

# What Causes Abandoned Residential Housing Projects in Malaysia? An Insight from Economic and Management Perspectives

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To Link this Article: <http://dx.doi.org/10.6007/IJARPED/v6-i4/3366>

DOI:10.6007/IJARPED/v6-i4/3366

*Published Online:* 19 December 2017

## Abstract

In Malaysia, the issue and the phenomena of abandoned housing project in the country remained unsolved and become national issue discussed by various parties. The parties involved are blaming each other, the government blamed by the homebuyers due to its failure to enforce the law to developers. On the other hand, the developers blamed the bankers and the local authorities. The local authorities blamed the architect and the building engineers of their failure to submit the report work progress on the ongoing projects. Thus, this research aims to answer the question about the causes of abandoned housing project in Malaysia from economics and management theory perspectives supported by empirical studies by scholars. From the finding, both perspectives; economic theory and management theory revealed that the causes of abandoned residential housing projects in Malaysia can be caused by private developers, housing contractors, the government or authorities, financial institutions, economics crisis, and politics.

**Keywords:** Abandoned Residential Housing Projects, Causes, Economic Theory, Management Theory, Malaysia.

## Introduction

Abandoned residential housing project is global issue. It occurs in every part of the world due to various reasons. The causes and effects varies and distinguishable among other countries (Shachmurove, 2012). The causes and effects of residential housing project abandonment by private developer in the United State of America, for instance, are different from these in Europe and Asia. In The United States of America, for instance, the abandonment of housing projects began in October 2006 due to the housing bubbles or sub-prime crisis. Property Market (2011) reported that the drop of residential property completed or under construction was 35% to 50%.

In this situation, the prices of houses decline and leading to difficulty of credit excess for mortgage or housing loan. Shahrokhi (2011) further explained the situation by saying, "The

USA Housing Bubble, which peaks in 2007, caused the value of the securities tied to U.S real estate pricing to plummet, damaging financial institution worldwide". As the results, the housing developers abandoned their housing projects due to lower pricing and inefficient fund that supposed to be obtained from the buyers' contributions.

In Europe the housing projects abandonment is due to credits crunch, which lead into debt crisis (Propertywire.com, 2011). The developers are unable to resume the housing projects, which are under construction, and consequently the developers are forced to abandon the housing projects. Due the crisis, the investors of the residential project with draw their fund and left the contractors with debt to workers. Ireland, for instance, is the worst nation hit by the global recession. The housings price tumble to 4% from 1% leaving the residential housing project abandoned. Other country experience the issue is Spain (Coy & Gittlesohn, 2010).

In Asia, on the other hand, the causes and effects vary among Asian countries. In China, for instance, the causes of abandonment are due to government policy imposed to private developer and contractor financial institutions strictness of rule and regulation. Secondly, the central government is responsible to the profit margin obtained by the developer or contractor (The Wall Street Journal, 2012). In Thailand, however, the causes are due to recession that hit Asian countries. Therefore, the financial institutions and investors reluctant to release the mortgage to the homebuyers while the investors unwilling to invest their money in property business.

The causes are from multiple sources; hence the effects have long been laying formidable obstacle and problem to the country economic growth and development. Therefore, this research is designed to find out the ultimate research question: What are the causes of abandoned residential housing project in Malaysia?

### **Research Methodology**

This research use qualitative approach by systematically review the literature from various databases. To have a clear and precise guidance in reviewing the literature, the above research question was constructed. The terms used for searching included: abandoned housing project, causes of abandoned housing project and failure of housing project. In searching for literature only peer-reviewed journal from well known databases were visited including; Proquest, EBSCO, Web of Science – Social Citations Index and Business Source Premier. A total of 30 studies were found to be highly related to this study and selected. To analyze the causes of abandoned residential housing projects, the content of all studies selected were extracted and arranged based on economic theory perspective and management theory perspective that have been derived from the empirical studies conducted by scholars.

### **Causes of Abandoned Residential Housing Projects from Economic Theory Perspectives**

The economics theory and its relevance to the economy growth, land usage and property market have been used by many throughout the world. Khalid (2010), for instance, applied economics theory to describe the relevance of property business to the economic problems in a context of factors that causes abandoned housing projects and its affects. Furthermore, Summer (2009), a researcher at Utah Research Foundation, used neo-classical theory to explain the current recession situation by adopting Keynesian theory.

Then, Paul Kraugman (2007) used the same theory to describe how the fall in investment level lead to collapse of housing boom which was the ultimate consequences are

mortgage default and bankruptcy. According to Khalid (2010) other authors who applied above theories to explain economic problems related to property businesses are (Adams et. al., 2005; Samuels et al., 1995; Ball et. al., 1998; Guy and Henneberry, 2002; Bramley et. al; 1995; Eccles et. al., 1998; Balkhin et. al., 1995; Omar, 1999).

The phenomenon of Abandoned Housing Projects can be explained by employing economic theory. These economic theories are known as neo- classical and institutional. To achieve this strategy, the researcher intends to put property market system and housing development provision as context of discussion for neo-classical and institutional economic theories. The following two subsections provide discussion of how neo-classical and institutional economic theories view and explain the causes of housing projects abandonment.

### *Neo Classical*

The issue of abandoned residential housing projects is already becomes a global phenomenon nowadays. The reasons behind absolute facts can be explained based on the theories of neo-classical. Khalid (2010) stated that Neo-classical recognizes that price of goods is influenced by two factors which are supply and demand. The interaction between supply and demand exists due to the presence of buyers (home buyers) and sellers (the developers) in the market place (housing industry). In this case, Eceless et. al (1998) justified that the characteristic of properties as products to be sold include the dwellings.

According to neo-classical economic theory, many market players such as investors, government and market informers influence a closed market system. Similarly, Dahlan (2008) stated that housing industry in Malaysia anticipated by many, such as federal government, state and local government financial institutions, developers, private investors, developers associations, which, therefore, among them could lead into the problem of misinterpretation of the business intersection. The theories describe the situation as imperfect information. Imperfect information means whereby the buyers have no knowledge regarding the product before decided to buy it (McConnell et. al., 2005).

“The existence of imperfect information is thought to justify legal intervention, according to conventional understanding because consumers cannot contact their own best interest without the data to rank the purchase of choice that market offers, otherwise, the consumers are efficiently informed to make purchase choice that maximize his own utility” (Schwants & Wilde, 1976).

As stated, due to lack of precise information regarding the property to be purchased, the homebuyers are the ultimate victims. In addition to it, according to Dhalan (2008), the homebuyers have no knowledge about the financial strength, manpower capability and the quality of the developers in completing the housing projects.

Another branch of neo-classical economic theory which pioneer by J.M. Keynes in 1935 is aggregate demand (Yd) theory. The said theory can be put in mathematical equation as stated below.

$$Y_d = \text{consumption}(c) + \text{Investment} (I) + \text{Government spending} (G_s) + \text{Nett Export}(X-m)$$

According to this theory that any changes in aggregate demand (Yd) components such as consumption, investment, government spending and net export can cause (Yd) to shift which means it effect economic growth (McConnell et. al., 2005). Productivity Report (2005) justified the reliability of this theory in which housing industry contributes 5.9% to Malaysian

economic growth. Ministry of Finance of Malaysia (2009 & 2010) reported that the progress of housing industry in Malaysia is shown by the activity of sub-residential increment from 3.6% in January 2008 to 6.5% in July 2009. If the price of housing units keeps increasing, the home buyers might reluctant to purchase. As a result, high price of just newly constructed house has to be abandoned.

In Malaysia for example, Ministry of Housing and Local Government (2005) reported various factors that can cause the housing projects abandoned by developers which among them are the number of buyers are low, poor location and lack of public facilities and employment opportunities. Because of these reasons the investors or bankers, therefore, unwilling to invest or provide loan to the developers to precede the construction of housing projects.

Despite the fact that the number of abandoned housing projects occur and increase yearly the activities of constructing new housing units goes on and the consumer who are spending money to buy new housing units always there. Based on the Keynesian theory, lower consumer spending or lack investment can lead to high rate of unemployment in the industry. However, with government's huge spending especially to the unfortunate industry (housing industry) the situation will cause high rate of unemployment that lead to recession. Therefore, it can be avoided and the situation would be back to normal. In the case abandoned housing projects issue, the federal government steps in to curb the abandoned projects and help unfortunate homebuyers to ease their problems.

### *Institutions*

Another economics theory that can be employed to describe what are the causes and the effect of abandoned housing projects is Institutional Economic Theory (Khalid, 2010). This theory recognizes that institutional rules and regulations have positive relationship to the business activities. Related to housing projects abandonment specifically to housing development in Malaysia, Dahlan (2008) proclaimed that housing development in Malaysia is governed by various institutions. The most obvious among them are Ministry of Finance, Ministry of Housing and Local Government (MHLG).

Dahlan (2008) stated that MHLG are responsible for the issuance of development license to private developers, Register of Company Commission are responsible to provide business licensee, CIDB are responsible to issue construction license to developer to construct housing units. The state and local government are responsible to issue land status transformation, property advertisements, development planning which all of these constitute in Country Planning Act of 1979 (NST, 2011). Both land and housing fall under the responsibility of the state government.

The most common complaints of the public sectors are the delay in the processing and approval of land for development, conversion, subdivision and issuance of title (Lim, 1982). Senior bureaucrat, known as PTG (*'Pengaruh Tanah dan Galian'*) who shortlisted and give the recommendation to the state government for the process of issuing land titles, executive District Officer may be responsible for the delay" (Agus, 1989).

In respect to all these regulations imposed to developers, they might lead to project abandonment. As a result, the supply of housing unit in the market decreased. It is too costly for business to comply with the government regulations. Therefore they tend to increase per unit production cost and sift the aggregate supply to the left (McConnell et. al., 2005) and Van der Krabbben (1995) stated that complexity of land process and participation of various agents slows the objective and operation.

### **Causes of Abandoned Residential Housing Projects from Management Theory Perspectives**

Abandoned housing projects problems owe the explanations from the management theory viewpoints. For this purpose, the management theory from classical and contemporary viewpoints is employed and adopted to explain the phenomena.

#### *Classical*

Historically classical management theory which pioneered by Henry Fayol (1841-1925) and Max Weber (1864-1920), concerns with managing the total organization (Kinicki & Williams, 2008). Robbins and Judge (2007) define organization as a place where manager work. From the statement, it reveals that organization and the manager are positively related. According the theory, the job of the manager is to get thing done through organization's resources by planning, organizing, and leading, controlling and coordinating (Robbins & Judge, 2007). Max Weber's theory described the situation that a better performing organization depends on well-defined hierarchy of authority, formal rule and procedure, a clear division of labor, impersonality and career based on merit.

In context of business, the organization in housing industry is mainly private developers and contractors. Some studies discovered that the problems have originated from within in which when they have failed to carry out the tasks accounted to them. Ministry Housing and Local Government (2004) reported that private developers fail to finish and complete the construction work due to lack of management practice by the developer. Besides supporting the statement, studies by Ahmad (2005); Dahlan (2006); Sambasivan and Soon (2007); Khalid (2010) discovered that poor management knowledge, motive of profit maximization, and lack of hierarchy control in the organizations are other factors that contribute to the reasons why private developers fail to complete their housing projects.

According to classical management point of views, the manager must get things done through planning, organizing, leading and controlling, communicating and coordinating in order to ensure the success of the objectives of the organizations. Tan (2005) proclaimed that housing projects construction consist of many activities which relied on resources of human, money, material and machineries therefore the managers must plan and organize them accurately to reach higher productivities. Classical theory views that the organization work as communities with members and subordinate work together in harmony where complex within must be resolved to satisfy the parties involved.

The theory also views that the work process must be under the control of workers with relevant knowledge. As project manager in construction housing project the manager should have good and competence knowledge because the construction so complex therefore, it requires contractual arrangement (Chua et. al., 1999). This statement by Byliss (2002) said that the project manager is responsible in orchestrating the whole construction process. Based on theory, having good management knowledge and efficient management practice the organization then be able to perform well and ultimately reach objective. In the case of housing project industry in Malaysia, the developer would be able to deliver the completed housing units to the home buyers if the manager has had good management knowledge to lead the organization achieving project goal.

#### *Cotemporary*

Other management theory related to organization performance is behavioral viewpoint which part of contemporary management theory. According to this viewpoint, better human relations could also lead to worker productivity. Abraham Maslow, the pioneer of hierarchy

of need theory, proclaimed that better human management could increase worker productivity through the fulfillment of physiological need, safety need, social esteem, belongings need and self-actualization. In relation to this issue, Gould and Joyce (2003) revealed that contractor labor are plasterer, plumber, pipefitter, electrician, bricklayer, glazier (glass installer), roofer, carpenter, blacksmith, cement mason and machine operator, therefore, to coordinate them successfully it lies upon the manager management skill and credibility.

In the context of private developers, Malaysian Employment Federation (2005) reported that there is low participation from skilled local construction workers. Aman and Shiadri (2008) found out that skilled local construction workers refuse to involve due to uncomfortable working condition, unsafe environment, lack of accreditation of work status by the government (recognition) and low wages. From this theory, it can be concluded that the housing project abandonment are due to low productivity of the private developers which contributed by hiring unskilled and low wages foreign construction workers. However, Nor et. al (2001) found out that foreign labors are neither a substitute nor a compliment for domestic labors. Nor et. al (2011) discovered that the number of foreign workers do not affect the performance of domestic workers.

From the discussion it can be concluded that the CEO or head of the organization in housing industry has failed to lead the organization to achieve high productivity, efficiency and competence in accomplishing organization goals. It was empirically proven that organization with good management practice, creative managers is able to form good strategy planning to achieve sustainable high achievement of productivity and promising performance (Som, 2008).

### **Findings and Discussions**

The causes of residential housing projects in Malaysia rooted from many factors. Dahlan (2011), for example, discovered that abandoned housing problems occur due to the Housing provision system and legislations which are complex and problematic. The findings by Dahlan (2011) agreed with (Loi, 2001; Khalid, 2010; Tan, 2011). In this study Loi (2000); Khalid (2010) had discovered that Housing provision in Malaysia is highly regulated and it is govern by so many legislations. Loi (2001) described that the Malaysian Housing Industry is govern by more than 50-60 piece of legislation ranging from development license issuance to private developers, law of building and land to the environment and workers safety.

Moreover, Loi (2001) stated that it is compounded by the fact that separate laws, policies, and controlled by federal, state and local government separately. In addition to that, Ismail (2002); Othman (1993) emphasized that the private developer must comply with Building Standard (UBBL) 1984 due to the building standard and safety. Moreover, the private developers must comply with Planning Acts, 1976 (Act 172) section 24(1). Under the this Acts the private developers should offer and provide social facilities such as school, recreation area, mosque, temple, church, or any religious concern, shop lot and public market.

Besides above regulation, the private developers must confront with more complex situation on the development approval from the authorities. Tan (2011) highlighted the complexity and hurdles of the development approval by stating that all the relevant arrangements in housing developments such as land conversion for housing, drawing of layout plans, building and structure plans, planning of infrastructure and assessment of environment impact must be approved by federal and state authorities. These approval processes for development involves federal and state agencies which consist of Land and

Mine Department, Land office, Local Authorities, survey Department, Telekom Malaysia, Tenaga Nasional, Water Work Department, Town and Country Planning Department, Fire Department, Health department, and National Landscape Department. Due to this, the decision for development approval takes longer time period which takes two (2) years it cause the private developers to cancel the application or postpone the housing development proposal (Loi, 2001).

However, the private developers in this period of time are allowed to advertise and to sell the house units to the public's through pamphlet and brochures after receiving advertisement permit from local authority such as city municipal council. Moreover, the private developers can collect the money from the potential home buyers. Fen (2007) further highlighted the complexity in the current housing system in Malaysia. According Fen (2007) current housing system in Malaysia exercises Sell-Then-Built or STB. Under this system the potential house buyer required to pay ten to twenty percent (10-20%) down payment upon the signing of Sale and Purchase Agreement. This agreement which signed by both the private developer and house buyer does not concern the loan mortgage provider (The Bank) or the contractor. Similarly, by legal agreement the private developer hires the contractor to build the house units. The signed of agreement between private developer and the contractor for particular housing project does not concern the either the home buyer or the authorities.

Still, the house purchased by the house buyer is not even built yet where it is only matter of artists impression where the location, size and quality of house bought is beyond the house buyer thought (National Housing Buyer Association, 2004 & Fen, 2007). Moreover, even though the Sale and Purchase agreement and mortgage loan has been signed by home buyer there is not guarantee to the completion of house building by the private developers. The loophole in this system leaves the home buyer unprotected and big opportunity for the culprits and errant developers to abandon the housing projects (Sibly et. al., 2011).

Furthermore, Dahlan (2011) insisted that the weakness in the regulation is a heaven's opportunity for the real culprits (defaulting developers) easily skip from further liability and responsibility. The author added that the real victims of complexity are the house purchaser themselves.

The study conducted by Khalid (2010) discovered that the cause of abandoned housing project lies within private developers themselves. According to Khalid (2010) these causes which inhabit the private developers are profit maximization, inadequate fund, poor management. The findings had obtained by Khalid (2010) gets support from (Ibrahim, 2006). According to the latter, the high profit motives by private developer become apparent when the author discovered that the private developer in Terengganu refused to construct public amenities and produced low quality of work performances.

McConnell et. al (2005) defined profit maximization as where the quantity of each resource a firm must be fully employed to maximize its profit. According to Gould and Joyce (2003) and Tan (2005), construction's resources composed of human labor (steel workers, plaster, plumber, pipefitter, electrician, bricklayer, glazier, roofer carpenter, pile driver, and cement mason). To maximize the profit, Tan (2005) and Malaysia Employment Federation stated that the private developers reduce their overhead cost such as cost of labor by practicing intensive use of manpower to avoid huge expenses on tools, equipment, safety harness and by hiring cheap-unskilled foreign construction labors from Indonesia (69.4%), Nepal (10.2%), India (6.2%) and Vietnam (4.6%).

Related study conducted by Aman and Shiadri (2008) revealed that the reason behind of low participation among skilled-local construction is that the greediness either private

developers or contractor to invest on high-paid wages of skilled workers and to invest on safety harness equipment for their workers. Moreover, Aman and Shiadri (2008) stated that some private developers intentionally refuse to pay the contractors, material supplier, and other creditors despite the progress of work activities on site. As results, the housing projects end up with abandonment because the contractors must stop work activities on construction sites or the private developer got winding up by court.

Additionally, Khalid (2010); Hussin and Omran (2011) discovered that the reason the private developer abandoned their projects due to the lack of sufficient fund, therefore, they unable to run construction activities, to buy construction materials, to pay wages, to hired qualified project managers or to complete the housing projects. Even though the private developers use other people money (20% deposit from purchasers) to take off the construction works the private developers still need fund from bridging loan from the banks. If the Private developers unable to obtain the bridging loan, as a result, they have to stop the housing projects and abandoned it. Other cause sparks private developers to abandon their housing projects is poor management which come from lack of management knowledge among managers (Khalid, 2010).

The study conducted by Mumin (2010) found out that one of the factors the private developers or housing contractors is that lack of knowledge in project management; therefore they are unable to plan, organize, and coordinate the work activities on construction site, material needed, time and money required. The author also insisted that the projects managers incapable to apply and implement modern construction methods and technique to achieve project goal and meet project deadline. Not knowing the projects management, the project manager or the contractor definitely cause a delay in project completion time. Sambasivan and Soon (2007) also highlighted the worse of lack knowledge in housing construction is contractor's improper planning, poor site management, faulty in communication and mistake during construction stage. As a result of the delay, the housing projects finally abandoned (Sambasivan & Soon, 2007).

In addition to that, other scholars who had done the study on the causes of residential housing abandonment were (Hussin and Omran, 2011). They had discovered other three causes: Poor marketing and sale strategy, technical problems faced during construction, and compensation requested by squatters for resettlement. The authors recited what Ministry Of Housing and Local Government had found. For example, 118 or 70% of the housing projects abandoned came from within the organization which is the developers themselves. Both author agreed that the problem exist within the developers, 14% from wrong marketing and sale strategies while 16% come from poor company management and disputes between developers and the land owners. Furthermore, Hussin and Omran (2011) discovered that Asian Financial Crisis such as in 1997 affected the developer whereby the cost of building material increased drastically and it had caused them to abandon the projects.

In contrast, Zairul and Ibrahim (2010) concluded what are the reasons of the housing projects abandonment: delay approval by the concerned authority on building plans and land status has cause the cost increase, financial problems from the developer to finance the projects, poor management by developers, lack of coordination between contractors and developers, dispute and disagreement between project consultants and the developers, increase in price of the construction materials, construction does not follow specification stipulated hence create the long delay in construction activities. Developers unethical attitude by delaying the payment to both contractors and the consultant, and lack of risk management skill among developers to predict future price, change in construction materials



and to set good marketing and sale strategy also resulting loses to the developers therefore they choose to abandon their residential housing projects.

Final but not least, the factor causes the housing projects abandonment by private developers is the economics factors. Dahlan (2008) stated that "Even though housing industry has become one of the top priorities of the Malaysian Government, this industry still causes possible spillover and recurring problem for the nation. One of the most plaguing enigmas is the abandoned housing projects that can be affected by economic crises. The causes are multifarious, but the most formidable reason is economic recession, that has effect the whole nation". Furthermore, in similar development, Khalid (2010) proclaimed that one of the reasons of Residential Housing Abandonment is failure to respond to global housing market signal.

### Conclusion

The motivation behind this research lies in its practical implication and application. Having in mind the core causes of abandoned housing projects, the policy makers, managers, engineers, architect, quality surveyor, material supplier, equipment rental provider, contractors and house buyers will be able to set forward strategic planning to avoid abandoned housing projects from occurring. Other than that, for professional workers such as the policy makers, managers, engineers, architect and quality surveyor it can increase their performance by having chance of projects success, helping the organization to achieve the objectives and to use project management methods and techniques such as project planning, project scheduling, project controlling, break down structure and communication increase firm performance. Therefore, the application of modern project management methods could avoid mismanagement, poor supervision, miscommunication, project delay, project material waste, material shortage and unwanted flow of capital and resource. Having identified the factors that contribute to the abandonment of residential project, the private developers, contractors, could take the initiatives in preventing housing project abandonment in Malaysia.

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