International Journal of Engineering & Technology, 7 (3.21) (2018) 57-60

International Journal of Engineering & Technology

Website: www.sciencepubco.com/index.php/IJET

Research paper

An Overview of Housing Purchase and Delivery System in Malaysia

Nur Arzwin Binti Mohamed Aris[1], Mohamed Syazli Fathi[2]*, Aizul Nahar Harun[3],Zainai Mohamed[4],

[1,2,4]UTM RAZAK School of Engineering and Advanced Technology, Universiti Teknologi Malaysia (UTM), 54100 Kuala Lumpur, Malaysia

[3]Malaysia-Japan International Institute of Technology, Universiti Teknologi Malaysia (UTM), 54100 Kuala Lumpur, Malaysia

**Corresponding author E-mail: syazli@utm.my*

Abstract

Two types of the housing delivery system (HDS) were used in providing houses in the Malaysia market. However concept and differences between this two systems are not yet discussed in the feature diagram in giving comprehensive understanding the process purchasing a house. Thus, the purpose of this paper is to provide an overview of the process of purchasing a house using two types of HDS which are Sell then Build (STB) system and Build then Sell (BTS) system in Malaysia. This paper first reviews the timeline of HDS and housing provision in Malaysia and later reviews the differences between Sell then Build (STB) system and Build then Sell (BTS) system in the process purchasing a house. The process of purchasing a house in HDS involves a developer, a house buyer, and a financial institution as depicted in the model diagram. The differences of purchasing a house between the two HDS can obviously seen in the financial transaction during the construction stage in which the developer crucially needs fund in completing housing development. This review also highlights the concept, issues, advantages, and disadvantages of both HDS from the perspective of a developer, a house buyer, and the financial institution.

Keywords: *Sell Then Build; Build Then Sell; Housing Delivery System*

1. Introduction

Purchasing the desired house that is within with one's household income is definitely a priority for any adult with target goals in their lives. The rapid growth of population, economies, and industries in Malaysia lead to a high demand of purchasing a house thus the chance of owning a home is tougher these days. However, the prospect shows that house buyers (purchasers) still tend to own a house eventhough they are aware of several issues within the housing market supply such as issues of delay, abandonment, price hike and low quality in construction workmanship which are frequently discussed (1-6). The various authors discussed the issues that are plaguing the housing industry which are related with the drawbacks of conventional housing delivery system (HDS) which is known as Sell Then Build (STB) (1, 3, 7-12). Recognizing the issues, the government provides another alternative strategy alongside with STB method by urging the Build then Sell (BTS) HDS which is conversely differs with developers' practice. Yet a recent research by Phang (Phang 2016) shows that developers hope that STB system will be continuously implemented. The contradicting perspectives from developers, house buyers and government relating to both HDS in supplying a house are being reviewed in giving comprehensive understanding the process purchasing a house. Hence, this paper aims to provide an overview of the process purchasing a house from two different HDS which are STB and BTS in which both are widely implemented in Malaysia.

2. Timeline of Housing Delivery System and Housing Provision in Malaysia

According toPrins & te Leiden (13) housing delivery system (HDS) can be considered as a social configuration relating to the production and distribution of housing, with more or less formalized relations between the actors in performing the necessary functions in the housing process. Li (14) added that a HDS can be considered as an organizational and institutional arrangement within a broad social structure that is related to the production, distribution, and consumption of housing. A HDS is characterized by the unique combination of actors, their goals and the ways in which they fulfill their roles in the housing process.

Generally, HDS which often discussed in Malaysia is using the systems of Sell Then Build (STB) and Build Then Sell (BTS) (1). It can be said that house buyers are able to purchase a house through two methods of HDS using STB or BTS from the developers who is responsible to produce a house with the financial assistance from a financial institution. For over 50 years, STB system has been able to meet the backlog of housing needs in Malaysia(12). However after the emergence of abandoned houses during 1980s and early 1990s recession period, the STB system has been perceived as susceptible to abuse by the developers who choose to take advantage of the system (12). As a result, the proposal of BTS has been debated as on early 1981 by The Federation of Malaysia Consumer Association (FOMCA)(12, 15) in order to solve the issues occured. After scrutinising for over 20 years, government eventually announced the alternatives of new HDS which is known as BTS in the year 2007(11, 12).

Copyright © 2018 Authors. This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Besides the new alternative of HDS which has been urged by Malaysia government, the government is also concerned with the current needs and demands of housing supply. A study conducted by Shuid(16) examined the structure of housing provision framework in order to analyse the changes of housing provision system in Malaysia since the 1970s. The structure trend indicates the Malaysia government's intervention in solving the house issues and private housing involvement in supplying a house from the year 1971 until 2020. In the structure, he (16) divided into four phases of the evolution of Malaysia's housing provision system namely Housing The Poor Period (1971-1985), Market Reform (1986-1997), Slum Clearance (1998-2011) and State Affordable Housing (2012- to-date).

In respect to this study aims, a timeline of HDS and the Malaysia housing provision is depicted starting from the 1960s till present. See figure 1. However, the review on purchasing a house on this paper is not limited to the Malaysia housing provision but also considering an overview of purchasing a house in the free market.

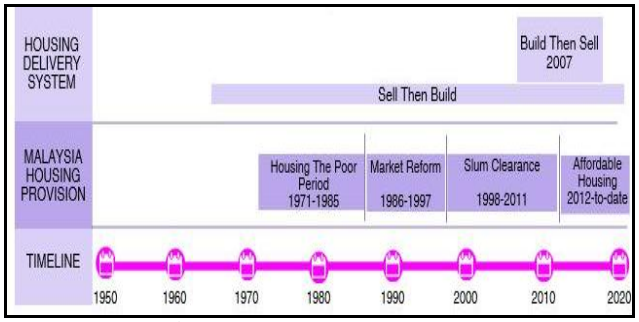

Fig. 1: Timeline of Malaysia Housing Provision and Housing Delivery System

According to Junaidei et.al (17) housing problem in Malaysia is mainly on the issue of accessibility by the low income group including young people(18). It concerns with the dilemma of low cost or affordable housing and also the issue of low income level among locals (17, 18). Thus, government's intervention in supplying housing for the nation provides numerous affordable housing programmes and schemes to qualified households for purchasing an affordable house. The federal and state governments respectively allocate affordable purchasing schemes and programmes for low and middle-income groups to purchase a house. Some examples of housing programmes offered are such as Perumahan Rakyat 1 Malaysian (PR1MA), Perumahan Penjawat Awam 1 Malaysia (PPA1M), Rumah Wilayah Persekutuan (RUMAWIP), and My Home Scheme (16). Lean and Smyth(19) stated that a range of schemes exist to assist new homeowners in getting a foothold in the housing market and to help existing homeowners to move up on the property ladder. These schemes have created extra demands, put upward pressure on prices(19) and a competitive market arise between the public and private sector(16).

3. Sell Then Build (STB)

Overall, purchasing house in Malaysia commonly uses STB as in Figure 1. It reflects that housing property businesses in Malaysia is prevalent with the execution of the conventional STB housing delivery system for many decades in an attempt to supply house demands for the nation (6). Developers are more familiar with STB or 'forward selling' HDS rather than BTS system which has been urged by the government starting in 2007(11, 12). This is due to the reason that STB system is beneficial for them to fund the housing projects. The STB system allows the developers to sell houses through their development proposal to prospective buyers prior building up the houses or simultaneously constructing themb (20-22). Frequently, 10% deposit from the total house price will be paid by the house buyers to the developers upon signing Sales And Purchase (S&P) agreement (1, 12). The balance of 90% will be paid through installment plan based on the loan agreement between the house buyers with a financial institution. The financial institution will disburse progressively to the developers with verification of construction progress work by the architect in charge until the housing project finishes.

Through this STB system, developers acquire fund for their project by utilising the 10% deposit and receiving balance progressive payment by the financial institution while completing the housing project(1, 11). However, although STB shows a successful track record in its ability to supply affordable houses (1, 9) it is prone to be affected by the issue of abandoned house which happens when unscrupulous developers decided to take advantage of. More severely with the economic downturn scenario, the STB system is affected by sluggish house sale (12).This thus impacts the reputation of STB system as to be not secure to house buyers who are continuously paying the installments, while unscrupulous developers and irresponsible contractors stop the construction's progress work due to facing difficulties during the recession period(3, 12). The unstable economy situation and developers' dishonesty resulted in abandoned of houses which use STB system.

STB system mainly depends on economic booming. Although the demand is high, the house buyers still consider some criteria in buying their homes. For instance, house buyers would also demand a strategic location which is easily accessible to highway, nearby school and amenities, a secure environment with a quality workmanship. On some circumstances, the house sale sluggish will cause a delay in construction progress. Consequently, a disruption in the developers and contractors' cash flow will exerts an effect towards abandoning a housing project. Such case becomes worse when the remaining number of the proposed units is not sold within the expected time. In a study conducted by Tan (10), it was reported that the unsold of houses are located at non strategic areas with less job chances, no enough amenities and facilities which resulted from oversupply of houses.

Basically, strong demands by house buyers for strategic location are able to boost greater chances for STB system to succeed. Undoubtedly with the competence of developers and contractors in completing housing project while being scrutinised by the government will ensure STB to remain helpful to cater house demands. Studies by Ibrahim(20) revealed that STB scheme is more preferred by house buyers because of the lower initial purchase price. Notwithstanding advantages of the STB housing delivery system, the dwelling demand in urban area still involves expensive land values especially in Klang Valley region which makes it difficult for developers to sell with affordable prices to purchasers. In addition, the rapid population growth and migration of rural population for employment to the urban areas are putting further pressure for homeownership and house price.

4. Build Then Sell

As mentioned earlier, the implementation of a new alternative HDS in 2007 is concurrent alongside with STB. This gives opportunity for house buyers to have choice whether to purchase a house from a developer who executes STB or BTS. Under BTS system, there are two variants which are 100% BTS and 10:90 BTS [9].

The 100% BTS variant essentially means that the housing projects must be completed (including obtaining the Certificate of Completion and Compliances (CCC)) before the housing developers begin the selling activity(12, 20, 23). This means that the construction costs are borne by the housing developers which require sufficient capital to kick start the projects as well as depend on their own creditworthiness to apply loans from the financial institutions(20). Study by Ibrahim (20) stated that the house buyers prefer 100% BTS because it is easier for them to secure bank loans despite of their realization that the house will be sold at a higher price. House buyers who purchase 100% BTS house (completed house with CCC) are still required to make a down payment

(10% of purchase price)(20)while the remaining 90 % usually can be settled using a bank loan.

While using BTS 10:90, house buyers have more tendencies to purchase a new house on a new housing development. The construction development for the house is not yet starting but it requires house buyers to pay the initial 10% deposit upon signing the S&P agreement (5). The 10% deposit will be temporarily held by the developers' lawyer and is placed in an escrow trust account or a fidelity fund. Chen (24) indicated that the developers have no access to the fund unless the plan of subdivision is registered and the vendor gives a clear freehold title for the property(20). The balance of 90% will payable upon the completion of the housing project with the issuance of a CCC(11). According to Phang(1) by implementing this system house buyers will only lose 10% of the deposit if the project is stalled or abandoned.

To make it clear, the difference between both HDS is that house buyers do not make any progressive payment to developers on early or during construction project under BTS as compared to STB (25). By implementing the BTS system, house buyers will be able occupy a good quality house with the advantage is given to the house buyers to inspect the house before making any decision in purchasing (23, 26).

However, BTS system will affect small developers in terms of securing more bridging loans(25, 27) in order to fund the project and to sustain in the housing property business. Furthermore, by implementing this system, it may result in less number of unit houses to supply which causes receiving late revenue. A research by Shing (27) indicated that developers will start to incur losses if the properties are not being sold for long period after the development project finishes. The trade-off between cost and long term revenue is crucial for a business to sustain in this global economy and it is government's role in balancing price and profit margin to avoid imbalance in the housing industry in Malaysia(1). Incentives by Malaysia government are given not to only encourage the developers to use BTS housing delivery system in the process of selling the house, but also as exclaimations by the government in STB system to remain(1). Shing (27) recommended the financial institutions to provide interim finance to help developers who use BTS system since they do not receive any payment along the way in the period to complete house within an expected time.

5. Findings

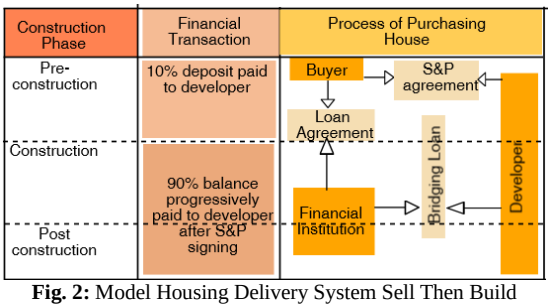

Fig. 2: Model Housing Delivery System Sell Then Build

Based on the previous review on housing delivery systems, model diagrams embracing the concepts were established. Figure 2 provides a model that illustrates STB concept with the involvement of a financial institution, a buyer, and a developer as the main stakeholders based on the literature review (1, 7, 11, 12, 27-29). It indicates the process flow of purchasing a house within the construction phase through STB system and the financial transaction.

During the pre-construction stage, a house buyer who is qualified to buy a house will sign a S&P agreement with the developer. In most cases, 10% deposit will be paid by the house buyer to the developer and balance of 90% will be borrowed from a financial institution in purchasing the house. At this early stage, house buyer and the financial institution will be engaged through a loan agreement. The developer will try to secure a bridging loan from financial institution throughout all the construction phase in order to complete a housing project.

While during the construction stage, the house buyer start pay instalments to the financial institution and the developer will collect progressive payments from the financial institution after an architect approves the progress of work till the developer is done with the construction phase. The progressive payments will help the developer to fund the housing project and gather profit through these transactions.

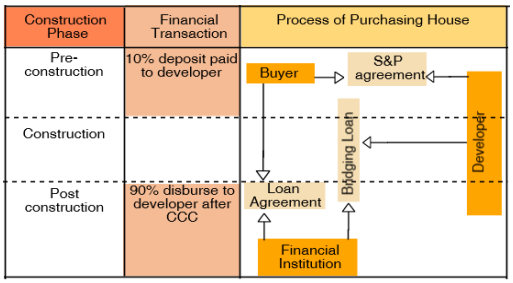

Fig. 3: Model Housing Delivery System Build Then Sell 10:90

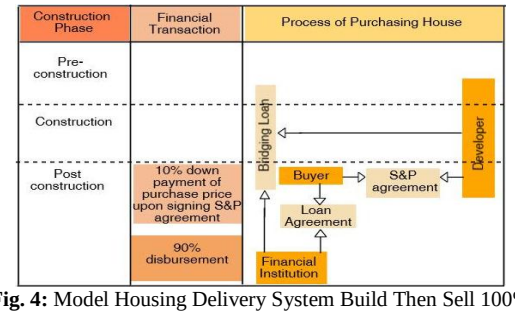

Fig. 4: Model Housing Delivery System Build Then Sell 100%

However, BTS 10:90 has a different process flow arrangement in an attempt to protect the house buyer. Figure 3 provides a model that illustrates BTS 10:90 concept with the involvement of a financial institution, a buyer, and a developer as the main stakeholders based on the literature review (1, 7, 11, 12, 26-29). It indicates the process flow of purchasing a house within the construction phase through BTS system and the financial transactions.

During the pre-construction stage, a house buyer who is qualified to buy a new house will sign a S&P agreement with the developer. Same as STB system, 10% deposit will be paid by the house buyer to the developer and developer will try to secure a bridging loan from financial institution throughout the construction phase to a complete a housing project.

While during the construction stage, the developer will not collect any progressive payments from a financial institution but only depends on the bridging loan throughout all the construction phase. There is no instalment being paid by house buyer to the financial institution since the house still under construction work.

After the new house receives the CCC, the selling process will occur with the loan agreement between house buyer and financial institution. Another 90% sale balance will be disbursed by the financial institution to the developer during the post construction phase.

Nevertheless, BTS 100% has a slightly difference in term of the process of purchasing a house as compared to BTS 10:90. Figure 4 provides a 100% BTS model that illustrates BTS concept with the involvement of the financial institution, buyer, and developer as the main stakeholders based on the literature review (1, 7, 11, 12, 26-29). It indicates the process flow of purchasing a house within the construction phase through BTS system and the financial transactions.

All the financial and transaction arrangements will occur after the house is completed and received the CCC. The developer will finally supply completed house with CCC to prospect house buyer. During pre-construction and construction stage, there are no 10%

deposit and progressive payment collected. Instead, developer will try to apply more bridging loan to complete the house project.
Once a house project obtains CCC, the selling activity will occur and house buyer needs to pay 10% down payment to the developer. Another 90% balance will be settled by loan arrangement with financial institution to pay developer.

6. Conclusion and Further Works

In conclusion, STB and BTS housing delivery systems in Malaysia are respectively tangible to be executed within the current market and economy in Malaysia with a proper attention and supervision by the government. STB and BTS will help small developers and well established developers to cater the demands regardless their market segment whether at the micro or macro level. House buyers should be aware of the differences of HDS in order to protect their rights in purchasing houses from developers and on the other hand, financial institutions should also play a vital role to facilitate small developers that are shifting their business strategy into using BTS. The programmes and schemes offered by the state and local governments to provide an affordable house in current housing provision should also consider the implementation of the right type of HDS. Thus, further focus on SWOT and PEST analysis of both HDS in Malaysia should be furthered studied in the idea to provide preparedness among stakeholders in Malaysia.

References

[1] Phang S-n. Challenges of Implementing Build-Then-Sell Housing Delivery System to Address the Abandoned Housing Problem in Malaysia. 2016;53(1):135-51.
[2] Ramlan H, Zahari EE. Review the Issue of Housing among Urban Dwellers in Malaysia with Special Reference towards Affordability to Home Ownership. Procedia Economics and Finance. 2016;35(October 2015):216-23.
[3] Razak DA, Mohammed MO, Tarique KM. Abandoned Housing Projects in Malaysia and the Prospect of DP: An Overview. Procedia Economics and Finance. 2015;31(15):813-22.
[4] Sufian A, Rahman RAB. Quality housing: Regulatory and administrative framework in Malaysia. International Journal of Economics and Management. 2008;2(1):141-56.
[5] Sufian A, Sapian R. An invention of "build-then-sell" in malaysia via the housing law. International Symposium in Developing Economies: Commonalities Among Diversities. 2003:103-8.
[6] Teck-Hong T. Housing satisfaction in medium- and high-cost housing: The case of Greater Kuala Lumpur, Malaysia. Habitat International. 2012;36(1):108-16.
[7] Abidin NZ, Yusof NA, Othman AaE. Enablers and challenges of a sustainable housing industry in Malaysia. Construction Innovation: Information, Process, Management. 2013;13(1):10-25.
[8] Mao C, Shen Q, Shen L, Tang L. Comparative study of greenhouse gas emissions between off-site prefabrication and conventional construction methods: Two case studies of residential projects. Energy and Buildings. 2013;66:165-76.
[9] Tan T-H. Sustainability and Housing Provision in Malaysia. Journal of Strategic Innovation and Sustainability. 2011;7(1):62-71.
[10] Tan TH. Determinants of homeownership in Malaysia. Habitat International. 2008;32(3):318-35.
[11] Yusof NA, Mohd Shafiei MW. Factors Affecting Housing Developers' Readiness to Adopt Innovative Systems. Housing Studies. 2011;26(3):369-84.
[12] Yusof NA, Mohd Shafiei MW, Yahya S, Ridzuan M. Strategies to implement the "build then sell" housing delivery system in Malaysia. Habitat International. 2010;34(1):53-8.
[13] Prins WJM, te Leiden R. Urban growth and housing delivery past and present: a comparative analysis of nineteenth-century London and contemporary Delhi: University of Leiden; 1994.
[14] Li Y. The Housing Delivery Systems in Beijing-An Institutional Perspective. PhD thesis, The University of british Columbia. 1997.
[15] Zulkifli E, Abdul Ghani S. Build then sell: an alternative to overcome housing problem in Malaysia. The Surveyor. 2004;39:67-74.
[16] Shuid S. The Housing Provision System in Malaysia. Habitat International. 2015;54:210-23.
[17] Besar JA, Fauzi R, Ghazali AS. Penilaian awal impak perlaksanaan Dasar Perumahan Negara terhadap sektor perumahan di Kuala Lumpur Preliminary assessment of the impact of the National Housing Policy on the housing sector in Kuala Lumpur. Geografia Online: Malaysian Journal of Society and Space. 2012;6(6):90-108.
[18] Ling O, Leh H, Mansor NA, Nur S, Mohamed A. The housing preference of young people in Malaysian urban areas : A case study Subang Jaya , Selangor. 2016;7(7):60-74.
[19] Lean HH, Smyth R. Reits, interest rates and stock prices in Malaysia. International Journal of Business and Society. 2012;13(1):49-62.
[20] Ibrahim FA, Wira M, Shafiei M, Jusoh H. Sell-then-build and Build-then-sell : House Buyers Preferences. International Journal of Applied Engineering Research. 2014;9(15):2923-36.
[21] Kok SY, editor The Legal Framework for Promoting Healthy Housing Development and Housing Finance: The Legislative Point of View1997.
[22] Zulkifli H. Kajian ke Atas Punca-punca Mengapa Pemaju Tidak Berminat Untuk Melaksanakan Konsep Bina Dahulu Jual Kemudian (Build Then Sell. Unpublished Research Project BSc. Property Management, UTM.
[23] Fauzi SNFM, Yusof NA, Abidin NZ. The Relationship of Housing Defects, Occupants' Satisfaction and Loyalty Behavior in Build-Then-Sell Houses. Procedia - Social and Behavioral Sciences. 2012;62:75-86.
[24] Chen E. Chicken and Eqq Quandary. The Star.
[25] Ng LF. Determinant factors of implementing build then sell in Malaysia: Housing developers point of view. 2007:1-160.
[26] Sa'ar CC. Delay in Housing Delivery Process in Malaysia. PhD Thesis,University Technology Malaysia. 2014.
[27] Shing TH, Keong E, Chun P. Real Option Pricing Framework under Build Then Sell (BTS) System. Second Annual International Conference on Qualitative and Quantitative Economics Research. 2012;2(Qqe):90-5.
[28] Mohd Sollehudin Shuib AASMT. Pembiayaan Perumahan Secara Islam di Malaysia. Jurnal Teknologi. 2011;55(1):107-19.
[29] Shuib MS, Borhan JT, Bakar AA. Musharakah Mutanaqisah Home Financing Products : An Implementation Analysis , Product Advantages and Issues at Citibank (Malaysia) Berhad. Journal of Techno-Social. 2011;3(2):43-54.