured where majority of the proposed housing units are sold even before the construction phase. However, this system may caused insecurity to the house buyers if the house can not be completed or the housing project is terminated before the completion. Data from Ministry Of Housing And Local Government (MHLG) revealed that there were 34 abandoned housing projects in Malaysia from year 1999 to 31 May 2009. These abandoned projects consist of 6945 units of house and affected 4570 house buyers. Table in Appendix A shows abandoned housing projects in different states from year 1999 to 31 May 2009.

Cases of developers failed to complete housing projects according to schedule had impelled the Ministry of Housing and Local Government to introduce a new system, Built Then Sell (BTS) on 12 April 2007. Developers are encourage to implement this system since it will solve the housing problems confronted by house buyers. The
present concept (STB) still can be accepted and the transition from STB to BTS will take place in two years time. This newly introduced system is expected to protect the house buyers’ right where the house buyers have to pay 10% of the house price as deposit, whereas the remaining 90% to be paid after the house is completely built.

Besides Sell Then Built and Built Then Sell systems, there were also other housing delivery systems being introduced in order to fulfill different situations in property market to achieve a win-win situation between developers and purchasers. These new systems are 10:90 system (10:90) and 5/95 Home Loan Package (5/95). In 10:90, 10% deposit is paid when the purchaser signs the Sale and Purchase Agreement (SPA) whereas the remaining 90% is paid when he gets the Certificate of Completion and Compliance (CCC). In 5/95, deposit needed is only 5% of the house price and another 95% is paid by instalment where it will depends on the stages of the housing construction.

### 1.2 Problem Statement

Owning a house has become a basis need in human’s life. In the case where financial is not a problem to a house buyer, it is still not easy to own a house as it covers various complex factors, e.g. multifarious of processes which has been stipulated by the Government of Malaysia, the length of construction time by the developer which is difficult to be predicted as it depends on the developer’s portfolio and its financial status, the ability of the developer to complete the housing development projects while adhere to all the laws and regulations related, and the most important, commitment of the developer to fully complete the housing project on-time.

Zainul (2010) pointed out that construction sector is facing a lot of challenges. This will then affect the supply for an affordable housing. Issues of abandoned housing projects had been mooted in Malaysia housing industry since 1975 and became a serious
issue on the year 1983. This situation had grown from bad to worse since few years ago especially after Malaysia experienced economics slump. Although the Government of Malaysia has put a lot of efforts and strategies to overcome this problem, the units of abandoned housing projects are still abidance.

The effort to patch up or repair an abandoned housing project is challenging. It is not only the complicated process to get approval from each related party to repair the abandoned projects but also the reconstruction work is not easy. It is easier to construct a new housing development project rather than redevelop an abandoned housing project (SPNB, 2008).

There are various types of housing delivery system introduced by the Government of Malaysian due to the different development concepts performed by current developer companies and those in future. Each company will choose the system that is suitable with their development concepts and the current economic condition. However, the society members as well as developers who are the stakeholder in property field are not clear with these various types of housing delivery system. This can be validated in the speech of Minister of Housing and Local Government, Datuk Seri Ong Ka Chuan where he had used an inaccurate term for housing delivery system during a housing launching ceremony (2009, Feb 20, New Straits Times).

Housing delivery system that has been practiced in Malaysia since long time ago is Sell Then Build system (STB). This system is applied where the purchaser will only pay 10% deposit of the house price which he/she wish to buy and the remaining 90% will be paid progressively according to the construction stages of the housing development project. However, there was a lot of problems arised from STB, and most of it distressed the house buyers. Under this system, house buyers can only have an illusion on what the final product (property) will look like based on the information and show houses provided by developers. Interested buyers have to pay certain amount as deposit payment for the “planned construction” and hope for their expected property
upon completion. Beside that, they have to take a loan from financial association, e.g. bank, where the payment to developer will be made by the financial association progressively until the property is handed over to the borrowers (property buyers). The property buyers only have conceptual basis upon purchase of uncompleted property (Laura and Mary Anne, 2006).

One of the most common situations happened among property buyers is they become unwitting victim of errant developers who absconded or misused the fund meant for their contracted property. Although most of the developers will try their best to fulfill their responsibility as the bargain, there were still some developers who abandoned the development projects and left the projects before the houses were fully completed and handed over to the buyers. In this case, the loans taken from banks still have to be repaid by the house buyers no matter what happened in the real posture (Laura and Mary Anne, 2006).

Besides, the problems faced by house buyers are, they were not satisfied with Sell and Purchase Agreement (SPA), discontented with the housing quality, burden of housing loan cause of uncompleted housing development, etc. Therefore, the STB housing delivery system has to be modified to protect the house buyers. Besides paying the interest on housing loans for an uncompleted house/property, they have to pay for property rental which they occupied during the period of their house construction. Most of the time, house buyer is the one who get the impact and suffer in this situation but the developers can simply get away despite the case was resulted by them (Hassan, 2004).

To solve the problems arised from STB, the Government has been working over the feasibility to implement Build Then Sell system (BTS) in 2007 where the developers will only sell the developed units when the project is fully completed. The Predecessor Prime Minister, Datuk Seri Abdullah Ahmad Badawi also agreed with this new concept where it has been implemented in Taiwan. The developers have to in possession of adequate fundings before they started a development project so that they will not rely on
financial resources from property buyers (2004, May 21, Bernama). However, most of 
the housing developers and housing association strongly oppose the proposed system. 
However, this system is essential to buyers since a lot of problems occurred when the 
house buyers are left with uncompleted housing projects.

This substituted housing delivery system may bring different impacts on 
different parties. Firstly, financial institution will only be able to finance those 
developers having an amount of capital which is stable to continue with BTS. Besides, 
some financial institutions will think twice in offering loans for developers who carry 
out this system. This is due to the case where the only tangible mortgage from the 
developers for the loan is merely the land which the project is built. If only this system 
being implemented in our country, there is a possibility that it will end up with only a 
few housing developers exist in the housing market. This will then reduce construction 
projects and affect the country’s economy and at the same time increases the prices of 
housing property (Bhag, 2004).

On the other hand, from the view of house buyers, BTS is more favourable. 
House buyers are protected when they purchase a property which is completed as 
compared to STB. House buyers are now not much different with others purchasers 
where they can access and value the product before making any decision. With this 
approach, house buyer’s name will be registered once payment for the property unit 
purchased was done (Bhag, 2004). However, during Third Meeting of First Term 12th 
Parliamentary Setting, there were perceptions that housing project by Build Then Sell 
system is more expensive and will then burden the people.

Housing developers may have varied opinions toward funding of development 
construction works. Developers who wish to implement BTS housing delivery system 
must have strong financial resources in order to get a land and start a development 
project which is ready to be sold to potential house buyer once the construction is 
completed. Otherwise, developers will need to get loans from financial institution which
the funding amount will definitely greater than the amount they borrowed in the STB (Bhag, 2004).

In common, developers are not so contentment and not yearn for BTS except for those who have implemented this previously. They found that this is unfair for small developers or beginner in this sector where they need financial support from house buyers to fund their initial construction costs. With BTS, they have to get a huge amount of loans from banks as their bridging finance. Comparing with STB, the risk accessed by the financial institution in approving loan to the developer will be greater. Hence, developers will be burdened with higher interest rate and these costs will then be transferred to buyers in the form of higher house prices (Laura and Mary Anne, 2006).

There are some roadblocks with the BTS system. Among others is, how if the constructed houses cannot be sold? Only a few developers who have strong financial resources will able to undertake the holding cost, and for those who are willing to try in this newly launched system, only a small amount will be invested. This may result in decrease of housing supply in the market. Likewise, who is the one going to be charged with the holding cost of the unsold units? (Laura and Mary Anne, 2006).

Most of the developers are not clear enough and still confused with BTS (Laura and Mary Anne, 2006). They do not really know how this system works and are not clear about its implementation process. Some of the main issues faced by developers under this newly introduced system are; they have to take into account the risks involved and the holding cost of a development project although there are some incentives given by government; anyhow, they are still lack of information about it.

It is quite difficult for the developers to totally change the current practiced STB to BTS notably for those developers who are unwilling to do any graveness innovation on their companies. With that, the National House Buyers Association suggests to use the Build Then Sell 10:90 system (10:90). Under this system, property buyers who are
interested in any housing units have to pay 10% deposit before the units is constructed and the remaining 90% to be paid after the project is completed. If developer failed to complete the project according to the Sell and Purchase Agreement’s regulations, the buyers have the right to refund the 10% deposit together with the interest (Hassan, 2004).

Under 10:90 housing delivery system, developers are allowed to collect 10% deposit of the house price from interested buyers upon obtaining all relevant approvals and the remaining 90% to be paid upon completion of the property with a Certificate of Completion and Compliance (CCC) being issued. Banks had expressed that if developers are able to show and prove that their project is viable, then financial supports will be provided. However, it is difficult for a developer to assure that their project is viable without guaranteed financial resources. Only a developer who has strong financial resources is able to cover the 90% of the construction works cost. There are some developers raise their concern that 10:90 will eventually become the only system for them to deliver the property units to buyers (Royce, 2006).

Besides, a new system has been suggested on 19 January 2009 to entice housing purchasers. The new scheme, known as the ‘5/95 Home Loan Package’ (5/95), allows buyers to pay down payment of 5% whereas the balance 95% to be billed progressively based on percentage of completion as certified by an architect. As part of the package, interest during construction period will be borne by the developer. Thus, 0% interest for property buyers before the housing is constructed. However, the risk of abandoned projects, if any, is fully borne by house buyers (2009, Feb 20, New Straits Times). Some of the Malaysia developers had already practicing this new system in their sales marketing strategy. The 5/95 significantly cuts down the deposit payment of house purchasers and in addition prevents buyers of any further cash outflow until vacant possession. This system has been proven to be able to generate good sales in housing market today (Interim Financial Report of S P Setia Bhd., 2009).
Therefore, there are advantages and disadvantages in each system. We can foresee that system where payment for the housing being made progressively will continue in the market while developers who practice Build Then Sell system will provide more alternative for home buyers and will have more opportunities in their business (Bhag, 2004).

With that, there are various types of housing delivery systems introduced and practiced in Malaysia. National House Buyers Association (2006) stated that there are still a lot of people confused with the delivery systems especially BTS and 10:90; they may think that the two systems are the same. For the four different types of housing delivery system, including STB, BTS, 10:90 and 5/95, the research questions arise are: Whether the developers understand about each type of the housing delivery system? Which types of the system preferred by developers and what is their current practice system? What are the challenges or difficulties faced by them in implementing different types of housing delivery system in Malaysia?

Hence, this study focus on developers’ knowledge level towards housing delivery systems as discussed above. Then, it will determine the current practise of housing delivery system among developers in the study area. And finally figure out the challenges or difficulties confronted by the developers in implementation housing delivery system which is not preferred by them. There are some studies similar to knowledge, practices and challenges had been carried out. Obeng-Odoom (2012) had done a study entitled, Land reforms in Africa: Theory, practice, and outcome. The study analyses the experiences of 4 African countries whose land reform programmes have been influenced by either the theory of social capital or individualised tenurial system. Besides, Maiello et al. (2011) had carried out a research on urban sustainability and knowledge. Their research aims to acquire the challenges of global sustainable development’s issues, and seeking new integrated responses to implement the principle of sustainability at urban scale. The study explored the conceptual relationship between knowledge and knowledge literature, doing analysis based on questionnaire survey and then suggests a new approach to manage knowledge in urban governance. Other than
that, there are also research regarding knowledge and practice in other fields. Li, Scott, & Li (2008) had done a survey regarding knowledge, attitudes and practice towards HIV/AIDS among nurses. The knowledge level for the respondents towards HIV/AIDS was identified by scoring method. Respondents were required to answer the listed knowledge items and score will be given according to the items answered correctly. Besides, Li, Scott, & Li (2008) used mean score from a 5-point Likert scale to examine the willingness of respondents to provide cares. Other than that, a study to analyse the trends in knowledge, attitude and practices of travel risk groups towards prevention of Hepatitis A was carried out by Van, et al. in 2012.

1.3 Research Objectives

First,
To determine the knowledge of developers toward different types of housing delivery system in Malaysia.

Second,
To determine the common types of housing delivery system practised by developers at present.

Third,
To determine the challenges faced by developers in implementation of different types of housing delivery system in Malaysia.

1.4 Significance of Study

In Malaysia, the housing development is under the Ministry Of Housing And Local Government (MHLG). Its vision is to provide a quality living environmental for
the society members. To achieve this, missions of MHLG include plan, coordinate, and implement social agenda and human settlement through housing programme, planning and development control, city council services and so forth. The information regarding developers’ perspective towards housing delivery systems will serve as a useful datum to achieve the missions. MHLG can also work over the strategies and plans for housing development based on the findings from this research. Also, the findings from this research will assist the Government in implementing a better housing strategy which is more suitable for both parties; housing developers and buyers.

Developers are the one who implement housing delivery system in their marketing or sales strategies. Hence, it is important to know their understanding level towards housing delivery systems in Malaysia. Till now, there is no research has been done to investigate this issue. With the findings, developers may know their understanding level towards housing delivery systems in Malaysia. This will then help to raise their awareness towards variety of housing delivery system as well as other housing strategies and policies announced by the Government.

House Buyer is the pillar of the housing market, and they invested a large amount of money on their house. It will be unfair for them when they are lacking knowledge and information towards the housing delivery system; involving payment procedure, interest cost as well as risk of abandoned project if happened. This study will serve as a supplement information for potential housing buyers to gain a better understanding about the housing delivery systems implemented in Malaysia. They will then be able to make a better decision when plan to buy or invest in a property, as well as able to manage their funding more effectively.
1.5 The Scope of Study

This study focused on the four types of housing delivery systems which are Sell Then Build (STB), Build Then Sell (BTS), 10:90 concept (10:90) and 5/95 Home Loan Package (5/95). Besides, this research only focused on housing market in the district of Johor Bahru, Malaysia. Johor Bahru is the capital city of the state of Johor which is the second largest city after Kuala Lumpur in southern Malaysia. Anyhow, Property Market Report 2010 showed that the number of residential transaction in Kuala Lumpur for the year 2010 is 21,262 whereas Johor is 26,863 units. Johor remains one of the property regions in Malaysia, apart from the Klang Valley (Central) and Penang (Northern). Although it is a manufacturing and transportation hub, Johor’s residential property market is perceived to be still suffering from an overhang of units unsold. The unsold property units in Johor comprised mainly units from the secondary market and abandoned development. Besides, Johor is ranked in the 3rd place for the units of abandoned houses during year 1999 until 31 May 2009 (as shown in Appendix A). Furthermore, Property Market Status Report showed Johor ranked the first place for the total number of overhang in residential units for Q4 year 2010 (as shown in Appendix B). In Syarahan Perdana 2011 entitled The Different Scenarios of Housing Problem in Malaysia, stated that one of the major urban areas confronted with the problems of housing overhang or unsold residential units of housing projects is Johor Bahru. Bujang, Zarin, and Jumadi (2010) also revealed that the total residential properties in Johor Bahru are more than the current housing needs based on the number of households. Consequently, it has led to the property overhang due to the unsold and exceeding number of housing in the market (Bujang, Zarin, and Jumadi, 2010). Hence, the study area for this research focused on the district of Johor Bahru and all the Johor Bahru housing developers are involved in giving their views towards various types of housing delivery systems in this study.

For a better understanding towards these four systems, the study will review the theoretical framework of each of the systems, how it works, their pros and cons to
developers as well as to purchasers, and also the differences among these housing delivery systems.

1.6 Methodology of Study

The research methodology of this study was divided into 5 stages which include identification of problem statements, theoretical study, empirical study, data analysis, conclusion and recommendation. A research operation chart in Figure 1.1 showed the 5 stages of this research. In the early stage of the research, research questions were obtained from the problem statements, followed by research objectives. The significance, scope and limitation of the study had been identified.

After notarise the objectives and scope of the study, theoretical study was carried out to obtain the secondary data for this research through literature review. The study was carried out by gleaning the theoretical information related to the research topic. It was done by referencing materials such as journals, books, research reports, newspapers’ articles, government reports and other academic and formal publications. This may assist in preparing questionnaires in order to achieve the research objectives on the coming stage.

Empirical study was conducted by using questionnaire to obtain the primary data to achieve the objectives of the study. Both the quantitative and qualitative data are required in the questionnaire. The questionnaire contains three major parts; each of them will accomplish one of the objectives of the study. The questionnaire was then distributed to all the housing developers in the district of Johor Bahru.
UNDERSTANDING OF DEVELOPERS TOWARD MALAYSIAN HOUSING DELIVERY SYSTEMS

Research Question 1
Are the developers understand clearly about each type of housing delivery systems?

Research Question 2
Which types of the system preferred by developers and what is their current practice system?

Research Question 3
What are the challenges or difficulties faced by them in implementing different types of housing delivery system in Malaysia?

Research Objective 1
To determine the knowledge of developers toward different types of housing delivery systems in Malaysia.

Research Objective 2
To determine the common types of housing delivery system practised by developers at present.

Research Objective 3
To determine the challenges faced by developers in implementation of different types of housing delivery system in Malaysia.

Significance of the Study

Scope of the Study

Limitation of the Study

THEORETICAL STUDY

Literature Review
- Housing economy in Malaysia.
- The importance of housing delivery system.
- Housing delivery system in foreign countries.
- Types of housing delivery system.
- Views from other related parties.

EMPIRICAL STUDY

Questionnaire

Developers
(Objective 1, Objective 2, and Objective 3)

DATA ANALYSIS

Cross-tabulation
(Objective 1 & Objective 2)

Average Mean Score
(Objective 3)

SUGGESTION/RECOMMENDATION & CONCLUSION

Figure 1.1  Research Operation Chart
The research will then proceed to the stage of data analysis. The quantitative data collected from questionnaires distributed to developers was analysed using Cross-Tabulation Analysis and Average Mean Score to notarise relationship among the data collected, the causative basis and also inter-related among the survey items. The analysis results will show the knowledge of developers towards different types of housing delivery systems, the system practiced by the developers, as well as the reasons of developers unwilling to try some of the housing delivery systems.

Finally, conclusion of this research was made by referring to the findings from the analysis. Problems statements and research objectives stated in the early part of the study will be revisited. The achievement of research objectives and the major findings of the study were discussed. Other than that, suggestions and recommendations for future research is included, limitations during the research was carried out are listed as references for intending researchers.

1.7 Chapter Layout

The study of this research is presented in five Chapters and every each Chapter represents different part of the study. The Chapter layout of this study is as follows:

Chapter 1: Introduction

First Chapter will give a general outline on the topic discussed in this research. It includes problem statement, objectives, significant of the study, scope of the study, methodology and also the chapter layout of the study.
Chapter 2: Literature Review

All the related key words of this research will be defined and discussed in this chapter as well as related key issues. In this Chapter, definition, concept and theories of different types of housing delivery system in Malaysia, the housing delivery system implemented in foreign counties and views from stakeholders were discussed.

Chapter 3: Research Methodology

The details on the research methodology were discussed in this Chapter including research design, research scope, data collection methods and questionnaire technique. Furthermore, analysis methods in getting final results for this study were also illustrated.

Chapter 4: Analysis and Discussion

All the data and information collected in study were analysed and discussed in this Chapter according to the research objectives. Analysed results were presented in the form of table, bar chart, histogram, line chart, for ease of reference and comparison. This chapter is divided into few sections, including respondents’ background, developers’ response towards knowledge of housing delivery system, common practise of housing delivery system among developers, and the challenges faced by developers in implementing housing delivery systems. Besides, the major findings of the study were discussed at the last section of this Chapter.

Chapter 5: Conclusion and Recommendation

The final Chapter explicated the findings and results obtained from previous chapters which had achieved the objectives of the study and a conclusion was made. Limitation and recommendations for further study were also put forward.
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