A STUDY OF THE CAUSES AND EFFECTS OF ABANDONED RESIDENTIAL PROJECTS IN MALAYSIA

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UNIVERSITI TUN HUSSEIN ONN MALAYSIA
A STUDY OF THE CAUSES AND EFFECTS OF ABANDONED RESIDENTIAL PROJECTS IN MALAYSIA

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A thesis submitted in fulfillment of the requirement for the award of the Degree of Master of Science in Real Estate and Facilities Management

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For my beloved wife and children
ACKNOWLEDGEMENT

This thesis is dedicated to my wife and children, especially my wife, who has constantly encouraged me to carry out this study due to my own background knowledge in this field of study, as a contribution and eye-opener to those unfortunately affected by abandonment and others in our society. Without their love, support and understanding, it would have been a difficult task to complete this course. I would also like to thank my late parents who had always placed the utmost importance on education as I would not be where I am today if not for them. The invaluable knowledge and experience gained was made possible by the dedicated supervisor of this thesis. A word of thanks also goes to the ever-helpful staff of UTHM. The cooperation of the national regulatory bodies involved in the property industry and the respondents where this study was carried out is also very much appreciated. They have made this study a memorable and pleasurable one.
ABSTRACT

The ever increasing demand for property has brought about numerous problems involving the stakeholders in the property industry, resulting in the widespread abandonment of residential projects in the country. The purpose of this study is to reveal the causes relating to the phenomenon of abandoned residential projects in a structured manner and its effects from a social, economic and environmental perspective. A preliminary research on literature review using content analysis identified the key stakeholders involved. A quantitative research methodology was conducted in the collection of data through a well-designed questionnaire which was structured based on literature review and preliminary interviews and discussions with 10 key stakeholders of the property industry. A total of 52 respondents representing developers, contractors, consultants, REHDA, HBA, Abandoned Property Owners Association and banks participated in the survey. Data was analysed using descriptive statistics whereby the mean scores were obtained. The findings conclude that the main root causes of abandoned residential projects in Malaysia are financial closely followed by administrative/strategy and policy factors. They also confirm that the effects are mainly social and economic with some environmental effects; sub-categorized as financial, administrative and policy perspectives. An analytical framework in the form of a Fishbone Diagram illustrates the causes and effects of abandonment categorized under the different perspectives with respect to the relevant key stakeholders. The findings of this research contribute valuable knowledge and solutions to the key stakeholders enabling them in making informed choices and decisions in avoiding future entrapment.
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CHAPTER 1

INTRODUCTION

1.1 General overview

The construction industry is a developing industry and it is an important component in Malaysia’s economic growth (Chia, et al., 2011). Generally, the development rate of a country is critically related to the infrastructure development. The housing industry is an important sector that plays a major role in the development of a country and its economy.

According to Nuarrual Hilal (2008a) the demand for residential property over the past three decades has resulted in numerous problems being encumbered by developers, contractors and buyers in the building industry in Malaysia. One such problem is that it is contributing to an alarming surge in the number of abandoned residential projects in the country. Although the housing industry is one of the main priorities of the government, persistent major problems are being encountered, resulting in the *sui generis* (unique) abandoned housing projects. There have been initiatives to remedy this problem by the government, very much driven by growing concerns by key stakeholders regarding the increasing number of abandoned projects. Although efforts of the research community has drawn attention to various aspects of the problem, however little has been done to identify the causes and effects of abandonment of housing projects with respect to the key stakeholders. Hence, this study has been undertaken to identify the causes of abandoned residential projects as well as gauge the effects of such projects on the building industry and
developers, the key stakeholders in general, especially the innocent buyers, the funding financial institutions and other related parties of the housing industry.

It was also mentioned (Nuarrual Hilal, 2008a) that the housing industry has brought about numerous benefits and contributed towards the economic and social development and growth of the nation, but along with it came a nightmare and a barrage of problems related to abandoned housing projects. In Malaysia, the demand for housing is relatively high compared to existing supply. This has contributed to a strong interest amongst property developers to over-capitalize on the continuing demand leading to some negative impacts on the property industry, such as that of abandoned projects. It gives a person great excitement and satisfaction when they book their first home in the hope of finally owning a property which they can call their own but when the project is stalled for various reasons, they are left stranded, financing an incomplete house which is indefinitely abandoned.

Nuarrual Hilal (2008a) stated that the buyers feel cheated and are furious when their dream houses are not completed or abandoned for long periods of time. The question commonly asked is as to whether buyers have sufficient knowledge or whether they have any knowledge at all of their rights as buyers. Buyers accuse the banks of being inhumane, as to why the loan should be paid when the house is incomplete and undelivered as promised. The issue of abandonment is never stipulated in the loan agreement between the buyer and the bank. Thus, there is no linkage between a loan agreement and the sale and purchase agreement. The loan agreement is merely a kind of loan product offered by a bank. The completion of a housing project within the stipulated period, with quality as per specifications laid down in the Sale and Purchase Agreement and in compliance to and the satisfaction of interested parties, requires cooperation amongst the relevant key players, such as the contractors, developers, financial institutions, suppliers and buyers, amidst tight project management.

Consumers Association of Penang (2007) classifies Housing Projects as abandoned projects when:

i. Construction work in the project site has stalled continuously for 6 months or more, whether during the project completion period or past the scheduled date of completion, in accordance to the Sales and Purchase Agreement.
ii. A developer is unable to complete the project, or when the Housing Controller considers that the developer can no longer carry out their responsibilities as a developer.

It is without doubt that projects that end up being classified as abandoned do have the recognizable associated symptoms that render them being categorized as ‘delayed project’, and worse still as a ‘sick project’. These categories are defined accordingly by Abdul Aziz and Abdelnaser (2011) as below:

i. Delayed Project: Project facing delay between 10% - 30% compared to actual expected development;

ii. Sick Project: Project facing delay more than 30% compared to actual expected development or the expiry period of the Sale and Purchase Agreement.

The Consumers Association of Penang (2007) in its article “Abandoned Housing Projects – Who Suffers & What Can Be Done”, are convinced that the buyers are the worst affected when housing projects are abandoned, whereby they have to start and continue making payments on their housing loans even if their houses are not completed and unfit to live in. Failing which, legal action would be taken against the house buyers, followed by bankruptcy proceedings and eventually being adjudicated bankrupt. According to the Consumers Association of Penang (2007) between 1990 to 2005, 261 projects involving 88,410 houses in Peninsular Malaysia were abandoned. A total of 58,685 buyers were affected by this problem. This problem of abandoned housing projects is indeed serious and the root causes, irrespective of whether it is that of the house buyers’, the developers’ or the Housing Ministry, has to be identified immediately.

The implementation of the Housing Development (Control and Licensing Amendment) Act, 2007 made bold changes to revamp the local property sector and contributed to improving the efficiency of the country’s new housing development delivery system. The fast track approval system was implemented for greater efficiency and transparency in the Housing Industry. The One-Stop Centre was set up for a speedier process in handling and approving housing projects, replacing the Certificate of Fitness for Occupation (CFO) with the Certificate of Completion and Compliance (CCC) and incentives for developers to adopt the Build Then Sell (BTS) concept, in contrast to the existing Sell Then Build (STB) method. The changes
were expected to bring about more transparency, full disclosure and practical flexibility with no overlapping of processes, better building delivery system, fast track approval and cutting down red tape, thereby making the country investment friendly and ensuring that the housing industry would be more competitive (Housing Development Control and Licensing (Amendment) Act, Act A1289, 2007). However, the issue of abandoned housing projects is still a persistent problem.

Despite attempts being made to identify some of the causes of abandonment of housing and commercial projects (Mohamed Sukeri, 2005; Ibrahim, 2006; Norharnila, 2006), the problem of abandonment seems to have persisted since the 1970s mainly due to the lack of political will in implementing significant and radical changes in the housing sector as noted by Nuarrual Hilal (2009). The unresolved state of affairs regarding abandonment has prompted certain quarters to propose for the implementation of the ‘build then sell’ concept in Malaysia in order to resolve the problem of abandoned housing projects (National House Buyers Association, 1991). This system has long been implemented in other countries such as Singapore and New South Wales, Australia and the responsibility is entrusted upon the Housing Development Board under the perview of the Ministry of National Development in Singapore (Nuarrual Hilal, 2009).

It is undeniable that the seriousness of the problem regarding abandoned housing projects warrants for a detailed research and study on the causes that lead to residential projects being abandoned and the effects of the said abandonment on all key stakeholders.

1.2 Background of the study

Since the independence of Malaysia in 1957 there has been a gradual increase in demand for residential property, in tandem with the population and economic growth of the country (Nuarrual Hilal, 2011). This problem of abandoned housing projects is indeed serious, and has to be resolved immediately irrespective of whom the finger should be pointed at. The Federal Government’s top priority has always been to provide sufficient and suitable housing accommodation to all residents. This enormous task of constructing and building housing accommodation has been given
to the developers who are subjected to rules and regulations laid down by the
government. Private Developers licensed under the Housing Development (Control
and Licensing) Act, 1966 and the respective Regulations have been given the task of
constructing and completing the residential and industrial buildings to fulfil the
demands of buyers who comprise of the various categories of society.

Abandoned housing has become a severe and perpetual headache to the
government, financial institutions and purchasers. The cause has often been assumed
to be due to legal problems and the recession, often attributed to the East Asian
Financial Crisis which drastically affected the Malaysian economy in 1997, which
was compounded by the ongoing Global Financial Crisis. The Consumers
Association of Penang (2007) in its article ‘Abandoned housing projects-Who suffers
& What Can be Done?’ identified the following common causes of abandoned
housing projects:

i. Delays in the approval of projects by the government agency, responsible for
   the escalation of house prices.

ii. Developers encounter financial problems in the course of development.

iii. Delay in the issuance of Certificate of Fitness for Occupation although the
    houses have been completed.

iv. Developers take a deposit and keep it or use it for another project being
    developed elsewhere, at the same time.

v. Construction work not in accordance to specifications.

vi. Construction work is incomplete.

vii. Buyers pay in cash or through end financing but fail to get their titles from
    the bank that is funding the project because the developer fails to settle his
    loan (bridging or term).

viii. Interest rates imposed by banks are too high.

ix. Developers complete the project but eventually abandon it due to their failure
    in meeting all the specifications.

The timely completion and delivery of the houses to the purchasers is
significant but it becomes an issue when the houses are delayed beyond the
completion period mentioned in the sale and purchase agreement (Ng, 2007). House
buyers are further blacklisted by the banks when they fail to service their bank loans
Having been blacklisted, they are unable to buy another property unless they pay back their loans (Yip, 2009b).

For over two decades, the property industry has been grappling with the surge of abandoned housing projects which has caused hardship to many buyers and has remained a major thorn in the flesh until today. According to the Ministry of Housing and Local Government (2009), there was a total of 34 Abandoned Housing Projects nationwide in Malaysia, between 1990 and 2009 at various levels of completion, involving 9,155 units and 5,484 buyers, requiring Developers or White Knights to salvage, revive or rehabilitate the said projects. This problem of abandoned housing projects is indeed serious. Thus, the root cause, irrespective of who is to be blamed has to be resolved immediately.

According to Nuarrual Hilal and Sharifah Zubaidah (2012), when a housing developer company is wound up, a private liquidator or provisional liquidator or the official receiver under the Department of Insolvency takes over the affairs and business of the company. The liquidator may only rehabilitate the abandoned projects if the projects are viable for rehabilitation with the approval of the creditors, contributories, the committee of inspection and the court and where there are adequate funds to finance the rehabilitation. On the other hand, if it is not viable, due to insufficient funds or the complexity the projects, they may be stalled forever without any prospects for rehabilitation, to the detriment of the purchasers.

1.2.1 Recent developments

According to a professor of law at Universiti Utara Malaysia, Nuarrual Hilal (2008b), the Malaysian Housing and Local Government Ministry records show that abandoned housing projects had been reported since the 1970s and due to the Global Financial Crisis, their numbers have increased. In June 2005 the numbers were 277, with 50,183 buyers, 75,356 dwellings and the projects were worth RM7.033 billion. However, these numbers do not give a true picture as some of the projects are not listed and thus the actual figure is much higher (Nuarrual Hilal, 2008b).

Consumers Association of Penang (2007) reported the following. In 1983, abandoned housing projects were identified by the government for the purpose of rehabilitation. In 1990, an Abandoned Housing Project Revival Fund (TPPPT) was
established by Bank Negara and the Abandoned Housing Project Revival Pvt. Ltd. was given the responsibility to conduct feasibility studies in view of reviving those projects. The government then set up a special purpose vehicle, similar to the *Pengurusan Danaharta Nasional Bhd (Danaharta)*, to be placed under the responsibility of the National Housing Corporation (*Perbadanan Perumahan Negara*). Hence, *Syarikat Perumahan Negara Berhad*, a wholly owned subsidiary of the Ministry of Finance, was appointed to take over and revive abandoned housing projects; and the Housing and Local Government Ministry set up a special fund to revive abandoned projects.

The Housing and Local Government Ministry (2009) in an article published in the *New Straits Times* (2009) entitled “Rescue plans for abandoned projects”, gave its assurance that housing projects launched will not be abandoned following the enforcement of new laws and the introduction of a special purpose vehicle. The Housing and Local Government Minister said that the challenge was to instill confidence in developers and buyers to ensure the industry continues to be active despite the unsupportive economic situation.

*Pemudah (Pasukan Petugas Khas Pemudahcara Perniagaan)*, a special task force comprising 23 highly respected individuals from both the private and public sectors, set up by the government on 7th February 2007 to facilitate business and reporting directly to the Prime Minister (*Pemudah*, 2007), suggested ways to reduce the number of abandoned housing projects in Malaysia. There were 423 housing projects that were either delayed, ailing or abandoned, being monitored by the Ministry of Housing and Local Government (MHLG) as at 30 June 2010. MHLG implemented stiffer actions by compounding and prosecuting errant developers and blacklisting some. *Pemudah* in their annual report in 2010 proposed that the deposit required to get a developer's licence from the current RM200,000 be raised by 5 per cent. They also suggested that it be made mandatory for developers to take on the build-then-sell concept (BTS) and introduce the housing insurance scheme as suggested by the Real Estate and Housing Developers' Association of Malaysia (Rehda), to provide a boost to buyers. Developers on the other had complained that they would have to build the properties with no assurance that buyers would stay. Projects are often abandoned due to mismanagement, financing issues, mismatched development components and fraud by developers (Sharen, 2011).
Sanjugtha (2013) in her article “White Knights Galloping In”, disclosed that the government has spent RM156 million over the past four years to revive 126 abandoned housing projects, completing 29,799 homes, an average of RM5,238 spent to revive a house in an abandoned project. A total of 178 housing projects have been abandoned since 2009, involving more than 50,000 low to medium cost income households. Sanjugtha (2013) further elaborated that to overcome this problem, the Ministry of Housing and Local Government (MHLG) set up the Abandoned Project Rehabilitation Division (APRD) under the purview of the National Housing Division. This division has revived 126 projects with another 66 in the pipeline (see Table 1.1). APRD has been negotiating revival packages between white nights and financial institutions to minimise the government’s need to top up and ensure smooth revival of abandoned projects (see Table 1.2).

Table 1.1: Abandoned housing projects in peninsular Malaysia (January 2009 to 2015)

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<td></td>
<td>Current</td>
<td>New</td>
</tr>
<tr>
<td>2009</td>
<td>144</td>
<td>4</td>
</tr>
<tr>
<td>2010</td>
<td>133</td>
<td>13</td>
</tr>
<tr>
<td>2011</td>
<td>110</td>
<td>6</td>
</tr>
<tr>
<td>2012</td>
<td>84</td>
<td>11</td>
</tr>
<tr>
<td>2013</td>
<td>60</td>
<td>27</td>
</tr>
<tr>
<td>2014</td>
<td>57</td>
<td>10</td>
</tr>
<tr>
<td>2015</td>
<td>52</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>144</td>
<td>72</td>
</tr>
</tbody>
</table>

Source: Abandoned Project Rehabilitation Division, National Housing Department (2015)
Table 1.2: Government expenditure to revive abandoned projects

<table>
<thead>
<tr>
<th>Year</th>
<th>RM (Million)</th>
<th>No. of Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>14.5</td>
<td>5</td>
</tr>
<tr>
<td>2012</td>
<td>51.4</td>
<td>7</td>
</tr>
<tr>
<td>2013</td>
<td>62.1 (Committed)</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>37.9 (Budgeted)</td>
<td>4</td>
</tr>
<tr>
<td>2014</td>
<td>28.1 (Budgeted)</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>194</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: Abandoned Project Rehabilitation Division, National Housing Department (2014)

1.3 Problem statement

The seriousness of the problem of abandoned residential projects has forced the government to step in and splash huge sums of money to rehabilitation these projects, more so in the interests of the house buyers. The Housing Developers (Control and Licensing) Act of 1996 too has been amended in the hope of resolving this problem. Unfortunately, abandoned residential projects still exist and the problem has not been solved. Thus, there is a need to study the factors that continue to contribute towards residential projects being abandoned and their effects from a socio-economic perspective in avoiding this problem form recurring continuously.

The National House Buyers Association (2008) has noted that abandoned housing projects are an eyesore and proof of business failures especially when abandoned buildings become breeding grounds for mosquitoes and other unwanted activities like shelters for drug addicts. Abandoned buildings remain uncompleted whilst the unlucky buyers cry out of frustration. Thick undergrowth and weeds creep over concrete house pillars and dark moss discolour concrete pillars. The empty building sites turn into ghost towns whilst the ugly and unstable abandoned buildings pose danger and affects the environment.

Based on recent statistics, it appears that the issue of abandoned housing projects is still a persistent problem in Malaysia (see Table 1.3). Moreover, the prime indicators leading towards abandonment, which is delayed and sick projects, are still aplenty (see Table 1.4). The tables further indicate that Penang is an average
of the worst and best case of delayed and sick projects, especially in terms of the number of units and house buyers involved. Penang is a fair representative of the issues related to abandoned housing projects in Peninsular Malaysia and thus the researcher’s choice in conducting this research in Penang. Syafri Idzwan (2008), in his research found that housing projects are continuously being delayed and eventually some ending up in an abandoned state despite the existence of the relevant laws, regulations and statutory provisions governing the housing industry. Syafri Idzwan (2008) argued that there are some pertinent questions that need to be answered, especially as to whether these laws, rules, regulations and statutory provisions or any improvements to them, can help prevent and avoid this catastrophe from recurring in the future or help protect the rights and interests of the parties involved.

Table 1.3: Abandoned housing projects by state until 30 June 2015

<table>
<thead>
<tr>
<th>STATE</th>
<th>NUMBER OF PROJECTS</th>
<th>NUMBER OF HOUSE UNITS</th>
<th>NUMBER OF BUYERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Johor</td>
<td>8</td>
<td>2,734</td>
<td>2,051</td>
</tr>
<tr>
<td>Kedah</td>
<td>2</td>
<td>765</td>
<td>169</td>
</tr>
<tr>
<td>Kelantan</td>
<td>1</td>
<td>39</td>
<td>29</td>
</tr>
<tr>
<td>Melaka</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Negeri Sembilan</td>
<td>4</td>
<td>973</td>
<td>807</td>
</tr>
<tr>
<td>Pahang</td>
<td>4</td>
<td>761</td>
<td>589</td>
</tr>
<tr>
<td>Perak</td>
<td>9</td>
<td>962</td>
<td>600</td>
</tr>
<tr>
<td>Perlis</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Pulau Pinang</td>
<td>2</td>
<td>1,550</td>
<td>1,337</td>
</tr>
<tr>
<td>Selangor</td>
<td>22</td>
<td>7,288</td>
<td>4,798</td>
</tr>
<tr>
<td>Terengganu</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Kuala Lumpur</td>
<td>1</td>
<td>134</td>
<td>23</td>
</tr>
<tr>
<td>TOTAL</td>
<td>53</td>
<td>15,206</td>
<td>10,403</td>
</tr>
</tbody>
</table>

Source: National Housing Department (MHLG, 2015)
Table 1.4: Overall statistics of problematic private housing projects - delayed and sick as at 28 February 2014

<table>
<thead>
<tr>
<th>NO.</th>
<th>STATES</th>
<th>NO. OF DELAYED PROJECTS</th>
<th>NO. OF SICK PROJECTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>PERLIS</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>2.</td>
<td>KEDAH</td>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>3.</td>
<td>PULAU PINANG</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>4.</td>
<td>PERAK</td>
<td>0</td>
<td>51</td>
</tr>
<tr>
<td>5.</td>
<td>SELANGOR</td>
<td>18</td>
<td>72</td>
</tr>
<tr>
<td>6.</td>
<td>WILAYAH PERSEKUTUAN</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>7.</td>
<td>NEGERI SEMBILAN</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>8.</td>
<td>MELAKA</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>9.</td>
<td>JOHOR</td>
<td>19</td>
<td>28</td>
</tr>
<tr>
<td>10.</td>
<td>PAHANG</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>11.</td>
<td>TERENGGANU</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>12.</td>
<td>KELANTAN</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>60</td>
<td>225</td>
</tr>
</tbody>
</table>

Source: Official Portal National Housing Department (2014)

According to Mohd Rafick Khan (2010), the Housing Development Act (Act 118) which governs housing development in Malaysia, forces purchasers and developers to sign the standard Sale and Purchase Agreement strictly without any deviation, as provided in schedule G or H of the said Act, upon a purchase of any property from a developer. However, it is common knowledge that the SPA is a contract between a willing buyer and a willing seller in the purchase of residential property. The agreement does not give much rights to the house buyers but plenty of obligations, and a freehand to the developer who will dictate the property development. There is no avenue for the buyers to take any action against the developer when the project is delayed. Buyers may make a claim for late delivery charges (LAD) against developers but they may only do so when the project is fully completed. The Ministry of Housing and Local Government (2010) statistics showed that 252,000 house buyers were affected as at February 2010 and that it was a RM37.8 billion problem.

According to the National House Buyers Association (2008), there is no protection for buyers or a comprehensive method of preventing or dealing with abandoned or stalled housing projects. Buyers are often left all alone to face this dilemma of abandoned housing projects. However, of late some serious attention has
been directed at this problem, but not enough, as the problem seems to persist with serious consequences. The trend in abandoned housing projects on the other hand, appears to be on the decline, maybe due to the Government’s intervention and measures taken.

The Consumers Association of Penang (2012) revealed that unlicensed housing developers had scandalously carried out 195 housing projects right under the eyes of the relevant parties in the housing industry.

According to Sanjugtha (2013), to date 187 housing projects have been registered under APRD as abandoned, an addition of 43 to the initial 144 projects registered with the department since its inception in 2009. A total of 67.38% of the abandoned housing projects have been completed with another 24.6% currently under construction, whilst a further six projects have been planned for this year. Sanjugtha (2013) further reported that in 2013, Abandoned Project Rehabilitation Division’s (APRD) records showed 69 abandoned housing projects, comprising 60 brought forward from 2012 that were not completed. Whilst nine new projects have been reported as of end-March 2013, with a total of eight projects that have been completed and 46 that were still under construction.

There has been public opinion calling on the government to intervene and take over the rehabilitation of abandoned projects and at the same time to impose legal provisions in preventing abandoned housing in future (Harian Metro, 2003). In a report in the Utusan Malaysia (2004) the Prime Minister Abdullah Ahmad Badawi in acknowledging the seriousness of abandoned housing projects, advised private developers to not merely think of profit but also to be more fully responsible when completing the projects. Previous researches such as Kamariah (1993) and Nuarrual Hilal (2001) contended that the existence of abandoned housing projects is a national problem affecting mainly private purchasers and leading to other problems like encouraging criminal activities at project sites. The President of the Federated Association of Consumer Malaysia (FOMCA) argued that the existence of abandoned housing projects could also be related to the housing system based on the ‘sell the build system’ being practiced in Malaysia (Mingguan Malaysia, 1999).

Notably, the Ministry of Housing and Local Government [MHLG] (2013) has highlighted complaints regarding project abandonment pertaining to rejection of planning approvals, delays in hand-overs, refusal to pay compensation for late
delivery and conflicts involving local authorities, developers, consultants and contractors occurring at different stages of housing delivery.

Previous research has mainly focused on generalizing the causes and effects of abandonment, not providing a clear identification of ownership of the issues. Thus this research aims to evaluate the main root causes and effects of abandoned residential projects from the financial, administrative and policy perspectives relevant to the key stakeholders involved in the housing industry due to the wide array of multiple causes and effects of abandonment.

1.4 Scope and focus of research

The focus of this research is to reveal the causes relating to the phenomenon of abandoned residential projects in a structured manner and its effects from a social, economic and environmental perspective. Once the causes and the problems which lead to the abandonment are identified, solutions can then be readily identified so that the risk of housing projects getting abandoned can be eradicated or at the least minimized to an acceptable level. However, this research does not serve to identify and discuss specific solutions to this phenomenon.

Figure 1.1: Scope and focus of research
Source: Adapted from Vinetta Bell (2009)
To start with, this research focuses on the study of factors causing the abandonment of residential projects by conducting literature review and preliminary discussions and interviews with selected stakeholders such as consultants, developers, contractors and purchasers involved in the study in order to structure a comprehensive data collection questionnaire primarily aimed at identifying the root causes and effects of abandonment. The respondents chosen were the key stakeholders within the property sector, adequately knowlegable on the issue of abandonment of residential projects. Hence, recommendations for overcoming the issue of abandonment are forwarded based on stakeholder feedback. The diagram in Figure 1.1 shows the scope and focus of this research.

1.5 Research questions

i. What are the causes of abandoned residential projects in the property industry in Peninsular Malaysia according to specific categories of stakeholder responsibility?

ii. What are the effects of abandoned residential projects in the property industry in Peninsular Malaysia from a social, economic and environmental perspective?

iii. What is the relationship between causes of abandoned projects with respect to the various stakeholders in the property industry in Peninsular Malaysia?

iv. Can a conceptual framework be formulated for mitigating the problems leading to abandonment of residential projects in Peninsular Malaysia be developed as a guide?

1.6 Research aims and objectives

The aim of this research is to identify the main causes and effects of abandoned residential projects specific to the key stakeholders in the property industry in Peninsular Malaysia from a financial, administrative/strategy and policy perspective. Thus, this research will evaluate the main root causes and effects of abandoned residential projects in formulating an analytical (fish-bone diagram) and conceptual
frameworks to ascertain if there lies a relationship between the causes and effects with respect to the various key stakeholders.

Based on the aims of this research, the following research objectives are formulated. The following objectives will function as the guidelines of this research:

i. To identify the main root causes of abandoned residential projects in the property industry in Peninsular Malaysia attributed to the various key stakeholders.

ii. To identify the main effects of abandoned residential projects in the property industry in Peninsular Malaysia from a social, economic and environmental perspective.

iii. To evaluate the relationship between causes of abandoned projects with respect to the various stakeholders in the property industry in Peninsular Malaysia.

iv. To formulate a conceptual framework for mitigating the problems leading to abandonment of residential projects in Peninsular Malaysia.

1.7 Theoretical framework of research

Feedback in the form of preliminary interviews and questionnaires from the said parties gave a comprehensive insight on the main causes and as to the surge in the number of abandoned housing projects in Peninsular Malaysia.

In aiming to identify the main causes and effects of abandoned residential projects, it was considered as of equal importance to establish the relationship between the causes and effects based on a cause-and-effect fishbone diagram methodology to establish the causal relationship achievable by designing the questionnaire in a categorical sense. This is considered valid based on matching causes and effects according to pre-specified categories; as a pioneering piece of work having to deal with complex array of variables. Additionally, this research sets out to identify the parties involved and to what extent these causes relate to them. Earlier researchers such as (Sambasivam and Yau, 2006), National House Buyers Association (2006b), Chan (2009) and Hussin and Omran (2011) have already indicated that there are several effects on certain innocent parties brought about by this perennial problem in Malaysia.
Theories are formulated to explain, predict, and understand phenomena and in many cases, to challenge and extend existing knowledge within the limits of critical bounding assumptions. The theoretical framework is the structure that can hold or support a theory of a research study. The theoretical framework introduces and describes the theory that explains why the research problem under study exists (Swanson, 2013). The variables of the research are represented as a form of theoretical framework. Following the determination of the variables, a research strategy was drawn up (see Figure 1.2). The theoretical framework describes the relationship amongst the variables in the research and the effects of that relationship that can also be seen as an input-output process. The theoretical framework in Figure 1.2 shows the focus of this research.

The research flow shows the separation between the factors and parties related to the Causes of Abandoned Projects and the Effects of those causes on the respective parties. From the feedback during the preliminary interviews and discussions with selected stakeholders in the property industry and literature review, it was noted that amongst the parties who are knowledgeable and able to give initial feedback on the causes of abandoned projects are the Real Estate and Housing Developers Association, the House Buyers Association, Consultants in the Housing Industry such as Architects, Engineers and Surveyors, Developers and Contractors, House Buyers, Banks and Financial Institutions, the Abandoned Property Owners Association and the Ministry of Housing and Local Government.

Figure 1.2: Theoretical framework of research (Adapted from Owston, 2007)
1.8 Scope of study

The scope of this study was limited to Property Developers, Contractors, Consultants in the housing industry, House Buyers, the Real Estate and Housing Developers Association (REDHA), House Buyers Association (HBA), Abandoned Property Owners Association of Malaysia (Victims Malaysia), Banks and Financial Institutions, records with the Ministry of Housing and Local Government, Local Authorities, Syarikat Perumahan Negara Berhad (SPNB), the Abandoned Project Rehabilitation Division and other relevant parties involved in abandoned projects. This study was carried out based on data retrieved from the relevant parties involved in the housing industry primarily in Penang, which is quite representative of Peninsular Malaysia in relation to the issue of housing project abandonment. Penang is an average of the worst and best cases of the number of abandoned housing projects in Peninsular Malaysia by virtue of the number of delayed and sick projects, abandoned projects and the number of units and buyers involved (See Tables 1.3 and 1.4), (National Housing Department, 2014) and (National Housing Department, 2015). Additionally, to ensure key stakeholder (respondent) representation, some national bodies based in Kuala Lumpur, like the Real Estate and Housing Developers Association, House Buyers Association and the Abandoned Property Owners Association Malaysia were included.

Hence, this research focused on abandoned residential projects in the state of Penang as a representative sample, and the study also focused on the causes and effects of specifically abandoned residential projects in the property industry. The relevant parties, viewed as key stakeholders to the issue of abandonment were interviewed and questionnaires that were answered by them were analysed with respect to the relevant research objectives.

1.9 Research methodology

This research was undertaken primarily using a quantitative methodology. In order to elicit a clear understanding of the issues related to the problem of abandoned residential projects, a brief preliminary research was undertaken. However, the preliminary research is not described in particular detail as it served to structure the
main quantitative research, especially in the design of the research questionnaire. A summary description is provided below.

### 1.9.1 Preliminary research

In ascertaining the problems that exist with respect to abandoned housing projects, preliminary discussions with professionals were undertaken, study of relevant published articles, internet resources and other forms of relevant literature were analyzed briefly. Site visits to the abandoned housing projects gave a better understanding of the actual conditions of the abandoned construction sites in terms of effects.

In conclusion, this preliminary research involved collection of information through personal discussions with selected developers, contractors, consultants and house buyers in order to identify and/or refine the issues relating to abandoned residential projects that helped to formulate and test the conceptual framework.

### 1.9.2 The quantitative research

A quantitative research analysis was used involving data collection through survey questionnaires. Questionnaires were distributed to the target population followed by personal visits, telephone calls and electronic mail messages reminding the respondents to complete and return the completed questionnaires. Additional space was also provided in the questionnaire to enable the respondents to state other causes and effects of abandoned residential projects not mentioned in the questionnaire. The respondents were also encouraged to make suggestions in overcoming abandonment of residential projects.

#### 1.9.2.1 Research population & sample

The population of this study consisted of key stakeholders such as house buyers, property developers, contractors, consultants, the Abandoned Property Owners Association Malaysia, the Real Estate and Housing Developers Association, the House Buyers Association and Banks. Stratified Purposive Sampling Design was
used as the stratified sample of the research population was based on sample of the various key stakeholders. A suitable sampling frame was identified for each stratified sample, thus determining a suitable sample size based on selecting an appropriate sampling technique and the sample.

1.9.2.2 Research instrument

The main research instrument of this study was the survey questionnaire, in order to achieve the objectives stated above. In designing the questionnaire, the researcher ensured that the respondents were able to decode the questions the way it was intended and to participate in providing other possible causes and effects of abandonment and propose suggestions in resolving them. This was achieved by consulting representative/s from each category of stakeholders not involved in the actual research, namely 2 directors, 2 contractors, a consultant, an office bearer of the Real Estate & Housing Developers Association, Penang, an office bearer of the House Buyers Association, a senior bank officer and a house buyer with an experience of an abandoned housing project.

1.9.3 Data analysis

Data analysis was undertaken after all the required data was collected before making any inferences. Numbers were crunched to obtain the mean score for each item in the questionnaire by multiplying the frequency of responses in each Likert Scale (f) with the respective weightage (w). The sum of this value (Σ) was then divided by the total number of respondents in each category (n). Quantitative data was treated and analysed in detail as described accordingly in the methodology chapter.

1.10 Significance of study

Abandoned residential projects are projects that are left without care in abandoned construction sites either temporarily or permanently stalled for a long period of time. Besides the fact that it brings misery and financial heartache to the purchaser, the structures are completely left idle and unprotected, constantly at the mercy of
weather conditions. The concrete and other construction materials used deteriorate over time, sometimes resulting in the project being incapable of revival or rehabilitation and being abandoned indefinitely. This is especially true in Malaysia where a drive around major cities, housing or industrial construction areas as well as the outskirts, would reveal the eyesore of abandoned projects stalled at various stages of incompletion.

This study will benefit all the key stakeholders involved in the Property Industry, such as the Real Estate and Housing Developers Association, the House Buyers Association, the Consumer Associations, Abandoned Property Owners Association, Consultants in the Housing Industry such as Architects, Engineers and Surveyors, Receivers and Managers, Liquidators, White Knights, Developers and Contractors, Banks and Financial Institutions, the Ministry of Housing and Local Government and the Local Authorities, Homeowner’s Tribunal and especially the innocent House Buyers. The parties involved in the drawing up of laws and regulations, development, construction and completion of the housing projects will be made aware of how and where they had gone wrong in the past in contributing to the increase in the number of abandoned residential projects. The banks and financial institutions will be made aware that they have to play a more significant and important role in scrutinising and monitoring the progress of the projects. This is to ensure that in future, there is an early detection of delays in the construction and completion of housing projects and thereby possibly rescuing projects from being eventually abandoned.

The house buyers too, will be made aware of their legal rights and responsibilities and they too, will realise that they have to be more aware of the laws and procedures as well as monitor the progress of construction work carried out. The house buyers who are usually the sole victims of any failed or stalled residential projects will be made more fully aware of the consequences of a failed project on them and how they can play a greater role from the signing of the Sale and Purchase Agreement (SPA) to the issuance of the Certificate of Completion and Compliance, to ensure that their unit in the said residential project does not end up being abandoned or incomplete.

This study will inadvertently educate the relevant parties in the property industry on the awareness regarding the issues relating to the abandonment of
residential projects in terms of clear economic, social and environmental causes and implications. Thereby helping to correct, reduce or completely eradicate unnecessary errors and risks of abandonment in the future attributed to the specific key stakeholders of the problem. The relevant parties in the residential industry will be aware that the completion of a housing project with Certificate of Completion and Compliance is not merely as simple as entering into an SPA and collecting a 10% deposit of the purchase price and obtaining loan facilities vide, loan agreements for bridging/term/end-financing facilities. Developers have to realise that they have to be financially sound before entering into these contracts and are capable of seeing through the completion of the projects in compliance to the existing laws and specific rules and regulation

1.11 Conclusion

This research was carried out to study the causes and effects of abandoned residential projects in the property industry which is still considered to be a problematic issue discussed daily and argued upon in the media and parliament; by authorities and politicians directly responsible and affected by their abandonment. Statistics from the Ministry of Housing and Local Government show that there is a steady ever increasing trend in the number of abandoned housing projects which has also resulted in an increase in the number of personal and corporate insolvencies amongst the purchasers, developers and contractors. It is apparent that due to this stigma within the property industry in Malaysia, which is one of the main income contributors of our nation’s economy has over the past two decades, a negative image of the socio-economic sector both within Malaysia and to the outside world has been projected. The social responsibilities of developers and contractors in the modern day are more demanding than in the 1970’s. There are demands for well-developed compensation, expropriation and ruin declaration procedures. New mechanisms are being introduced to try and avoid the repetition of past mistakes and efforts to better facilitate the management of abandoned projects through competent public administration in more advanced economies. The amendments to laws are attempting to protect the rights of citizens and to increase the responsibility of the urbanizing agents (developers, contractors, etc.).
This study serves as an eye opener and will contribute in unearthing the actual root causes, negligence and lack of commitment by key stakeholders that has resulted in continuous abandonment of residential projects.
CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

There are numerous problems faced by developers, contractors and buyers in the property industry resulting in an alarming surge in the number of abandoned projects in the country (Zairul and Rahinah, 2008). This research is vital, as the property industry is one of the main priorities of the government in Malaysia and plays a major role in the development of the country and its economy. This research has attempted to identify the causes and effects of abandoned projects as well as scope the areas for action of key stakeholders in the property industry, especially the innocent buyers, developers and the funding financial institutions.

Developers constantly advertise their proposed projects in beautiful brochures and make special offers, tempting buyers to rush into purchasing these houses although the project will be completed much later. A house buyer would still have to pay his housing loan and interest to the bank in accordance to the progress payments released to the developer, even if the housing project is eventually abandoned. Hence, a member of the lower income group will have the devastating consequence of never being able to survive financially, thus ending his dream of owning his very own house (Nuarrual Hilal, 2008b; National House Buyers Association, 2008).

In terms of avoiding the unpleasant situation of property development being abandoned, it is implied in previous research that key stakeholders need to secure a cooperative mode rather than resorting to legal action while having to face the consequence of project abandonment by a contractor and the related negative effects.
For instance, Ismail (2008) noted that the completion of a housing project within the stipulated period, with quality as per the specifications laid down in the Sale and Purchase Agreement and in compliance to and the satisfaction of interested parties, requires cooperation amongst the relevant key players such as the contractors, developers, banks, suppliers and buyers, amidst tight project management.

Based on the statistics in Table 2.1, it is clear that the number of house buyers affected by the problem of abandoned housing projects does not show any marked decreasing trend. The Ministry of Housing and Local Government (2009) confirmed that as at 2005, 261 projects involving 88,410 houses and 58,685 buyers in Peninsular Malaysia were abandoned. An obvious knee-jerk reaction is to conclude that legal action needs to be taken against the developers by the relevant parties, which could lead to the developer ending up in liquidation. Obviously, this is not an ideal or viable solution.

Table 2.1: Total number of abandoned housing projects (Peninsular Malaysia)

<table>
<thead>
<tr>
<th>Year Ending</th>
<th>No. of Abandoned Projects</th>
<th>No. of Affected Houses</th>
<th>No. of Affected Buyers</th>
<th>Estimated Value (RM million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>514</td>
<td>107,702</td>
<td>68,340</td>
<td>7,524.51</td>
</tr>
<tr>
<td>2001</td>
<td>544</td>
<td>125,649</td>
<td>80,070</td>
<td>9,496.68</td>
</tr>
<tr>
<td>2004</td>
<td>227</td>
<td>75,356</td>
<td>50,813</td>
<td>7,033.08</td>
</tr>
<tr>
<td>2005</td>
<td>261</td>
<td>88,410</td>
<td>58,683</td>
<td>8,043.00</td>
</tr>
</tbody>
</table>

Source: Ministry of Housing and Local Government (Monitoring and Enforcement Division) (2009)

Nuarrual Hilal (2008b) in his research suggested that insurance coverage for housing projects such as that implemented in New South Wales, Australia, can also be implemented in Malaysia. This is to ensure that in the event the developer defaults in his obligation, the buyers still have an avenue to see their homes completed. A comprehensive review is needed on the National Land Code (1965), planning laws, building and housing laws, Town and Country Planning 1976, Street, Drainage and Building Act 1974, Building By-laws 1984 and Housing Development (Control and Licensing) Act, 1966. There should also be a review of the provisions for special laws to regulate the rehabilitation of abandoned projects. Although several provisions were introduced in some of the legislations in 2007, it remains
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